

NOTICE

\$9,290,000

Minnesota Housing Finance Agency
Rental Housing Bonds, 2000 Series A (AMT)

Official Statement, dated April 26, 2000

The Official Statement, dated April 26, 2000, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 4.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 4.0 may cause the Official Statement that you view or print to differ from the Official Statement.

The posting of the Official Statement is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

The Agency may remove this copy of the Official Statement from this website at any time.

NEW ISSUE

This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information on the Series A Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series A Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.



\$9,290,000

Minnesota Housing Finance Agency

Rental Housing Bonds, 2000 Series A (AMT)

Dated: April 15, 2000

Due: As shown on inside front cover

Tax Exemption

Interest on the Series A Bonds is not includible in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (See pages 24 - 25 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series A Bonds.)

Redemption

The Series A Bonds are subject to sinking fund, special and optional redemption as set forth on pages 10 - 12 herein.

Security

On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series A Bonds are general obligations of the Agency, payable out of any other generally available moneys, assets or revenues of the Agency. **THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES A BONDS AND THE SERIES A BONDS ARE NOT A DEBT OF THE STATE.** (See "Security for the Bonds" on pages 12 - 14 herein.)

Interest Payment Dates

February 1 and August 1, commencing August 1, 2000.

Denominations

\$5,000 or any integral multiple thereof.

Closing/Settlement

May 11, 2000 in New York, New York.

Bond Counsel

Dorsey & Whitney LLP, Minneapolis, Minnesota.

Trustee

Norwest Bank Minnesota, National Association.

Book-Entry-Only System

The Depository Trust Company. See Appendix E herein.

The Series A Bonds are offered, when as and if issued and received by the Underwriters, subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity of and tax exemption of interest on the Series A Bonds and certain other conditions.

PaineWebber Incorporated

The date of this Official Statement is April 26, 2000.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
February 1, 2001	\$235,000	4.500%	60415M6F6
February 1, 2002	305,000	4.875	60415M6G4
February 1, 2009	435,000	5.375	60415M6P4
February 1, 2010	455,000	5.500	60415M6Q2
February 1, 2011	480,000	5.550	60415M6R0
February 1, 2012	510,000	5.650	60415M6S8
February 1, 2013	465,000	5.750	60415M6T6

\$2,160,000 5.35% Term Bonds Due February 1, 2008 (CUSIP 60415M6N9)

\$670,000 5.95% Term Bonds Due February 1, 2015 (CUSIP 60415M6V1)*

\$920,000 6.10% Term Bonds Due February 1, 2020 (CUSIP 60415M7A6)*

\$1,255,000 6.125% Term Bonds Due February 1, 2025 (CUSIP 60415M7F5)*

\$1,400,000 6.15% Term Bonds Due February 1, 2030 (CUSIP 60415M7L2)*

**Price of all Bonds — 100%
Plus Accrued Interest From April 15, 2000**

**Financial Advisor to the
Minnesota Housing Finance Agency**

**EVENSEN DODGE INC
FINANCIAL CONSULTANTS**

*Not reoffered.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriters to give any information or representations, other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been provided by the Agency or obtained from other sources believed to be reliable. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AGENCY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
Relating to
\$9,290,000
MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2000 Series A

The purpose of this Official Statement (which includes the cover page, inside front cover and appendices) is to set forth information concerning the Minnesota Housing Finance Agency (the “Agency”), created by Minnesota Statutes, Chapter 462A, as amended (the “Act”), and its Rental Housing Bonds, 2000 Series A (the “Series A Bonds”), in connection with the offering and sale of the Series A Bonds by the Agency and for the information of all who may become initial holders of such Series A Bonds. The Series A Bonds are being issued pursuant to the Act, a resolution of the Agency adopted on August 25, 1988, as amended (the “Bond Resolution”), and a series resolution of the Agency adopted April 6, 2000 (the “Series Resolution”); the Bond Resolution and the Series Resolution are herein sometimes called the “Resolutions.” The Series A Bonds and any Rental Housing Bonds heretofore and hereafter issued pursuant to the Bond Resolution will be equally and ratably secured and are herein sometimes called the “Bonds.” Bonds outstanding on February 29, 2000 totaled \$268,510,000.

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act, the Resolutions and other documents are only brief outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act, the Bond Resolution and the Series Resolution are qualified in their entirety by reference to the Act and the Resolutions, copies of which are available from the Agency, and all references to the Series A Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota.

The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of purchasing, making or otherwise participating in the making of long-term mortgage loans to persons and families of low and moderate income for the purchase of residential housing upon the determination by the Agency that such loans are not otherwise available from private lenders upon equivalent terms and conditions.

Although the State has appropriated amounts to the Agency for various specific purposes (see “The Agency— State Appropriations”), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations.

Since its creation in 1971, the Agency has issued bonds for the purchase of single family mortgage loans, to purchase home improvement and home energy loans and to finance multifamily housing developments. In addition to those programs, which are financed through the issuance of debt, the Agency finances grants and loans through State and Federal appropriations and loans through its Endowment Funds and Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the “Restricted Fund Balances” footnote included in the notes to the financial statements in Appendix B.

The proceeds of Bonds issued pursuant to the Bond Resolution are used to finance the Rental Housing Program (the "Program"). The Program is administered by the multifamily division of the Agency. The purpose of the Program is to increase the supply of and to maintain and improve the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for non-profit group homes for the developmentally disabled. Through the use of bond financing, this Program is intended generally to provide long-term, fixed rate, first lien mortgages ("Mortgage Loans"), and under certain circumstances subordinate mortgage loans ("Subordinate Mortgage Loans"), to provide for the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the "Developments"). The Bond Resolution authorizes, upon conditions set forth therein, additional series of Bonds to be issued on a parity with the Outstanding Bonds, including the Series A Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments which it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to such Developments. The procedures presently employed by the Agency to reduce such risks are described more fully herein. (See "RENTAL HOUSING PROGRAM.")

The Agency intends to use the proceeds of the Series A Bonds to finance the acquisition and rehabilitation of four multifamily housing developments in Anoka, Mankato, North Mankato and St. Peter, Minnesota. (See "THE DEVELOPMENTS."). The Series A Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or Bonds, and State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The fund balance of the General Reserve Account is legally available if needed to pay debt service on any obligations of the Agency, including the Series A Bonds.

There are further pledged as security for the payment of the Series A Bonds (on a parity with the Outstanding Bonds issued and to be issued under the Bond Resolution) amounts on deposit and investments in certain accounts and funds established pursuant to the Resolutions, including the Debt Service Reserve Fund established pursuant to the Bond Resolution in accordance with the Act. Under the Act, upon certification by the Agency, the State Legislature may, but is not required to, appropriate amounts which may be necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. (See "SECURITY FOR THE BONDS.")

THE AGENCY HAS NO TAXING POWER. NEITHER THE STATE OF MINNESOTA NOR ANY POLITICAL SUBDIVISION THEREOF IS OR SHALL BE OBLIGATED TO PAY THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS, INCLUDING THE SERIES A BONDS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO SUCH PAYMENT.

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and

moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for such housing.

Structure

Under the Act, the membership of the Agency consists of the Commissioner of Trade and Economic Development, the State Auditor and five public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to the Act, the Vice Chairman of the Agency is the Commissioner of Trade and Economic Development.

The present members of the Agency who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are:

Michael Finch, Chairman — Term expires January 2002, Minneapolis, Minnesota - Research Program Director

Gerald Carlson, Vice Chair — *Ex-officio*, St. Paul, Minnesota - Commissioner of Trade and Economic Development

The Honorable *Judith Dutcher* — *Ex-officio*, St. Paul, Minnesota - State Auditor

Marge Anderson, Member — Term expires January 2004, Onamia, Minnesota - Tribal Chair of the Mille Lacs Band of Chippewa

Peter G. Bernier, Member — Term expires January 2001, Squaw Lake, Minnesota

Lee Himle, Member — Term expires January 2003, Spring Valley, Minnesota - Insurance Agency Owner

There is currently one vacancy due to the recent resignation of a member.

Staff

The staff of the Agency presently consists of approximately 170 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides legal services for the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the State Commissioner of Employee Relations.

The principal officers and staff related to the Program are as follows:

Katherine G. Hadley — Commissioner. Ms. Hadley was appointed Commissioner in July 1994, and reappointed in January 1999. From January 1992 to the date of her appointment as Commissioner, Ms. Hadley was Deputy Commissioner of the Agency. From October 1989 to January 1992, Ms. Hadley was the Director of Intergovernmental Affairs for the Agency. From September 1980 to October 1986, Ms. Hadley was a staff attorney at Southern Minnesota Regional Legal Services specializing in employment and family law. From October 1986 to October 1989, she was a staff attorney for the Legal Services Advocacy Project engaged in legislative advocacy on a variety of employment, public benefits, juvenile court, and housing issues. Ms. Hadley has a Bachelor of Arts degree from Hampshire College, Amherst, Massachusetts, and a law degree from the University of Minnesota.

Robin R. Hanson — Deputy Commissioner. Ms. Hanson was appointed Deputy Commissioner in August 1994. Ms. Hanson has announced that she is resigning from the Agency effective as of May 3, 2000. From June 1987 to the date of her appointment, Ms. Hanson was Director of Finance of the Agency. From August 1983 to June 1987, she was with the public accounting firm of KPMG LLP in St. Paul, Minnesota. During that time Ms. Hanson was responsible for planning and administering audits in various industries, such as mortgage banking, commercial real estate, motor carrier transportation and other financial institutions. Ms. Hanson is a certified public accountant and a graduate of Luther College, Decorah, Iowa with a Bachelor of Liberal Arts degree.

Patricia A. Hippe — Director of Finance since January 1995. Ms. Hippe is expected to succeed Ms. Hanson as Deputy Commissioner upon the effective date of her resignation on May 3, 2000. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, N.A. with responsibility for administration of taxable and tax-exempt bond issues primarily for student loan issuers. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, a Bachelor of Science in Business Administration degree from the University of Minnesota and has successfully completed both the Certified Public Accountant and Certified Management Accountant exams.

William G. Kappahn — Controller since November 1998. Mr. Kappahn is expected to succeed Ms. Hippe as Director of Finance upon the effective date of her assumption of duties of Deputy Commissioner in May 2000. From June 1996 to October 1998, he was Director of Finance and Administration at Children's Home Society of Minnesota. Previous to that, he held various accounting positions of increasing responsibility at The St. Paul Foundation, Amherst H. Wilder Foundation, Servomation Corporation, and Land O'Lakes, Inc. Mr. Kappahn holds a Masters degree in Business Administration with a concentration in Finance and a Bachelor of Arts degree in Business Administration from the University of St. Thomas, St. Paul, Minnesota.

Robert Odman — Director, Multifamily Division since April 3, 1995. From September 1977 to April 2, 1995, Mr. Odman was Director of Property Management for the Agency. From August 1976 to September 1977, he was a Housing Management Officer, Senior for the Agency. From March 1972 through August 1976, he was assistant vice president in charge of property management and sales for Parranto Brothers, Inc., St. Paul, managing apartments, mobile home parks and commercial property and selling both residential and commercial properties. Mr. Odman received his Bachelor of Science in Business Administration degree from Oklahoma City University, majoring in economics.

Jack Jenkins — Managing Director, Multifamily Operations since May 9, 1995. From June 1980 to May 1995, Mr. Jenkins was the Director of Multifamily Underwriting for the Agency. From July 1977 to June 1980, he was a Housing Development Officer, Senior for the Agency. From November 1973 to December 1976, he was an Assistant Project Manager/Project Planner for the Minneapolis Community Development Agency managing housing and commercial redevelopment projects, coordinating land acquisition, building demolition, land marketing and related activities. From June 1969 to June 1971, Mr. Jenkins worked for Parkins Rogers Associates, Detroit, Michigan, as an Assistant Planner involved in preparing urban renewal studies and 701 comprehensive development plans. Mr. Jenkins received his Bachelor of Architecture from the University of Michigan and his Masters of Urban Planning from Wayne State University, Detroit, Michigan.

Karl J. Herman — Assistant Attorney General assigned to the Agency since 1974. From 1970 to 1974 Mr. Herman was counsel for Pemtom, Inc., a Minnesota corporation in the land development and home construction industry. He was a partner in the law firm of Davison, Herman & Mauer from 1967 to 1970 specializing in representation of clients in the real estate development and construction industries. From 1961 to 1967 he was a Special Assistant Attorney General for the Minnesota Highway Department and the Anti-Trust Division of the Office of the Attorney General. Mr. Herman received his undergraduate and law degrees from the University of Minnesota.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101; its investor relations contact is Sharon Spahn Bjostad at (651) 282-2577; and its general telephone number is (651) 296-7608. The Agency's web site address is <http://www.mhfa.state.mn.us>.

Financial Statements of the Agency

Attached as Appendix B hereto are (i) the audited financial statements of the General Reserve Account and the Rental Housing Fund as of June 30, 1999 and 1998 and for the years then ended, together with the independent auditors' report thereon for the financial statements as of and for the years ended June 30, 1999 and 1998, dated August 26, 1999, except for Notes 6 and 10, which are as of February 29, 2000, of KPMG LLP, and (ii) the unaudited financial statements of the General Reserve Account and the Rental Housing Fund as of and for the six months ended December 31, 1999, which reflect, in the opinion of the Agency, all normal recurring adjustments necessary for a fair statement of the financial position and results of operations of these funds for the period. The audited financial statements for the years ended June 30, 1999 and 1998 for all individual funds as listed in Note 2 of the financial statements in Appendix B are available upon request from the Agency.

Disclosure Information

Continuing Disclosure. The Agency will covenant for the benefit of the Beneficial Owners of the Series A Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2000, with each Nationally Recognized Municipal Securities Information Repository ("Repository"). The notices of material events, if any, are to be filed with each of the Repositories or with the Municipal Securities Rulemaking Board.

The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below under the caption "Appendix C—Summary of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also prepares a semiannual disclosure report for its multifamily resolutions which is available upon request from the Agency or from one of the Repositories. The Agency expects to continue such practice with respect to the Rental Housing Bonds. The most recent report for the Rental Housing Bond Resolution is dated December 31, 1999. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

Year 2000 Readiness Disclosure

The Agency utilizes a variety of computer programs in its daily operations, including programs to manage its portfolio of mortgage loans and to administer the receipt, disbursement, and investment of revenues under its programs. Computer programs are also utilized by its bond trustee, mortgage loan servicers, the counterparties for the Agency's investments, the Agency's financial advisor, and other third parties upon which the Agency depends for its programmatic and financial operations. The Agency is not aware of any material Year 2000 readiness related problems with respect to the third parties referenced above.

The Agency implemented a Year 2000 plan under the direction of its Information Systems Steering Committee to address Year 2000 issues. The Agency did not experience any problems with Year 2000 issues and no impairment of its operations is occurring nor anticipated.

Board Resolution Restricted Fund Balances and Operations to Date—General Reserve Account

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from Program Funds to the General Reserve Account of the Housing Development Fund. The Agency has pledged to deposit in the General Reserve Account any such funds transferred from the Program Funds, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency has further covenanted that it shall use the money in the General Reserve Account only for the administration and financing of programs in accordance with the policy and purpose of the Act, including reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. To ensure that funds available in and available to be transferred to the General Reserve Account are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions, the Agency has established investment guidelines for its Board Restricted Fund Balances. The Agency determines compliance with its investment guidelines for the Board Restricted Fund Balances annually as of the last day of the Agency's fiscal year. Please refer to the "Restricted Fund Balances and Interfund Transfers" footnote included in the notes to the financial statements included in Appendix B.

Under these guidelines, the Agency's General Reserve Account Board Restricted Fund Balance is to be maintained at a level equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of loans receivable.

The Agency also established an Alternative Loan Fund within the Board Restricted Fund Balance of the Residential Housing Finance Bond Resolution. Within this fund, the Agency invests in a combination of cash, cash equivalents, investment securities, and loans according to the investment guidelines established by the Agency for the Housing Investment and Housing Affordability Funds. The Alternative Loan Fund is not pledged to the payment of the Bonds or any other specific debt obligations of the Agency and is generally available to pay any

debt obligations of the Agency. Loan activity related to loans financed by the Housing Investment and Housing Affordability Funds are recorded as part of the Alternative Loan Fund in the Residential Housing Finance Bond Resolution. All interfund transfers are approved by the Agency.

The following summary indicates the revenues earned, funds transferred to and from the General Reserve Account and the expenses paid from such account for the periods indicated (in thousands):

	Six Months	Fiscal Year Ended June 30,	
	Ended December 31, 1999 (unaudited)	1999	1998
Revenues and other additions to restricted fund balance:			
Fees earned(1)	\$ 1,433	\$ 2,222	\$ 2,294
Interest earned on investments	1,071	2,319	2,440
Realized gain on sales of investment securities, net	—	—	30
Unrealized gain (loss) on investment securities, net	(840)	(341)	78
Administrative reimbursement from funds(2)(3)	<u>9,311</u>	<u>13,330</u>	<u>13,037</u>
	<u>10,975</u>	<u>17,530</u>	<u>17,879</u>
Expenses and other reductions to restricted fund balance:			
Transfer of assets between funds(4)	—	6,636	4,790
Salaries and benefits	4,615	8,862	8,230
Other general operating	<u>2,369</u>	<u>4,559</u>	<u>4,417</u>
	<u>6,984</u>	<u>20,057</u>	<u>17,437</u>
Additions over (under) reductions	3,991	(2,527)	442
Restricted fund balance, beginning of year . . .	<u>34,722</u>	<u>37,249</u>	<u>36,807</u>
Restricted fund balance, end of year	<u>\$38,713</u>	<u>\$34,722</u>	<u>\$37,249</u>

- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and certain non-Agency financed Section 8 developments.
- (2) Reimbursement from bond funds are transferred to the General Reserve Account in accordance with the Agency's Affordable Housing Plan at 60 basis points of cash, cash equivalents, investment securities at par, and gross loans less reserve for loan loss.
- (3) Transfers from appropriated accounts consist of the portion of direct and indirect costs of administering the programs funded by the appropriations which are recovered from the interest earnings on appropriations.
- (4) Earnings from bond funds may be transferred to the General Reserve Account to the extent permitted by any resolution or indenture securing bonds of the Agency. See Note 7 — Restricted Fund Balances included in the notes to the financial statements in Appendix B for additional information.

State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families, innovative development, debt service and other housing related program costs. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Over the past five years, appropriations to the Agency have totaled \$260,915,000. Most of the appropriations have been expended or committed by the Agency.

The appropriations are not available to pay debt service on the Bonds except as otherwise set forth in this Official Statement.

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is limited to \$2,400,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of February 29, 2000:

	<u>Number of Series(1)</u>	<u>Bonds Maturing(1)</u>	<u>Original Principal Amount(1) (in thousands)</u>	<u>Principal Amount Outstanding (in thousands)</u>
Housing Development Bonds	3	2000-2027	\$ 117,995	\$ 68,835
Rental Housing Bonds	16	2000-2028	356,690	268,510
Residential Housing Finance Bonds	2	2000-2017	96,770	62,030
Single Family Mortgage Bonds	98	2000-2033	<u>2,109,055</u>	<u>1,549,660</u>
Total Debt Outstanding			<u>\$2,680,510</u>	<u>\$1,949,035</u>

(1) Does not include the original principal amount of any series of bonds that have been, as of February 29, 2000, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on obligations of the Agency as shown above may be made, if necessary, from the General Reserve Account.

THE DEVELOPMENTS

Description

The Agency intends to use the proceeds of the Series A Bonds to finance the acquisition and rehabilitation of four multifamily housing developments in Anoka, Mankato, North Mankato and St. Peter, Minnesota. All four of the projects involve the preservation of existing developments originally financed in the 1970's under the Section 236 program. In each case, the existing Section 236 interest reduction payments contract for the development will remain in place for the remainder of its current term, ending from 12 to 15 years from the closing of the Series A Bond. (See "RENTAL HOUSING PROGRAM—Section 236 Interest Reduction payments Program.") All of the developments will receive the benefits of housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended (the "Code") by virtue of the issuance of the Series A Bonds.

The Agency is presently processing loan commitments for all four developments, and it is anticipated that the loans will close at approximately the same time as the closing of the Series A Bonds. The Agency reserves the right, however, to apply the proceeds of the Series A Bonds to other multifamily housing developments if it determines that such application is in the Agency’s best interest and will not adversely affect the tax exemption of interest on the Series A Bonds.

The FHA Insured Loan. One of the developments, Franklin Lane Apartments, in Anoka, Minnesota, a 66 unit elderly building, will have three amortizing loans made from the proceeds of the Series A Bonds. One of the loans, in the approximate principal amount of \$992,000 will be insured under the FHA 223(a)(7) insurance program. A second amortizing loan in the approximate principal amount of \$600,000 will be insured under the FHA 241 insurance program. A third amortizing loan in the approximate principal amount of \$696,383 will not be insured. In addition, the Agency will make a deferred non-amortizing loan in the approximate principal amount of \$314,612 from Agency resources other than the proceeds of the Series A Bonds. The total development cost for the development is approximately \$3,135,000.

The HUD Risk Sharing Loans. Three developments will have amortizing first mortgage loans insured under the HUD Risk Sharing Program. (See “RENTAL HOUSING PROGRAM—Low and Moderate Income Rental Program.”) The development information is summarized in the chart below:

<u>Name</u>	<u>Location</u>	<u>Number of Units</u>	<u>Maturity Date of Section 236 Contract</u>	<u>Maturity Date of MHFA Loans</u>	<u>HUD Risk Sharing Loan Amount</u>	<u>MHFA Deferred Loan Amount</u>	<u>Approximate Total Development Cost</u>
Colony Apartments	North Mankato	120	June 2012	May 2030	\$2,784,631	\$551,841	\$4,155,532
Fairview Apartments	St. Peter	48	June 2014	May 2030	\$979,831	\$290,564	\$1,619,807
Homestead Apartments	Mankato	120	June 2014	May 2030	\$2,703,686	\$580,000	\$4,133,323

Estimated Sources and Uses of Bond Proceeds and Agency Funds

The estimated sources and uses of proceeds of the Series A Bonds and funds to be contributed by the Agency, exclusive of accrued interest, are as follows:

Sources:	
Principal Amount of Series A Bonds	\$9,290,000
Agency Contribution	<u>469,805</u>
Total Sources of Funds	<u>\$9,759,805</u>
Uses:	
Acquisition Fund	\$8,756,531
Debt Service Reserve Fund	817,547
Revenue Fund	71,261
Underwriters’ Fee and Cost of Issuance	<u>114,466</u>
Total Uses of Funds	<u>\$9,759,805</u>

DESCRIPTION OF THE SERIES A BONDS

The Series A Bonds are issuable only as fully registered bonds and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”) which will act as securities depository for the Series A Bonds. Norwest Bank Minnesota, National Association, Minneapolis, Minnesota, is to serve as Trustee under the Bond Resolution.

The Series A Bonds are issuable as serial and term bonds in the denominations of \$5,000 or any integral multiple thereof of single stated maturities. The Series A Bonds mature on the dates and in the amounts set forth on the inside front cover hereof. The Series A Bonds shall bear interest from their dated date, payable semiannually thereafter on February 1 and August 1 of each year, commencing August 1, 2000, at the rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bond. Interest on the Series A Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC. See Appendix E “Book-Entry-Only System.”

For every exchange or transfer of Series A Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

Sinking Fund Redemption

The Series A Bonds maturing on February 1, 2008 are subject to mandatory redemption in part on each February 1, commencing February 1, 2003 and concluding February 1, 2007, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2003	\$320,000	2006	\$360,000
2004	335,000	2007	385,000
2005	350,000	2008	410,000*

The Series A Bonds maturing on February 1, 2015 are subject to mandatory redemption in part on February 1, 2014 at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the principal amount as follows:

<u>Year</u>	<u>Principal Amount</u>
2014	\$370,000
2015	300,000*

*Maturity.

The Series A Bonds maturing on February 1, 2020 are subject to mandatory redemption in part on each February 1, commencing February 1, 2016 and concluding February 1, 2019, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2016	\$180,000	2019	\$190,000
2017	165,000	2020	205,000*
2018	180,000		

The Series A Bonds maturing on February 1, 2025 are subject to mandatory redemption in part on each February 1, commencing February 1, 2021 and concluding February 1, 2024, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2021	\$215,000	2024	\$270,000
2022	230,000	2025	290,000*
2023	250,000		

The Series A Bonds maturing on February 1, 2030 are subject to mandatory redemption in part on each February 1, commencing February 1, 2026 and concluding February 1, 2029, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2026	\$310,000	2029	\$240,000
2027	330,000	2030	255,000*
2028	265,000		

Special Redemption at Par

The Series A Bonds are subject to special redemption, at the option of the Agency, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) from unexpended proceeds of the Series A Bonds not used to finance the Developments, together with allocable amounts on deposit in the Debt Service Reserve Fund; (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Section 103 of the Bond Resolution) relating to the Developments financed by the Series A Bonds; and (iii) in the event the Agency receives a Prepayment upon a determination by HUD that such Prepayment will avoid a mortgage insurance claim and is therefore in the best interests of the federal government. If said Recovery Payments or Prepayment are not sufficient to redeem all Outstanding Series A Bonds as aforesaid, the Agency reserves the right to apply other funds to the special redemption of the Series A Bonds, in addition to the Recovery Payments or Prepayment.

*Maturity.

Optional Redemption

The Series A Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after February 1, 2010, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

General Provisions

Any Series A Bonds to be redeemed shall be redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the maturities from which Series A Bonds are to be redeemed and (b) the principal amount and price of Series A Bonds within such maturities to be redeemed. If less than all Series A Bonds of a maturity are to be redeemed, the Series A Bonds of that maturity to be redeemed shall be selected in \$5,000 principal amounts at random by the Trustee. The Agency shall not at any time cause Series A Bonds to be redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such redemption.

The Trustee is required to mail a copy of the notice of redemption to the registered owner of any Series A Bond called for redemption at least 30 days prior to the redemption date. Any defect in or failure to give the required mailed notice of redemption shall not affect the validity of any proceedings for the redemption of Series A Bonds not affected by such defect or failure.

SECURITY FOR THE BONDS

The Bonds, including the Series A Bonds, are secured as provided in the Bond Resolution by a pledge and a grant of a security interest in (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from such proceeds, (c) all Revenues as defined in the Bond Resolution, and (d) money, Investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series A Bonds, are general obligations of the Agency, payable out of any other moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds, and State laws heretofore or hereafter enacted pledging particular funds for a specified purpose. The pledge and security interests granted by the Bond Resolution shall be for the equal benefit, protection and security of Holders of all Bonds, including the Series A Bonds.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, including the Series A Bonds, and said Series A Bonds are not a debt of the State.

Mortgage Loans

The Bond Resolution requires, except in certain circumstances hereinafter described, that each Mortgage Loan be secured by a first mortgage lien (subject to permitted encumbrances) on the real property or leasehold interest of the Mortgagor under a lease with a term at least twice the length of the term of the Bonds which is the site of the Development financed by such Mortgage Loan, and all improvements thereon. At the initial closing for each Development the Agency receives a recorded Mortgage and a mortgagee's title insurance policy in the amount of the Mortgage Loan. The Agency may also participate with other parties in the making of a Mortgage Loan if its mortgage lien, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and

that made by others need not be equal. The Bond Resolution also permits the Agency, if it holds a Mortgage that constitutes a first mortgage lien on a Development, to make an additional Mortgage Loan for the Development and secure such additional Mortgage Loan by a Mortgage on a parity with or junior and subordinate to the first lien Mortgage held by the Agency. In addition, the Bond Resolution allows the Agency to make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, but solely from amounts which would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

Under the Bond Resolution, there shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay when due the Principal Installments of and interest on all Outstanding Bonds. The Agency may forgive a portion of the interest on any Mortgage Loan provided that, after giving effect to such reduction and all similar reductions then in effect, the Agency continues to comply with such covenant.

The scheduled payments of the Principal Installments of and interest on the Bonds are generally based on the receipt of scheduled payments by the Agency on the Mortgage Loans and any Subordinate Mortgage Loans, together with capitalized interest and estimated investment income of certain Funds and Accounts established by the Bond Resolution, to the extent provided therein. The ability of the Mortgagors to make scheduled payments to the Agency depends, among other things, on the Developments achieving and sustaining occupancy and rental levels necessary to generate rental income which, together with any subsidies, if any are applicable, is expected to be sufficient to meet the required loan payments, to fund required reserves and escrows and to meet operating expenses. Under the Bond Resolution, the Agency (unless otherwise required by any agency of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan or Subordinate Mortgage Loan) may give its consent to Prepayment of a Mortgage Loan or Subordinate Mortgage Loan only if certain conditions as described under the caption “Summary of Certain Provisions of the Bond Resolution — Mortgage Provisions and Conditions Prepayments” in Appendix D hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Debt Service Reserve Fund

The Debt Service Reserve Requirement for the Series A Bonds shall be an amount equal to \$817,547, which is not less than the maximum annual debt service payable in any future fiscal year of the Agency with respect to the Series A Bonds issued and Outstanding. Upon issuance of the Series A Bonds, the sum of \$817,547 will be deposited into the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the Series A Bonds. Upon issuance of the Series A Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution is expected to be approximately \$25,048,547 and the value of the investments in the Debt Service Reserve Fund is expected to be approximately \$25,837,547. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series A Bonds, on a parity basis.

In accordance with the Act, the Agency may not issue additional Bonds unless, after such issuance, the amount in the Debt Service Reserve Fund is equal to or exceeds the Debt Service Reserve Requirement as defined in the Bond Resolution. However, the Bond Resolution does not require that any specific amount be established as the Debt Service Reserve Requirement for future Series of Bonds. Since all Bonds are secured

on a parity basis by the Bond Resolution, variations in the Debt Service Reserve Requirement established and funded for various Series of Bonds will affect the security afforded by the Debt Service Reserve Fund to the Holders of the Bonds.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its Bonds. The moneys held in or credited to a debt service reserve fund shall be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such Bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund shall not be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency shall not issue any additional bonds or notes which are similarly secured by a debt service reserve fund if the amount in that debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency shall deposit in such fund at the time of such issuance from the proceeds of bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

In order to assure the payment of the principal of and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then Outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency.

In the opinion of Bond Counsel and counsel to the Agency, the Legislature is legally authorized *but not legally obligated* to appropriate such amounts to the Debt Service Reserve Fund.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, to provide funds for the purpose of financing Mortgage Loans for Developments under the Agency's programs of making Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations issued to finance Mortgage Loans, upon certain conditions contained therein (see "Summary of Certain Provisions of the Bond Resolution—Additional Bonds"), without limitation as to amount except as may from time to time be provided by law. Any additional Bonds issued under the Bond Resolution will be on a parity with the Series A Bonds and the Outstanding Bonds, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

Nothing in the Bond Resolution prohibits the financing of other Developments under other bond resolutions.

PLEDGE OF THE STATE

The State in the Act has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

RENTAL HOUSING PROGRAM

The Bond Resolution is currently the primary source of funds borrowed by the Agency to fund its multifamily housing programs. The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are loans outstanding which were funded from Bond proceeds under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program. Recently originated loans have included the acquisition and rehabilitation of existing market rate rental properties, and loans for the preservation of existing Federal subsidies under the Section 8 and Section 236 programs.

The existing Developments financed under the Rental Housing Bond Resolution have been originated under the following programs:

- Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)
- Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)
- Apartment Renovation Mortgage Program
- Market Rate Mortgage Loan Program
- Section 236 Interest Reduction Payments New Construction Program
- Group Homes for the Developmentally Disabled Program

The proceeds of the Bonds are loaned by the Agency to for-profit, non-profit and limited profit sponsors which agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families with low and moderate incomes or provide housing for the developmentally disabled.

The following table provides summary data regarding the loans outstanding in the Rental Housing Bond Resolution as of December 31, 1999 for the programs as listed above:

Rental Housing Program
Mortgage Loan Program Summary
as of December 31, 1999

<u>Program</u>	<u>Number of Developments</u>	<u>Number of Units</u>	<u>Outstanding Loan Amount</u>	<u>Percentage of Total Amount</u>
Section 8 Housing Assistance Payment Program*	136	7,432	\$187,849,005	64.76%
Apartment Renovation Mortgage Program	62	2,032	29,654,118	10.22
Low and Moderate Income Rental Program**	23	1,751	37,298,926	12.86
Market Rate Mortgage Loan Program ...	19	867	23,133,743	7.97
Section 236 Interest Reduction Payments Program***	9	633	9,593,730	3.31
Group Homes for the Developmentally Disabled	<u>18</u>	<u>178</u>	<u>2,546,477</u>	<u>0.88</u>
	<u>267</u>	<u>12,893</u>	<u>\$290,076,069</u>	<u>100.00%</u>

*Includes five FHA insured Developments with 214 aggregate units and an aggregate outstanding loan amount of \$5,405,992.

**Includes nine HUD Risk-Sharing Developments with 763 aggregate units and an aggregate outstanding loan amount of \$16,422,209. Also includes one FHA-insured Development with 161 units and an outstanding loan amount of \$4,094,361.

***Includes one FHA insured Development with 31 units and an outstanding loan amount of \$351,417.

Low and Moderate Income Rental Program

The Low and Moderate Income Rental Program is the program under which the Agency is currently making loans funded from the proceeds of Bonds issued under the Bond Resolution. In the past few years, the Agency has made loans under this program with Bond proceeds to finance the acquisition and rehabilitation of existing rental developments. Some of the loans, including the loans to be financed with the proceeds of the Series A Bonds, involve the preservation of existing Federal housing subsidies. The Federal housing subsidies preserved in connection with loans under the Low and Moderate Income Rental Program have included Section 8 project based assistance and Interest Reduction Payments Contracts under Section 236, both of which subsidy programs are described below.

In its Low and Moderate Income Rental Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution or prepayments of previously funded loans to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under this program, may also use its general reserves to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or reserves are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under this program in recent years have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans financed under this program have one or more low or non-interest bearing, non-amortizing second mortgages which facilitates keeping rents below market rate levels and reduces the amount of amortizing debt.

HUD Risk-Sharing Program

As part of its Low and Moderate Income Rental Program, the Agency has made and anticipates making additional Mortgage Loans in the future under the Department of Housing and Development Housing Finance Agency Risk-Sharing Program for Insured Affordable Multifamily Project Loans (“HUD Risk-Sharing Program”). Section 542(c) of the Housing and Community Development Act of 1992, as amended (the “Housing Act”) authorized the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies (“HFAs”) to enable those HFAs to underwrite and process loans for which HUD, acting through FHA, will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the “Regulations”) pursuant to the Housing Act. The “HUD Risk-Sharing Program” established by the Risk Sharing Act allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, including reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect.

The HUD Risk-Sharing Program requires that an interested HFA first be approved as a qualified housing finance agent. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement between the Commissioner of FHA and the HFA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA’s standards and procedures for underwriting and servicing loans and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the HUD Risk-Sharing Program include projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program.

The Agency has been designed by HUD as a “qualified HFA” under the Housing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the “Risk-Sharing Agreement”) which sets out the terms for the Agency’s participation in the HUD Risk-Sharing Program. The Agency has a “Level I” approval under the regulations which means it agrees to reimburse HUD 50% to 90% of any losses incurred as a result of a default under a loan, which permits the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans without further review by HUD. For the Developments financed to date under the HUD Risk-Sharing Program, the Agency and HUD have agreed to a 50/50 split of any losses.

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and such default continues for a period of 30 days. If the default continues to exist at the end of the 30 day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any Bonds or any other financing mechanisms and

must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA's obligation to HUD under its Risk-Sharing Agreement.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed-in-lieu of foreclosure or (2) expiration of the term of the HFA debenture, loss on the mortgaged property is determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the mortgage note and risk-sharing agreement.

Section 8 Housing Assistance Payment Program

General Description

Under the Section 8 Housing Assistance Payment Program, HUD provides for the payment of a subsidy for the benefit of lower income families which are defined generally as those families whose income does not exceed 80% of the median income for the area as determined by HUD. Almost all of the Developments with Section 8 subsidies financed by the Agency until recent years were financed from a set-aside to the Agency from HUD under which the Developments were underwritten and financed by the Agency, and the Agency entered into Annual Contributions Contracts with HUD ("ACC") and a Housing Assistance Payments Contract ("HAP") with owners under which the subsidy payments were made on behalf of tenants in the Developments. In addition to the Developments with Section 8 contracts with the Agency under the state agency set-aside program, several loans were made for Developments where the loans are insured under a program of the Federal Housing Administration which are the subject of 20-year Section 8 Contracts directly between the owner and HUD. Three of the 20-year contracts for the Developments insured by the Federal Housing Administration have expiration dates in 2000. In addition, several of the loans made in recent years for preservation of Federal subsidies are for Developments for which all or a portion of the units are subsidized under the Section 8 program with HAPs which have been extended by HUD on a year-to-year basis. It is anticipated that HUD will provide the opportunity for extension of expiring project-based Section 8 contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended in 1999 by PL 106-74.

Contracts Under the Section 8 Housing Program

Section 8 housing assistance payments have been provided, in the case of Developments which are permanently financed by the Agency and which utilize a portion of the set-asides of Section 8 contract authority assigned to the Agency, through an Annual Contributions Contract ("ACC") between HUD and the Agency and a Housing Assistance Payments Contract ("HAP") between the Agency and the owner of the assisted development. Pursuant to the ACC, the Agency is to receive an annual contribution from the HUD, payable monthly in advance, with respect to each assisted dwelling unit and is to, in turn, disburse or credit monthly housing assistance payments to the owner of the Development under the HAP. For projects with Section 8 units from a source other than the state agency set-aside program, the HAP has been directly between the owner and HUD.

Contract Term-State Agency Set-Aside Program

Under the HUD regulations, the initial term of the HAP for the Developments to be financed as uninsured Developments under the state agency set-aside program was either five or 20 years with provisions for renewal for five-year periods totaling either 30 or 40 years. Under the terms of the Agency's regulatory agreements with Development owners, the owners are required to renew the HAP as long as the mortgage is outstanding. The ACC remains in effect as long as the HAP is in effect.

Although the Section 8 housing assistance payments are made directly or indirectly to the owner and, in effect, represent rental income, the HAP may, with HUD's approval, be pledged by the owner to the Agency as mortgage lender on the Development. All of the HAPs covering the Agency's Developments are so pledged. Housing assistance payments by HUD do not terminate if the Mortgage Loan on the Development goes into default, so long as the owner has not breached any of the owner's obligations under the HAP, including among other responsibilities, an obligation to maintain and operate the Development so as to provide decent, safe and sanitary housing. In the event of breach by the owner, HUD may abate or terminate housing assistance payments, after giving the owner and the Agency reasonable opportunity to take corrective action. Under the HUD regulations, in the event of assignment, sale or other disposition of the Development agreed to by the Agency and approved by HUD, foreclosure, or assignment of the mortgage or deed in lieu of foreclosure, the Agreement, HAP and ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP unless approval to amend or terminate the Agreement, HAP or ACC has been obtained from the Assistant Secretary for Housing.

The Agency Regulatory Agreement

The uninsured Section 8 assisted Developments previously financed as described in Appendix A are all subject to regulatory agreements with the Agency, regulating their rents, profits, occupancy, management and operation. Under such regulatory agreements, a limited-profit entity may not make distributions to its members in any one year in excess of 10% of its equity in a Section 8 assisted Development. In its administration of the Program to date, the Agency has made Mortgage Loans to limited-profit Mortgagors of up to 100% of total development costs. Mortgage Loans for Developments are for terms of 30 to 40 years.

Certain Information Regarding Housing Assistance Payment Contracts

General

The following discussion provides certain information with regard to the HAPs and the Section 8 program which may affect payments made by HUD pursuant to the HAPs and a discussion of recent developments with respect to HUD and the Section 8 program. Such information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the Housing Act.

Adjustments in Contract Rents

Each HAP provides for certain adjustments in contract rents. At least annually, HUD publishes an annual adjustment factor; interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP to contract rents, resulting in upward or downward adjustment except that contract rents may not be reduced below the contract rents that were in effect on the effective date of the HAP. However, under several appropriations acts enacted by the Congress applicable to the 1995 and subsequent federal fiscal years, if the contract rents for a development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the differential between the initial contract rents and the original comparable rents) as determined by independent appraisals of at least three comparable local developments submitted by the owner. In 1997, this provision was made permanent by legislation. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining the development which have resulted from substantial general increases in real property taxes, assessments, utility rates or similar costs if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Adjustments may not, however, result in material differences between rents charged for assisted units and unassisted units of similar quality and age

in the same market area except to the extent of the initial difference at the time of contract execution. Under current law, “[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner.” 42 U.S.C. §1437f(c)(1)(C). There can be no assurance that increases in contract rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the developments. There can be no assurance that there will not be a decrease in contract rents which would adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See “Recent Developments” below.)

Limitations on Increases in Housing Assistance Payments

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP. The annual maximum Housing Assistance Payments are, however, initially limited to the initial contract rents. A project account is required to be established and maintained by HUD in an amount determined by HUD to be consistent with its responsibilities under the Housing Act out of amounts by which the annual maximum housing assistance commitment under the HAP (which is set forth in each HAP) exceeds the amount actually paid out under the HAP each year. Furthermore, whenever the estimated annual Housing Assistance Payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of such maximum commitment, HUD is required within a reasonable period of time to take additional steps authorized by Section 8(c)(6) of the Housing Act in order to assure that Housing Assistance Payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes, among other things, “the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts” to provide for such assurance.

Recent Developments

In recent years there have been numerous pronouncements from HUD officials, the White House Administration and members of Congress as to the future of HUD and the Section 8 program. The scope of these pronouncements have ranged from a total elimination of HUD and of the Section 8 program to a restructuring of HUD and the administration and reduction in funding of the Section 8 program. In addition, the consolidation of HUD’s programs has been proposed as well as the transfer of certain administrative responsibilities for HUD programs, including the Section 8 program, to state and local governments and other entities. Furthermore, Congress has proposed reductions in all federal spending including the funding of HUD and its programs, including the Section 8 program.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the contract rents in effect as of April 15, 1987, as described above under “Adjustments in Contract Rents.” It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for the Developments to “market rents,” but not lower than the initial contract rents, plus the initial difference, approved by HUD for the development.

At this time, the Agency cannot predict the terms of the legislation, if any, which may be enacted which may restructure and change HUD, its administration and its programs (including the Section 8 program) and the

funding of HUD and its programs. The Agency cannot predict whether any such legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds, including the Series A Bonds, with amounts pledged under the Resolutions.

Furthermore, there have been several court decisions with respect to the Section 8 program and the Section 8 insured HAPs. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, et al., held that housing assistance payment contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January, 1997 decision, *National Leased Housing Association, et al., v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the “overall limitation” provision contained in the rent adjustment section in HAPs (which states, in effect, that notwithstanding any other provision of the HAP, adjustments provided for in that section of the HAP shall not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units which are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAPs permit HUD to reduce rents below a previous year’s rent levels through the use of comparability studies, and that the “initial difference” referred to in the HAP is determined by the initial dollar amount and not by a percentage of the initial rents.

At this time, the Agency is unable to predict what actions, if any, HUD or the Congress will take in the future with respect to such rent adjustments. Actions by HUD in the future could have the effect of limiting upward adjustments in contract rents or of decreasing contract rents currently in effect to eliminate any material difference between the contract rents and rents charged for comparable unassisted units, except to the extent of the initial differences. Such actions, if taken, could adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Resolutions. As noted above under “Adjustments in Contract Rents,” Congress has passed legislation and HUD has implemented procedures to restrict contract rent increases above fair market rents for the 1995 and subsequent federal fiscal years.

Section 8 Contract Administration

Recently, HUD began a program under which HUD will enter into contracts with other entities for the administration of Section 8 contracts made directly between HUD and owners of the developments. The Agency has been selected as the Section 8 contract administrator under this program for the State of Minnesota, and expects to enter into an annual contributions contract with HUD to administer the contract. The Agency expects to administer the Section 8 contracts for the projects financed with loans insured by the Federal Housing Administration during the term of the annual contributions contract with HUD.

Section 236 Interest Reduction Payments Program

Under the Section 236 program, HUD makes monthly interest reduction payments directly to the Agency as mortgage lender on behalf of the Mortgagor. The amount of the monthly HUD payment is calculated as the difference between the monthly payment that would be required for principal, if any, interest (not in excess of the maximum rate approved by HUD for loans insured by the Federal Housing Administration (“FHA”) as of the date of the agreement plus one half of one percent per annum) and fees and charges (not in excess of one half of one percent per annum of the principal amount of the Mortgage Loan) which the Mortgagor is obligated to pay with

respect to the subsidized dwelling units and the monthly payment that would be required for principal, if any, and interest which the Mortgagor would be required to pay with respect to the subsidized dwelling units if the Mortgage were to bear interest at the rate of 1% per annum. The Section 236 program requires that the Mortgagor covenant including among other things that (1) the Mortgagor will establish basic (subsidized) rents and fair market rents for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit shall be equal to 30% of the tenant's income or the basic rent whichever is greater up to a maximum of the fair market rent, (3) the Mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the federal income limits, and (4) the Mortgagor will remit to HUD monthly the amount by which the total rents collected on all subsidized dwelling units exceeds the sum of the approved basic rents for all such units.

For Developments with uninsured first mortgage loans or loans made under the HUD Risk Sharing program, the Agency enters into agreements for interest reduction payments among HUD, the Agency and the Mortgagor which provide for administration of the Section 236 program by the Agency and interest reduction payments by HUD. HUD shall terminate payments under the agreement if the Development is acquired by the Agency or any owner not eligible under Section 236(b) of the National Housing Act. HUD shall have discretion to terminate payments at any time under the agreement (1) upon default by the Mortgagor or the Agency under any provision of the agreement; or (2) if any action of foreclosure is instituted by the Agency, unless the Agency (i) gives to HUD in advance written notice of its intention to institute such foreclosure, and (ii) submits to HUD in advance a plan acceptable to HUD providing for continuity of the eligibility of the Development for receiving the benefits of Section 236. If payments are terminated or to be terminated pursuant to the agreement, such payments may be reinstated or continued by HUD at its discretion and on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Agency or by the Mortgagor without prior written approval by HUD; except that, in connection with the issuance of its notes and bonds for the purpose of providing financing under the Development's Mortgage, the Agency may assign or pledge the Development's Mortgage and its rights thereunder as security to its note or bond holders or to a trustee without such prior written approval of HUD.

Apartment Renovation Mortgage Program

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. This Program is intended to provide Mortgage Loans that will refinance existing debt or finance the purchase of rental housing and provide construction financing for moderate rehabilitation of the Developments. The intent of the Program is to stabilize rents by providing long-term financing. The Program is not intended to provide end loan mortgage funds to replace construction financing. An additional purpose of the Program is to provide funds for rehabilitation that will stabilize energy costs in addition to improving the property. In general, 10-20% of the total mortgage will be used for rehabilitation which allows rents to remain close to their pre-rehabilitation level. Greater levels of rehabilitation may be financed provided certain conditions are met.

Market Rate Mortgage Loan Program

In its Market Rate Mortgage Loan Program, which is administered by the Multifamily Division of the Agency, the Agency issues Bonds under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income.

Group Homes for the Developmentally Disabled Program

These Developments are designed for developmentally disabled persons and are aided by the Minnesota Department of Human Services. These Developments are non-institutional residential facilities for occupancy primarily by individuals of low and moderate income who are mentally retarded or who are otherwise developmentally disabled. Such Developments must be licensed by the Minnesota Department of Human Services and approved by the Minnesota Department of Health, and, therefore, the Agency does its own processing of such Developments only to a limited extent. The Minnesota Department of Human Services pays the owner of each such Development a per diem reimbursement for each eligible occupant in accordance with a provider agreement with the owner. The reimbursements will constitute virtually the entire revenue available from these Developments to cover Mortgage Loan payments to the Agency, maintenance and operating expenses and social services provided. The reimbursements are subject to annual revision and termination by the Minnesota Department of Human Services in accordance with its rules and regulations, and are dependent upon the appropriation of county, state and federal funds. Each owner signs a pledge agreement which provides for the payment of per diem reimbursement by the Department of Human Services directly to the Agency in the event of the owner's default, and further requires that the owner take no action to terminate the provider agreement during the term of the Mortgage Loan.

Monitoring of Developments

In an attempt to minimize the risk inherent in long-term Mortgage Loans, the Agency has established the following guidelines for the monitoring of Developments:

The Agency's Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.

The Agency's Housing Management Section is responsible for the supervision of all developments financed by the Agency, beginning with the feasibility processing and continuing through the new construction or rehabilitation stages. During the latter stages of construction or rehabilitation, the Housing Management Section works with sponsors and their marketing agents in reviewing marketing plans. The Section's primary responsibility is to assist in the preparation of the management plan and to assure that the management plan is implemented. The management plan is prepared prior to occupancy of a Development and includes information on the management agent's proposed method of operating the Development. Such information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting budget and energy conservation information.

The Housing Management Section generally monitors the operations of Developments on an ongoing basis in the following ways though each program may differ in some respects:

On-Site Inspections. After initial marketing has been completed, on-site inspections are periodically made to check on management performance. Reports summarizing findings of inspections are submitted to the developer and management agent along with a timetable for correcting deficiencies, if necessary.

Reporting Requirements. Management agents for each Development are requested to submit quarterly accounting and monthly occupancy reports to the Agency's Management Section. Smaller, non-subsidized Developments have proven to be erratic in meeting the Agency's reporting requirements. The reports are

reviewed by the Housing Management Officer assigned to each Development in order to identify significant deviations from the operating budget or change in occupancy.

The Agency generally receives the following financial information related to each Development:

- (i) Monthly Operating Report—due the 15th day of the following month;
- (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of the quarter;
- (iii) Analysis of Reserve Accounts—prepared internally monthly; and
- (iv) Annual Budget—due 60 days prior to end of the preceding fiscal year.

Training Sessions. The Agency holds training sessions for management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Sessions are held for each Development prior to occupancy and periodically thereafter.

OTHER PROGRAMS

In addition to the Program, funded from the proceeds of the Bonds, the Agency finances other housing programs which provide loans for the purchase or improvement of single family housing and the acquisition, construction and rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series A Bonds in order that interest on the Series A Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). These requirements include, but are not limited to (1) provisions relating to the ownership, use and occupancy of the Developments financed by the Series A Bonds, (2) provisions relating to the application of the proceeds of the Series A Bonds, including application to costs of rehabilitation of each of the Developments, (3) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Series A Bonds and other amounts and (4) provisions which require that certain investment earnings related to the Series A Bonds be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series A Bonds to become includible in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained or occurs.

The Bond and Series Resolutions, and loan documentation pertaining to the Developments financed by the Series A Bonds, contain provisions (the “Tax Covenants”), including covenants of the Agency and the Owners, pursuant to which, in the opinion of Bond Counsel, the current requirements of the Code can be satisfied.

Assuming compliance with the provisions of the Tax Covenants, and based upon representations of the Agency and the Owners as to the application of the proceeds of the Series A Bonds and the nature, use, cost and

useful life of the Developments, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Series A Bonds is not includible in gross income of the owners thereof for federal income tax purposes; provided that Bond Counsel expresses no opinion as to the exclusion from federal gross income of interest on any Series A Bond for any period during which such Series A Bond is held by a person who is a “substantial user” of a Development financed by the Series A Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Code.

The Code imposes an alternative minimum tax with respect to individuals and other taxpayers on alternative minimum taxable income. Interest on the Series A Bonds will be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and other taxpayers.

Prospective purchasers of the Series A Bonds should also be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series A Bonds, (ii) interest on the Series A Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 384 of the Code, (iii) passive investment income, including interest on the Series A Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have accumulated earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts of interest on the Series A Bonds.

The above summary of possible indirect tax consequences is not exhaustive. All purchasers of the Series A Bonds, particularly purchasers that are corporations (including Subchapter S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, or certain recipients of social security and railroad retirement benefits, should consult their tax advisors regarding the possible federal income tax consequences of ownership of the Series A Bonds.

In addition, in the opinion of Bond Counsel, based upon existing law and assuming compliance with the provisions of the Tax Covenants, interest on the Series A Bonds is not includible in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes; provided that Bond Counsel expresses no opinion as to the exclusion from Minnesota taxable net income of interest on any Series A Bond for any period during which such Series A Bond is held by a person who is a “substantial user” of a Development financed by the Series A Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Code. Interest on the Series A Bonds is includible in income for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Series A Bonds is also includible in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

Not “Bank Qualified” Bonds

The Agency will not designate the Series A Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Code.

Certain State Legislation

The 1995 Minnesota Legislature has enacted a statement of intent that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota’s exemption of such interest unlawfully

discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. No similar legislation was proposed or approved during the 1996, 1997, 1998 or 1999 legislative sessions nor has similar legislation been introduced during the 2000 legislative session. The Agency is not aware of any judicial decision holding that a state's exemption of interest on its own bonds or those of its political subdivisions or Indian tribes, but not of interest on the bonds of other states or their political subdivisions or Indian tribes, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. Nevertheless, the Agency cannot predict the likelihood that interest on the Series A Bonds would become taxable for Minnesota income tax purposes under this Minnesota statutory provision.

LEGAL MATTERS

The validity of the Series A Bonds and the tax exemption of interest thereon are subject to the approval of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. A copy of the opinion of said firm, substantially in the form set forth in Appendix F attached hereto, will be available at the time of delivery of the Series A Bonds.

FINANCIAL ADVISOR

The Agency has appointed Evensen Dodge, Inc., Minneapolis, Minnesota, to serve as financial advisor to the Agency on matters relating to the issuance of bonds and various asset and debt management matters.

UNDERWRITERS

At a competitive sale on the date of this Official Statement, the Agency agreed to sell the Series A Bonds (excluding those Series A Term Bonds with maturities in 2015, 2020, 2025 and 2030) to a group of Underwriters managed by PaineWebber Incorporated and to directly place the Series A Term Bonds with maturities in 2015, 2020, 2025 and 2030, at an aggregate price of \$9,290,000.00, plus accrued interest from April 15, 2000 to the date of delivery. The Series A Bonds (excluding those Series A Term Bonds with maturities in 2015, 2020, 2025 and 2030) may be offered and sold to certain dealers (including dealers depositing such Series A Bonds into investment trusts) at prices lower than the initial public offering price and the initial public offering prices may be changed from time to time. In connection with the sale of the Series A Bonds (excluding those Series A Term Bonds with maturities in 2015, 2020, 2025 and 2030) to the Underwriters, the Agency will pay the Underwriters an underwriting and placement fee of \$34,465.90.

MISCELLANEOUS

This Official Statement is submitted in connection with the offering of the Series A Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series A Bonds.

The execution and delivery of this Official Statement have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By: /s/ KATHERINE G. HADLEY
Commissioner

April 26, 2000.

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APPENDIX A

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY
FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY
UNDER THE RENTAL HOUSING BOND RESOLUTION
AND THOSE INTENDED TO BE FINANCED WITH PROCEEDS OF THE SERIES A BONDS**

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**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Subsidy	# of	Total	
			Loan	Mortgage			Note				Subsidy
			Interest	Loan	Mortgage	Reserves (1)	Maturity	Expiration	Units	Units	
			Rate	Balance	Amount						
116,118,120 So Holmes	Shakopee		9.500	\$ 125,345	\$ -	\$ 25,418	03/01/19	ARM	N/A	0	7
1215 St Germain	St. Cloud		9.500	98,175	0	3,452	01/01/19	ARM	N/A	0	8
1225 E. St. Germain	St. Cloud		9.500	99,411	0	3,836	01/01/19	ARM	N/A	0	8
1407 Golden Valley Rd	Minneapolis		9.500	119,503	0	930	02/01/18	ARM	N/A	0	9
1501 11 Ave So	Minneapolis		9.500	439,009	0	29,453	03/01/19	ARM	N/A	0	22
1757 Thomas Ave	St. Paul		9.500	155,600	0	10,126	04/01/18	ARM	N/A	0	9
1915 3rd Ave S	Minneapolis		8.000	188,920	0	13,017	06/01/24	ARM	N/A	0	20
2100 Bloomington	Minneapolis		6.750	1,341,296	0	366,142	12/01/16	236	12/01/16	90	90
2202-2210 N Dale St	Roseville		9.500	595,388	0	19,117	11/01/18	ARM	N/A	0	34
2406 Golden Valley Rd	Minneapolis		9.500	157,138	0	7,846	02/01/18	ARM	N/A	0	11
2510 Jackson	Minneapolis		9.500	209,002	0	226	04/01/18	ARM	N/A	0	18
3100 4th Ave	Minneapolis		7.500	124,050	0	23,408	01/01/24	LMIR	N/A	0	10
354 Marie	W. St. Paul		8.100	2,442,567	0	247,980	01/01/20	ARM	N/A	0	160
3735 Harriet Ave S	Minneapolis		9.500	192,905	0	9,796	01/01/18	ARM	N/A	0	9
3801 W. Broadway GH	Robbinsdale		9.000	325,069	0	45,303	12/01/18	DD	N/A	9	9
3807 W. Broadway GH	Robbinsdale		9.000	327,808	0	45,684	12/01/18	DD	N/A	9	9
4001 Clinton	Minneapolis		9.500	297,125	0	5,996	08/01/20	ARM	N/A	0	20
401 7th St.	Waite Park		9.500	431,575	0	252	08/01/18	ARM	N/A	0	24
487 Grand	St. Paul		9.500	288,165	0	7,304	02/01/18	ARM	N/A	0	18
804 6th St NW	New Brighton		7.950	166,911	0	78,150	12/01/26	LMIR	N/A	0	16
Anoka West	Anoka		6.750	641,319	0	40,285	08/01/25	LMIR	N/A	0	32
Applewood West	Duluth		7.050	1,130,850	0	453,691	02/01/12	HAP	05/06/11	42	42
Ashland Apts.	St. Paul		7.550	464,304	0	96,210	02/01/18	MR	N/A	0	19
Ashland/Dellwood	Cambridge		7.050	1,771,537	0	975,414	01/01/13	HAP	06/30/11	60	60
Birchwood East	Virginia		6.750	1,084,321	0	20,774	05/01/18	HAP	06/01/17	30	60
Birmingham	St. Paul		7.050	643,540	0	199,395	11/01/12	HAP	10/30/11	21	21
Blackduck	Blackduck		7.500	515,299	0	358,825	12/01/17	HAP	10/01/16	30	30
Boardwalk	Wayzata		6.500	1,607,629	0	230,835	12/01/19	HAP	10/23/18	77	77
Bossen Park	Minneapolis		6.680	2,802,978	0	13,414	Pending	LMIR	N/A	0	110
Canadian Terrace	Minneapolis		7.550	358,608	0	173,752	09/01/16	MR	N/A	0	19
Capital View	St. Paul		6.500	3,476,183	0	192,010	06/01/20	HAP	01/29/21	28	140
Carriage House	Moorhead		6.500	993,191	0	90,274	07/01/22	MR	N/A	0	36
Cascade	Fergus Falls		6.500	813,171	0	332,881	01/01/19	HAP	05/31/18	36	36
Cedar Crest	Monticello		6.500	725,190	0	696,701	03/01/20	HAP	08/08/18	38	38

Appendix A

Development	Name	Location	Mortgage	Outstanding	Undisbursed		Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage	Mortgage	Development	Note				
			Interest	Loan	Amount	Reserves (1)	Maturity	Expiration	Units	Units	
Cedar Terrace	St. Cloud		7.050	703,447	0	204,891	05/01/12	HAP	06/24/11	24	24
Centennial Plaza	Le Center		7.500	541,744	0	463,285	12/01/17	HAP	12/10/16	40	40
Century Hills	White Bear Lk		7.050	1,733,938	0	47,462	10/01/12	HAP	08/18/11	55	55
Charter Oaks	Stillwater		7.050	1,897,408	0	108,265	11/01/12	HAP	10/01/11	60	60
Chester Terrace	Duluth		7.500	623,768	0	49,468	02/01/18	MR	N/A	0	43
Chicago Ave Apts	Minneapolis		7.450	1,099,306	0	390,376	12/01/22	LMIR/HAP/FHA	05/07/02	60	60
Christus GH	Grand Rapids		8.000	59,182	0	2,800	02/01/13	DD	N/A	12	12
Christus GH	Little Falls		8.000	51,869	0	6,035	08/01/12	DD	N/A	12	12
Cliff Hill	Burnsville		7.050	1,011,602	0	305,504	09/01/12	HAP	07/30/11	32	32
Cloverdale	St. Joseph		7.250	1,140,100	0	354,943	10/01/21	HAP	03/28/20	36	36
Como Place	St. Paul		5.750	1,376,986	0	185,474	12/01/18	HAP	04/01/18	21	106
Cottage Grove	Cottage Grov		7.500	811,527	0	45,606	01/01/22	MR	N/A	0	24
Countryside TH	Fairmont		6.500	1,588,908	0	596,214	12/01/19	HAP	09/22/18	71	71
Creek Terrace	Minneapolis		6.500	2,353,401	0	263,308	11/01/21	HAP	04/24/20	16	82
Crossroads of New Brighton	New Brighton		5.870	8,837,599	0	562,714	07/01/28	HAP	08/30/19	172	172
Delton Manor	Bemidji		6.750	718,884	0	316,514	12/01/16	236	12/01/16	60	60
Dewey Place/Pines	Foley		7.050	909,230	0	263,205	08/01/12	HAP	06/02/11	36	36
Dover Hill	Golden Valley		6.750	4,307,060	0	1,495,387	12/01/16	236	12/01/16	196	234
Dr. Grahek	Ely		7.250	955,250	0	501,974	11/01/19	HAP	03/30/19	42	42
Dupont Villa	Minneapolis		7.950	3,387,283	0	417,710	11/01/25	LMIR	N/A	0	158
Eastgate	Montevideo		7.250	1,385,531	0	144,668	09/01/21	HAP	07/31/20	46	46
Eastport	Mankato		6.500	2,064,535	0	543,959	10/01/19	HAP	08/16/18	78	78
Edgewood Ave GH	Brooklyn Park		9.000	218,615	0	31,881	12/01/15	DD	N/A	8	8
Eighteenth & Clinton	Minneapolis		7.050	209,913	0	29,053	07/01/12	HAP	08/28/11	8	8
Emerson Ave GH	West St. Paul		7.840	45,682	0 ncl. in HD92A		01/01/27	DD	N/A	N/A	N/A
Etna Woods	St. Paul		7.050	591,478	0	36,669	02/01/12	HAP	07/01/11	20	20
Evergreen East	St. Paul		7.550	2,458,493	0	200,857	03/01/28	LMIR/HRS	N/A	0	113
Ewing Square	Brooklyn Ctr.		7.250	749,231	0	137,243	01/01/20	HAP	01/02/19	23	23
Fairway Woods	Winona		6.750	1,911,152	0	23,833	07/01/18	HAP	04/01/17	23	111
Fifteen Hundred Perkins	Windom		7.250	1,335,399	0	199,186	03/01/21	HAP	11/27/19	48	48
Five Gables	Minneapolis		7.500	67,505	0	5,599	10/01/05	MR	N/A	0	5
France Ave GH	Robbinsdale		9.000	184,312	0	26,473	12/01/16	DD	N/A	6	6
Galway Place	Coon Rapids		7.050	1,065,919	0	782,269	01/01/12	HAP	05/28/11	36	36
Garden Court	Winnebago		6.500	651,263	0	30,966	01/01/19	HAP	05/01/18	36	36
Geneva Village Apts	Oakdale		7.210	4,416,397	0	240,230	01/01/28	LMIR	N/A	0	175
Gethsemane GH	Virginia		8.000	76,438	0	5,969	01/01/14	DD	N/A	12	12
Glenwood	Glenwood		7.050	958,485	0	672,954	01/01/12	HAP	05/27/11	36	36
Golden Age (Whispering Pin	Caledonia		6.500	715,376	0	185,171	09/01/19	HAP	12/14/18	37	37
Greenwood Apts	Wadena		7.250	1,198,693	0	288,814	02/01/20	HAP	04/27/19	48	48

Appendix A

Development	Name	Location	Mortgage	Outstanding	Undisbursed		Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage	Mortgage	Development	Note				
			Interest	Loan	Amount	Reserves (1)	Maturity	Expiration	Units	Units	
Greenwood Place		Faribault	7.250	1,545,658	0	462,325	10/01/20	HAP	06/05/19	51	51
Greysolon Plaza		Duluth	7.250	3,006,744	0	503,019	10/01/11	HAP	10/22/10	151	151
Harbor Point		Two Harbors	7.250	954,703	0	234,092	06/01/19	HAP	10/27/18	41	41
Heartland Apts		Pine River	7.250	838,860	0	1,059,247	12/01/19	HAP	12/12/18	30	30
Heights Manor		Columbia Hts.	6.500	1,563,897	0	808,372	12/01/19	HAP	09/22/18	85	85
Henry Hill		Granite Falls	7.250	1,027,562	0	843,255	05/01/10	HAP	10/19/09	54	54
Heritage Prairie		Wabasso	6.500	459,355	0	475,086	01/01/19	HAP	06/15/18	28	28
Heritage Square		Hutchinson	7.550	617,664	0	94,375	11/01/16	MR	N/A	0	24
Highland Commons		Arlington	6.500	816,295	0	270,747	10/01/19	HAP	01/09/19	41	41
Highland On The Park		St. Paul	7.500	3,541,069	0	51,818	11/01/23	MR	N/A	0	126
Highwood Homes		Prior Lake	7.250	800,089	0	223,761	11/01/11	HAP	09/29/10	36	36
Hillside Homes		Spring Valley	6.500	658,645	0	230,484	10/01/19	HAP	12/14/18	37	37
Hillside Manor East		Moose Lake	7.250	910,913	0	410,591	03/01/11	HAP	07/08/10	41	41
Hillside Terrace		Monticello	7.050	1,044,141	0	352,000	05/01/12	HAP	06/30/11	36	36
Hillside Terrace		Long Lake	7.250	962,368	0	317,824	05/01/12	HAP	12/02/10	44	44
Holmes Park		Minneapolis	7.250	2,962,899	0	1,115,201	03/01/21	HAP	09/21/19	107	107
Hope Residence GH		Waterville	8.000	119,851	0	91,128	08/01/12	DD	N/A	10	10
Hope Residence II GH		Waterville	8.000	19,596	0	Incl. above	08/01/12	DD	N/A	N/A	N/A
Hopkins Village Regular		Hopkins	5.200	431,175	0	633,825	09/01/24	LMIR/236	N/A	161	161
Hopkins Village 223		Hopkins	7.120	2,597,064	0	Incl. above	09/01/24	FHA/LMIR/236	N/A	0	N/A
Hopkins Village 241		Hopkins	5.200	1,066,122	0	Incl. above	09/01/24	FHA/LMIR/236	N/A	0	N/A
Hunters Ridge		Minnetonka	6.500	2,954,549	0	714,776	08/01/21	HAP	09/04/20	25	123
Jack Frost Flats		Minneapolis	9.500	492,121	0	63,605	09/01/18	ARM	N/A	0	57
Jefferson Square		Northfield	7.250	1,205,758	0	533,929	08/01/11	HAP	07/01/10	50	50
Kaleva		New York Mills	7.250	495,136	0	273,403	11/01/10	HAP	11/02/09	30	30
Kimberly Meadows		Plymouth	7.050	1,229,263	0	373,741	10/01/12	HAP	08/31/11	39	39
Lake City		Lake City	6.500	949,249	0	271,698	03/01/20	HAP	10/26/18	40	40
Lake Crystal		Lake Crystal	7.250	1,167,657	0	478,292	03/01/21	HAP	06/12/19	43	43
Lakewood Hills Apts		White Bear La	7.950	3,253,210	0	252,444	02/01/26	LMIR	N/A	0	88
Larson Commons		Cloquet	7.250	2,281,425	0	722,478	01/01/21	HAP	03/07/20	85	85
Lincoln Center		Chisholm	7.250	971,674	0	601,616	03/01/12	HAP	12/15/10	41	41
Longfellow Square		Litchfield	7.500	441,022	0	46,968	02/01/17	MR	N/A	0	18
Lou Park		St. Louis Park	5.750	2,021,453	0	498,255	12/01/22	HAP	12/29/18	32	108
Lyndale Ave GH		Brooklyn Ctr.	9.000	219,680	0	32,036	12/01/15	DD	N/A	8	8
Maple Grove GH		Maple Grove	9.000	208,115	0	29,004	12/01/18	DD	N/A	6	6
Maple Knoll		Maplewood	7.050	1,848,062	0	204,815	01/01/13	HAP	10/15/11	57	57
Maple Ridge		Alexandria	6.500	1,019,151	0	86,246	01/01/21	HAP	07/31/18	40	40
Marshall Ave		St. Paul	7.050	325,243	0	75,098	08/01/12	HAP	10/08/11	12	12
Marshall County GH		Argyle	6.500	34,083	0	2,303	01/01/13	DD	N/A	10	10

Appendix A

Development	Name	Location	Mortgage	Outstanding	Undisbursed		Mortgage	Program Type	Subsidy	# of	Total		
			Loan	Mortgage	Mortgage	Development	Note					Interest	Loan
			Rate	Balance								Units	Units
Maryland House		Minneapolis	7.250	2,643,795	0	885,786	01/01/22	HAP	01/08/21	79	79		
Matthews Park		Minneapolis	7.500	493,543	0	182,308	12/01/17	HAP	09/28/16	24	24		
Mears Park		St. Paul	5.750	7,590,711	0	1,249,091	12/01/19	HAP	03/16/19	50	255		
Meridian		Duluth	6.500	851,895	0	236,084	05/01/19	HAP	07/20/18	39	39		
Mesaba Villas		Duluth	6.750	462,601	0	58,104	12/01/16	236	12/01/16	27	27		
Milaca Park		Milaca	7.250	2,275,990	0	138,847	03/01/22	HAP	11/14/20	71	71		
Mill Pond View		Pelican Rapid	7.250	1,730,352	0	1,221,575	05/01/12	HAP	09/20/19	44	44		
Millie Beneke		Glencoe	6.500	710,375	0	215,742	08/01/19	HAP	08/07/18	41	41		
Millpond Apts		New Prague	7.050	1,327,583	0	1,731,925	09/01/20	HAP	08/14/11	66	66		
Milwaukee Ave		Minneapolis	6.750	203,075	0	81,525	12/01/16	236	12/01/16	12	12		
Minnehaha Terrace		Minneapolis	7.100	665,126	0	106,241	11/01/23	LMIR	N/A	0	26		
Mount Royal Pines		Duluth	7.500	2,130,795	0	170,052	10/01/19	MR	N/A	0	55		
Mower County		LeRoy	6.500	686,972	0	832,045	10/01/20	HAP	06/30/19	30	30		
Munger Terrace		Duluth	7.250	1,343,793	0	298,560	08/01/20	HAP	01/24/19	45	45		
Nevada Square		Benson	7.250	1,116,741	0	569,618	04/01/20	HAP	03/30/19	40	40		
North Mora		Mora	7.250	957,997	0	70,305	05/01/21	HAP	12/06/19	35	35		
North Ridge		North Mankat	7.500	926,179	0	78,064	07/01/22	MR	N/A	0	30		
North Star		Roseau	7.250	1,191,095	0	793,204	02/01/20	HAP	05/14/19	51	51		
Northgate Woods		Blaine	7.250	2,331,601	0	653,902	07/01/21	HAP	08/29/20	75	75		
Northside Terrace		Hawley	7.250	732,345	0	152,433	11/01/20	HAP	09/27/19	30	30		
Northwood		Glencoe	6.750	523,202	0	191,623	12/01/16	236	12/01/16	31	39		
Northwood Commons		Baudette	6.500	542,786	0	458,303	05/01/19	HAP	12/19/18	32	32		
Oak Park Village		St. Louis Park	6.500	2,494,930	0	1,461,371	04/01/20	HAP	11/29/18	100	100		
Oakland Square		Minneapolis	7.050	760,296	0	66,008	07/01/16	HAP	11/30/14	31	31		
Oakwood Homes		Karlstad	7.250	1,170,123	0	173,556	12/01/21	HAP	03/12/20	45	45		
Okabena		Worthington	7.250	1,226,616	0	499,418	07/01/19	HAP	11/30/18	60	60		
Otterkill Garden		Bagley	7.500	519,699	0	100,103	02/01/18	HAP	05/01/17	30	30		
Outreach-Six Acres GH		Winsted	7.650	216,773	0	42,459	01/01/27	DD	N/A	6	6		
Pacific Ave Apts		Argyle	7.500	92,854	0	12,130	01/01/17	MR	N/A	0	11		
Park Manor		Detroit Lakes	7.250	2,340,125	0	1,811,383	08/01/20	HAP	05/18/19	97	97		
Park Street		Cannon Falls	6.500	794,033	0	626,452	11/01/19	HAP	10/20/18	40	40		
Parkview Terrace		Moorhead	7.500	2,150,840	0	1,435,760	12/01/17	HAP	05/15/17	121	121		
Passages		Minneapolis	7.500	365,692	0	17,673	09/01/21	MR	N/A	0	17		
Phalen Shores I		St. Paul	6.000	1,544,908	0	158,238	06/01/17	MR	N/A	0	53		
Phalen Shores II		St. Paul	6.750	897,169	0	Incl. above	02/01/20	MR	N/A	N/A	N/A		
Phalen Shores III		St. Paul	7.500	106,647	0	Incl. above	07/01/19	MR	N/A	N/A	N/A		
Pine Manor		Ely	7.250	710,539	0	133,256	06/01/11	HAP	07/24/10	30	30		
Pine Ridge		Grand Rapids	5.750	1,677,717	0	852,008	11/01/18	HAP	02/15/18	60	100		
Pine Tree Park Apts		St. Paul	6.600	2,710,500	0	476,640	12/01/23	LMIR	N/A	0	198		

Appendix A

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage			Note				
			Interest	Loan	Mortgage	Reserves (1)	Maturity		Expiration	Units	Units
			Rate	Balance	Amount						
Prairie Estates	Inver Grove H		7.250	1,302,652	0	381,959	02/01/22	HAP	11/21/20	40	40
Princeton	Princeton		7.250	1,093,758	0	753,978	04/01/20	HAP	04/12/19	48	48
Red Fox Run	Richfield		7.250	196,630	0	81,090	03/01/21	HAP	05/19/20	5	5
Red Pine Estates	Bemidji		7.250	1,891,525	0	731,876	08/01/11	HAP	08/29/10	86	86
Red Wing GH	Red Wing		8.000	58,773	0	2,995	09/01/12	DD	N/A	12	12
Residence I GH	Shoreview		9.250	25,648	0	2,979	07/02/11	DD	N/A	8	8
Residence II GH	Shoreview		8.750	25,942	0	2,969	12/01/12	DD	N/A	8	8
Ripple River	Aitkin		7.050	922,986	0	50,158	07/01/13	HAP	11/11/11	32	32
Riverbend	Fergus Falls		7.250	2,422,302	0	1,471,529	08/01/12	HAP	10/31/10	100	100
Riverside Manor	Dawson		7.250	663,469	0	274,871	09/01/20	HAP	11/30/19	24	24
Riverside Terrace	Thief River Fall		7.250	1,258,551	0	626,213	05/01/11	HAP	05/02/10	66	66
Riverview Apts	Appleton		6.500	645,895	0	510,558	12/01/19	HAP	10/13/18	37	37
Riverview Manor	Floodwood		7.250	774,044	0	417,797	01/01/20	HAP	04/13/19	35	35
Riverview Manor I GH	Wanamingo		7.750	119,421	0	80,879	10/01/13	DD	N/A	12	12
Rosemount Greens	Rosemount		7.250	832,638	0	117,305	10/01/21	FHA	12/01/00	28	28
Roseville Seniors	Roseville		6.500	2,439,603	0	651,378	02/01/19	HAP	09/21/18	127	127
Rustic Creek	Two Harbors		7.050	1,378,910	0	127,034	02/01/13	HAP	12/07/11	40	40
Sahlman East	Cloquet		7.250	894,802	0	128,921	05/01/11	HAP	07/01/10	36	36
Saint Stephen - I GH	Bloomington		9.250	72,970	0	5,983	08/01/11	DD	N/A	24	24
Saint Stephen - II GH	Bloomington		8.500	24,231	0	Incl. above	08/01/12	DD	N/A	N/A	N/A
Schule Haus	Jordan		7.250	1,529,244	0	409,726	03/01/21	HAP	02/29/20	52	52
Shadyway GH	Wayzata		6.500	66,545	0	69,545	05/01/13	DD	N/A	6	6
Shalimar Estates	Burnsville		7.550	1,882,123	0	136,866	06/01/18	MR	N/A	0	48
Shields Plaza	North Branch		6.500	902,046	0	233,969	04/01/19	HAP	04/12/18	49	49
Shubert Apts	St. Paul		7.500	603,694	0	38,217	12/01/21	MR	N/A	0	56
Six Acres	Coon Rapids		7.250	424,497	0	76,382	07/01/20	HAP	12/08/18	14	14
Slater Square - I	Minneapolis		7.459	1,576,317	0	223,749	11/01/18	MR	N/A	0	163
Slater Square - II	Minneapolis		7.500	990,122	0	Incl. above	11/01/18	MR	N/A	N/A	N/A
South Park Manor	Dodge Cente		7.250	1,185,706	0	157,705	05/01/22	HAP	09/12/20	37	37
Southview	Hibbing		6.750	2,425,243	0	127,555	06/01/18	HAP	08/01/17	43	144
Spruce Place	Farmington		6.500	1,169,184	0	1,372,650	09/01/19	HAP	10/27/18	60	61
Stonehouse Square	Minneapolis		6.500	1,667,100	0	485,686	04/01/22	HAP	12/07/19	19	71
Sunrise Estates	Jackson		7.250	920,656	0	49,389	12/01/11	HAP	10/30/10	40	40
Sunrise Manor	Sleepy Eye		7.050	907,441	0	207,839	05/01/12	HAP	10/01/11	32	32
Sunrise Meadow	St. Peter		6.500	1,596,794	0	461,422	05/01/19	HAP	06/01/18	63	63
Sunset Court	Red Lake Falls		6.500	494,280	0	676,134	04/01/19	HAP	07/31/18	24	24
Talmage Green	Minneapolis		7.050	742,903	0	162,216	03/01/12	HAP	05/29/11	26	26
Three Links	Northfield		6.750	880,138	0	173,059	12/01/16	236	12/01/16	32	80
Todd 27	Long Prairie		7.250	1,053,285	0	249,292	04/01/21	HAP	06/25/20	44	44

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage			Note				
			Interest	Loan	Mortgage	Reserves (1)	Maturity	Expiration	Units	Units	
			Rate	Balance	Amount						
Town Square	E. Grand Forks		7.250	2,325,142	0	626,692	12/01/21	HAP	10/08/19	81	81
Two Hundred Levee Dr.	Shakopee		7.250	1,497,932	0	1,153,794	02/01/12	HAP	11/03/10	66	66
Valley View Manor	Ada		6.500	647,041	0	871,673	04/01/19	HAP	06/28/18	40	40
Valleyview Common	Mahnomen		6.500	537,053	0	673,063	04/01/19	HAP	10/13/18	32	32
Victoria Place	Roseville		7.550	2,253,159	0	40,048	12/01/17	MR	N/A	0	58
Viking Terrace	Worthington		6.750	806,056	0	76,206	12/01/16	236	12/01/16	40	60
Village TH	Chaska		7.250	873,789	0	310,173	02/01/22	HAP	02/01/21	28	28
Virginia Rotary	Virginia		7.250	351,417	0	74,756	11/01/15	236/FHA	11/01/15	31	31
Walnut Place	Rockford		7.050	926,657	0	197,448	04/01/12	HAP	07/21/11	30	30
Warroad	Warroad		7.250	979,475	0	29,582	12/01/21	HAP	12/17/20	30	30
Washington Square	White Bear Lk.		7.250	1,937,317	0	736,349	03/01/21	HAP	05/02/19	81	81
Waterford	Oakdale		7.094	943,837	0	24,639	10/01/13	FHA	09/27/03	31	31
West Falls Estate	Int'l Falls		7.250	1,927,090	0	665,949	04/01/12	HAP	01/08/11	80	80
Westfalls	Redwood Fall		7.050	1,151,393	0	354,906	11/01/12	HAP	10/01/11	40	40
Westgate Apt	New Prague		7.050	1,186,231	0	495,409	12/01/17	HAP	07/15/11	37	37
Westgate Apt.	Gaylord		6.500	495,161	0	108,815	03/01/19	HAP	07/01/18	31	31
Westgate Apt.	Hibbing		7.500	1,599,171	0	247,909	08/01/13	HAP	11/24/16	30	100
Westgate Apt.-Balloon	Hibbing		0.000	768,968	0	Incl. above	08/01/13	HAP	11/24/16	N/A	N/A
Whittier Coop	Minneapolis		7.250	977,057	0	92,841	10/01/18	FHA	09/05/00	45	45
Women's Advocates 79A	St. Paul		7.250	173,730	0	150,303	09/01/12	HAP	07/02/21	12	15
Women's Advocates- 80A	St. Paul		7.050	66,295	0	Incl. below	09/01/12	HAP	07/02/21	N/A	N/A
Woodcrest Manor	Mora		7.250	1,023,937	0	232,920	08/01/21	HAP	03/07/20	42	42
Woodland Garden	Duluth		7.250	1,435,509	0	544,819	01/01/20	HAP	06/15/19	60	60
Woodmount	Cottage Grov		7.250	1,553,154	0	676,758	11/01/21	FHA	09/30/00	50	50
Wyndmark	Rochester		7.550	1,845,424	0	478,833	03/01/17	MR	N/A	0	62
Yorkdale	Edina		7.250	2,453,521	0	152,281	05/01/20	HAP	01/08/19	90	90
Yorkdale II	Edina(2nd)		9.000	3,542,113	0	Incl. above	05/01/20	HAP	N/A	N/A	N/A
Subtotal				250,185,224	0	67,412,521				7,109	10,477

MORTGAGE LOANS AND DEVELOPMENTS PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage			Note				
			Interest	Loan	Mortgage	Reserves (1)	Maturity	Expiration	Units	Units	
			Rate	Balance	Amount						
1015 Essex	Minneapolis		9.500	\$ 1,651,197	0	\$ 37,515	05/01/19	ARM	N/A	0	122
1025 York Ave	St. Paul		8.000	151,299	0	3,991	03/01/13	ARM	N/A	0	17
1036 Lincoln	New Hope		9.750	106,623	0	4,697	01/01/22	ARM	N/A	0	8
10890 So Shore Drive	Plymouth		9.500	381,125	0	19,459	10/01/20	ARM	N/A	0	17

Appendix A

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage			Note			Subsidized	
			Interest	Loan	Mortgage	Reserves (1)	Maturity		Expiration	Units	Units
			Rate	Balance	Amount						
1097 Oakview		St. Charles	8.500	423,012	0	7,723	07/01/20	ARM	N/A	0	36
111 Central		Fairbault	9.500	205,246	0	10,983	07/01/20	ARM	N/A	0	15
1171 Selby		St. Paul	7.750	148,366	0	20,623	10/01/19	ARM	N/A	0	16
1240 E 4th St		Shakopee	9.500	482,765	0	73,083	03/01/20	ARM	N/A	0	24
1264-88 Hazelwood		St. Paul	9.500	1,448,490	0	14,922	08/01/20	ARM	N/A	0	96
133 Mill St		Fergus Falls	8.500	504,284	0	57,681	02/01/21	ARM	N/A	0	38
1426-1430 4th Ave SE		Rochester	8.750	861,650	0	24,342	03/01/22	ARM	N/A	0	60
155 Western		St. Paul	7.750	471,027	0	17,827	05/01/21	ARM	N/A	0	24
1570 Commercial Blvd		Victoria	9.500	484,328	0	11,018	06/01/21	ARM	N/A	0	20
1631-1633 Commerce		No. Mankato	8.500	811,279	0	14,908	08/01/20	ARM	N/A	0	48
1724-60 Case Ave		St. Paul	9.500	629,134	0	40,094	11/01/20	ARM	N/A	0	48
1801 1st Ave So.		Minneapolis	9.500	310,857	0	3,751	09/01/19	ARM	N/A	0	20
1806 3rd Ave. So.		Minneapolis	9.500	304,909	0	3,683	09/01/19	ARM	N/A	0	25
1810 3rd Ave So.		Minneapolis	9.500	539,509	0	6,713	11/01/19	ARM	N/A	0	34
1915 St Clair		St. Paul	9.500	185,339	0	1,956	01/01/19	ARM	N/A	0	11
2101 Blaisdell		Minneapolis	9.500	428,667	0	3,359	04/01/20	ARM	N/A	0	18
2145 Mcknight		No. St. Paul	9.500	179,875	0	8,394	08/01/19	ARM	N/A	0	12
221-231 Freemont Ave		Hutchinson	8.500	338,488	0	6,713	09/01/20	ARM	N/A	0	24
2216 Garfield		Minneapolis	9.500	443,739	0	7,108	09/01/20	ARM	N/A	0	26
2226-28 Garfield		Minneapolis	9.500	288,324	0	14,453	05/01/20	ARM	N/A	0	20
2704 Louisiana		St. Louis Park	9.500	279,570	0	2,082	08/01/20	ARM	N/A	0	16
2732 Grand Ave.		Minneapolis	9.500	147,214	0	3,057	02/01/20	ARM	N/A	0	12
321 Harrison		Shakopee	9.500	194,725	0	22,110	03/01/20	ARM	N/A	0	12
3230 Penn		Minneapolis	5.980	165,572	0	17,594	08/01/20	ARM	N/A	0	11
3407-17 65th Ave		Brooklyn Ctr.	9.750	1,019,653	0	8,876	10/01/21	ARM	N/A	0	72
3508 Dupont Ave. So.		Minneapolis	9.500	194,574	0	2,586	11/01/19	ARM	N/A	0	11
3554 Emerson		Minneapolis	9.500	416,599	0	22,037	06/01/21	ARM	N/A	0	27
380-400 Larpenteur		St. Paul	9.750	397,709	0	91,891	11/01/21	ARM	N/A	0	34
399-401 Ashland Ave		St. Paul	9.500	63,786	0	7,790	02/01/20	ARM	N/A	0	17
404 McKay		Alexandria	8.500	299,478	0	12,823	09/01/20	ARM	N/A	0	30
411 Dayton		Champlin	9.750	1,748,167	0	182,370	10/01/22	ARM	N/A	0	99
414 7th Ave SE		Minneapolis	9.750	1,095,421	0	65,778	04/01/22	ARM	N/A	0	101
500 Ridgewood		Minneapolis	9.500	284,672	0	9,145	08/01/19	ARM	N/A	0	17
500 So. 2nd Ave		Mankato	8.500	499,842	0	35,085	07/01/20	ARM	N/A	0	38
505 McKay		Alexandria	9.500	210,251	0	4,426	09/01/19	ARM	N/A	0	24
700-716 Selby Ave		St. Paul	9.500	350,255	0	17,496	10/01/20	ARM	N/A	0	38
7405 123rd St.		Apple Valley	9.500	287,950	0	781	01/01/20	ARM	N/A	0	36
7639 Woodlawn		Moundsview	9.500	1,854,967	0	67,848	08/01/19	ARM	N/A	0	113
830 13th St So		St. Cloud	8.500	1,065,800	0	3,874	02/01/21	ARM	N/A	0	48

Development	Name	Location	Mortgage	Outstanding	Undisbursed	Development	Mortgage	Program Type	Subsidy	# of	Total
			Loan	Mortgage			Note				
			Interest	Loan	Mortgage	Reserves (1)	Maturity		Expiration	Units	Units
			Rate	Balance	Amount						
85-97 Victoria		St. Paul	9.500	636,580	0	27,481	05/01/20	ARM	N/A	0	29
915 20th Ave So.		Minneapolis	9.750	270,108	0	29,451	04/01/22	ARM	N/A	0	26
924 Washington		Bemidji	9.500	59,814	0	6,466	08/01/19	ARM	N/A	0	8
Apollo Apts		Hutchinson	3.500	32,970	0	25,430	12/01/11	LMIR	N/A	0	10
Carroll Court		St. Paul	3.500	948,358	0	192,602	01/01/13	LMIR/HRS	N/A	0	58
Cedar Square Apts		St. Cloud	6.900	4,634,644	0	1,055,109	02/01/23	LMIR	N/A	0	240
Cedardale South from ALF		Owattona	7.250	2,928,589	0	765,695	03/01/21	HAP	12/10/19	98	98
Clifton		Shakopee	7.250	1,784,813	0	465,600	03/01/21	HAP	11/19/19	56	56
Crystal 54 Apts		Crystal	3.500	1,706,396	0	354,968	01/01/14	LMIR/HRS	N/A	0	67
Highland Apts		St. Paul	3.500	992,232	0	68,515	01/01/14	LMIR/HRS	N/A	0	46
Maple Plain Apts		Maple Plain	3.500	1,157,355	0	222,384	02/01/14	LMIR	N/A	0	47
Newport Ponds		Newport	3.500	1,092,041	0	161,467	03/01/13	LMIR/HRS	N/A	0	51
Park South Apts		Alexandria	3.500	594,032	0	137,687	01/01/13	LMIR	N/A	0	48
Queens Lane Apts		Anoka	3.500	666,999	0	192,551	01/01/12	LMIR	N/A	0	44
Theater Heights		Columbia Hts.	3.500	123,560	0	24,734	10/01/11	LMIR	N/A	0	22
Webber Apts		Minneapolis	3.500	629,711	0	134,485	02/01/13	LMIR/HRS	N/A	0	31
Subtotal				40,613,937	0	4,857,273				154	2,416
Grand Total				290,799,161	0	72,269,794				7,263	12,893

Footnotes

- (1) Amounts listed under the heading "reserves" are pledged by the project owner under the project regulatory agreement. The reserves can be applied for project purposes under the regulatory agreement, and are paid to the owner when the mortgage loan is prepaid. The Reserves are not pledged as security under the Bond Resolution. The taxes and insurance reserves are excluded.
- (2) All loans can be prepaid subject to Agency approval. For prepayment provisions, see Bonds Outstanding and Summary of Special Redemption Provisions.

Program Type Legend

- 236 =Section 236 Interest Reduction Payment Program
 ARM =Apartment Renovation Mortgage Program
 DD =Group Homes For The Developmentally Disabled
 FHA =FHA Insured
 HAP =Section 8 Housing Assistance Payment Program (Uninsured Developments)
 HRS =FHA Risk Share Insurance Program
 LMIR =Low And Moderate Income Rental Program
 MR =Market Rate Loan Program

**DESCRIPTION OF MORTGAGE LOANS INTENDED
TO BE FINANCED WITH PROCEEDS FROM
THE RENTAL HOUSING BONDS, 2000 SERIES A**

Development Name	Location	Mortgage Rate	Mortgage Amount	Program Type	Total Units
CHDC Franklin Lane Limited Partnership (Franklin Lane)	Anoka	Multiple	\$ 2,288,383	FHA/236/ LIMIR	66
North Mankato Leased Housing Associates, Limited Partnership (Colony Apartments)	North Mankato	Multiple	2,784,631	236/HUD Risk Sharing/ LIMIR	120
St. Peter Leased Housing Associates, Limited Partnership (Fairview Apartments)	St. Peter	Multiple	979,831	236/HUD Risk Sharing/ LIMIR	48
Mankato Leased Housing Associates II, Limited Partnership (Homestead Apartments)	Mankato	Multiple	<u>2,703,686</u>	236/HUD Risk Sharing/ LIMIR	<u>120</u>
			<u>\$ 8,756,531</u>		<u>354</u>

APPENDIX B
FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Members of the
Minnesota Housing Finance Agency:

We have audited the accompanying balance sheets of the General Reserve Account and the Rental Housing Fund, together the Funds, of the Minnesota Housing Finance Agency (the Agency) as of June 30, 1999 and June 30, 1998 and the related statements of revenues and expenses and changes in restricted fund balances and cash flows for the years then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements of the Funds referred to above present fairly, in all material respects, the financial position of the Funds of the Minnesota Housing Finance Agency as of June 30, 1999 and 1998, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information is not a required part of the general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matter to be disclosed have not been established. In addition, we do not provide assurance that the Agency is or will become year 2000 compliant, that the Agency's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Agency does business are or will become year 2000 compliant.

KPMG LLP

Minneapolis, Minnesota
August 26, 1999,

Except for Note 6 and Note 10 which are as of February 29, 2000.

MINNESOTA HOUSING FINANCE AGENCY

**BALANCE SHEETS
(for specified funds)
(in thousands)**

	General Reserve Account			Rental Housing		
	December 31, 1999 (unaudited)	June 30, 1999	June 30, 1998	December 31, 1999 (unaudited)	June 30, 1999	June 30, 1998
ASSETS						
Cash and cash equivalents, net	\$ 12,879	\$ 4,166	\$ 3,751	\$ 47,034	\$ 40,416	\$ 47,596
Investment securities, net	126,745	132,553	141,607	9,738	4,972	8,864
Loans receivable, net	—	—	—	279,341	290,514	299,565
Interest receivable on loans	—	—	—	1,753	1,886	1,778
Interest receivable on investments ..	1,815	2,170	2,478	1,041	980	1,154
Other assets	1,062	1,043	1,696	24	98	14
Total assets	<u>\$142,501</u>	<u>\$139,932</u>	<u>\$149,532</u>	<u>\$338,931</u>	<u>\$338,866</u>	<u>\$358,971</u>
LIABILITIES AND RESTRICTED FUND BALANCES						
Liabilities:						
Bonds payable, net	\$ —	\$ —	\$ —	\$266,173	\$269,475	\$293,270
Interest payable	—	—	—	6,379	6,518	6,962
Accounts payable and other liabilities	2,247	1,881	1,902	305	270	169
Interfund payable (receivable)	(185)	2,363	1,793	21,638	20,653	21,157
Funds held for others	101,726	100,966	108,588	—	—	—
Total liabilities	<u>103,788</u>	<u>105,210</u>	<u>112,283</u>	<u>294,495</u>	<u>296,916</u>	<u>321,558</u>
Restricted fund balances:						
Bond Resolution Restricted	—	—	—	44,436	41,950	37,413
Board Resolution Restricted	38,713	34,722	37,249	—	—	—
Total restricted fund balances ..	<u>38,713</u>	<u>34,722</u>	<u>37,249</u>	<u>44,436</u>	<u>41,950</u>	<u>37,413</u>
Total liabilities and restricted fund balances	<u>\$142,501</u>	<u>\$139,932</u>	<u>\$149,532</u>	<u>\$338,931</u>	<u>\$338,866</u>	<u>\$358,971</u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES AND EXPENSES AND
CHANGES IN RESTRICTED FUND BALANCES
(for specified funds)
(in thousands)

	General Reserve Account			Rental Housing		
	Six Months ended December 31,			Six Months ended December 31,		
	1999 (unaudited)	June 30, 1999	June 30, 1998	1999 (unaudited)	June 30, 1999	June 30, 1998
Revenues:						
Interest earned on loans	\$ —	\$ —	\$ —	\$11,327	\$21,777	\$22,208
Interest earned on investments ...	1,071	2,319	2,440	1,381	2,750	3,254
Fees earned	1,433	2,222	2,294	643	1,146	1,132
Realized gain on sale of investment securities, net.....	—	—	30	—	1,660	20
Unrealized (losses) gains on investment securities, net.....	(840)	(341)	78	(221)	(1,626)	866
Total revenues	<u>1,664</u>	<u>4,200</u>	<u>4,842</u>	<u>13,130</u>	<u>25,707</u>	<u>27,480</u>
Expenses:						
Interest	—	—	—	9,676	19,083	20,255
Loan administration and trustee fees	—	—	—	152	304	434
Salaries and benefits	4,615	8,862	8,230	—	—	—
Other general operating	2,369	4,559	4,417	—	—	—
Provision for loan losses	—	—	—	218	607	695
Total expenses	<u>6,984</u>	<u>13,421</u>	<u>12,647</u>	<u>10,046</u>	<u>19,994</u>	<u>21,384</u>
Revenues over (under) expenses.....	(5,320)	(9,221)	(7,805)	3,084	5,713	6,096
Other changes:						
Administrative reimbursement from (to) funds.....	9,311	13,330	13,037	(1,036)	(1,724)	(1,810)
Transfer of assets between funds ..	—	(6,636)	(4,790)	—	—	—
Contributions to program funds ..	—	—	—	438	548	364
Net changes in restricted fund balances	3,991	(2,527)	442	2,486	4,537	4,650
Restricted Fund Balances:						
Restricted fund balances, beginning of period.....	<u>34,722</u>	<u>37,249</u>	<u>36,807</u>	<u>41,950</u>	<u>37,413</u>	<u>32,763</u>
Restricted fund balances, end of period.....	<u>\$38,713</u>	<u>\$34,722</u>	<u>\$37,249</u>	<u>\$44,436</u>	<u>\$41,950</u>	<u>\$37,413</u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY

**STATEMENTS OF CASH FLOWS
(for specified funds)
(in thousands)**

	<u>General Reserve Account</u>			<u>Rental Housing</u>		
	<u>Six Months ended December 31, 1999 (unaudited)</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>	<u>Six Months ended December 31, 1999 (unaudited)</u>	<u>June 30, 1999</u>	<u>June 30, 1998</u>
Cash flows from operating activities:						
Principal repayments on loans	\$ —	—	\$ —	\$ 11,358	\$ 26,174	\$ 25,643
Investment in loans	—	—	—	(258)	(6,941)	(18,876)
Interest received on loans	—	—	—	11,315	21,598	22,241
Interest transferred to funds held for others	(2,860)	(5,938)	(6,802)	—	—	—
Fees received	1,433	2,222	2,294	643	1,146	1,132
Salaries, benefits and vendor payments	(6,618)	(13,442)	(12,475)	(154)	(352)	(363)
Deposits into funds held for others .	15,353	33,652	42,446	—	—	—
Disbursements made from funds held for others	(14,593)	(41,274)	(56,267)	—	—	—
Interfund transfers and other assets	<u>(2,567)</u>	<u>(412)</u>	<u>(4,195)</u>	<u>1,059</u>	<u>(588)</u>	<u>12,853</u>
Net cash provided (used) by operating activities	<u>(9,852)</u>	<u>(25,192)</u>	<u>(34,999)</u>	<u>23,963</u>	<u>41,037</u>	<u>42,630</u>
Cash flows from noncapital financing activities:						
Proceeds from sale of bonds	—	—	—	4,610	7,140	14,435
Principal repayment on bonds	—	—	—	(8,895)	(31,645)	(39,920)
Interest paid on bonds and notes . . .	—	—	—	(8,767)	(18,521)	(19,994)
Financing costs paid related to bonds issued	—	—	—	(65)	(202)	(111)
Agency contribution to program funds	—	—	—	438	548	364
Administrative reimbursement from funds	9,311	13,330	13,037	(1,036)	(1,724)	(1,810)
Transfer of cash between funds	—	(5,000)	(3,500)	—	—	—
Premium paid on redemption of bonds	—	—	—	—	(94)	(17)
Net cash provided (used) by noncapital financing activities . . .	<u>9,311</u>	<u>8,330</u>	<u>9,537</u>	<u>(13,715)</u>	<u>(44,498)</u>	<u>(47,053)</u>
Cash flows from investing activities:						
Interest received on investments . . .	4,226	8,520	10,146	1,346	3,047	3,272
Proceeds from maturity, sale or transfer of investment securities . .	24,625	51,500	118,483	1,800	7,644	2,368
Purchase of investment securities . .	(19,597)	(42,743)	(121,537)	(6,776)	(3,692)	(2,084)
Sale of loans between funds	—	—	—	—	(10,718)	—
Net cash provided (used) by investing activities	<u>9,254</u>	<u>17,277</u>	<u>7,092</u>	<u>(3,630)</u>	<u>(3,719)</u>	<u>3,556</u>
Net increase (decrease) in cash and cash equivalents	8,713	415	(18,370)	6,618	(7,180)	(867)
Cash and cash equivalents:						
Beginning of period	<u>4,166</u>	<u>3,751</u>	<u>22,121</u>	<u>40,416</u>	<u>47,596</u>	<u>48,463</u>
End of period	<u>\$ 12,879</u>	<u>\$ 4,166</u>	<u>\$ 3,751</u>	<u>\$ 47,034</u>	<u>\$ 40,416</u>	<u>\$ 47,596</u>

Continued

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF CASH FLOWS (continued)
(for specified funds)
(in thousands)

	General Reserve Account			Rental Housing		
	Six Months ended December 31, 1999 (unaudited)	June 30, 1999	June 30, 1998	Six Months ended December 31, 1999 (unaudited)	June 30, 1999	June 30, 1998
Revenues over (under) expenses	\$(5,320)	\$ (9,221)	\$ (7,805)	\$ 3,084	\$ 5,713	\$ 6,096
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:						
Amortization of discounts and fees on loans	—	—	—	(95)	(24)	(30)
Gains on sale of securities, net	—	—	(30)	—	(1,660)	(20)
Unrealized losses (gains) on securities, net	840	341	(78)	221	1,626	(866)
Provision for loan losses	—	—	—	218	607	695
Capitalized interest on loans and real estate	—	—	—	(50)	(47)	(44)
Decrease in loans receivable, excluding loans transferred between funds	—	—	—	11,100	19,233	6,767
Decrease (increase) in interest receivable on loans	—	—	—	133	(108)	107
Interest earned on investments	(1,071)	(2,319)	(2,440)	(1,381)	(2,750)	(3,254)
Interest transferred to funds held for others	(2,860)	(5,938)	(6,802)	—	—	—
Interest expense on bonds and notes	—	—	—	9,676	19,083	20,255
Increase (decrease) in accounts payable	366	(21)	172	(2)	(48)	71
Decrease (increase) in interfund payable, affecting operating activities only	(2,548)	(1,065)	(3,703)	985	(504)	12,853
Decrease (increase) in funds held for others	760	(7,622)	(13,821)	—	—	—
Other	(19)	653	(492)	74	(84)	—
Total adjustments	<u>(4,532)</u>	<u>(15,971)</u>	<u>(27,194)</u>	<u>20,879</u>	<u>35,324</u>	<u>36,534</u>
Net cash provided (used) by operating activities	<u><u>\$(9,852)</u></u>	<u><u>\$(25,192)</u></u>	<u><u>\$(34,999)</u></u>	<u><u>\$23,963</u></u>	<u><u>\$41,037</u></u>	<u><u>\$42,630</u></u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

1. Nature of Business and Fund Structure

The Minnesota Housing Finance Agency was created in 1971 by an Act of the Minnesota Legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing for mortgage loans, development loans and technical assistance to qualified housing sponsors to be used for such construction and rehabilitation. The Agency is a component unit of the state of Minnesota and receives appropriations from the State Legislature substantially all of which are used to make loans or grants under specified non-bond-financed programs.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of \$2.4 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, all of which conform with the authorizing legislation and bond resolutions:

General Reserve Account

The General Reserve Account was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrows receipts and disbursements are recorded in this account.

Rental Housing

Bond proceeds for certain of the multifamily housing programs are maintained under Rental Housing. Rental Housing prescribes the accounting for bond proceeds, the debt service requirements of the bond indebtedness, permitted investments and eligible loans to be financed from the bond proceeds. These loans are secured by first mortgages on real property.

2. Other Funds of the Agency

The following describes the funds maintained by the Agency which are not shown in these financial statements, all of which conform with the authorizing legislation:

Appropriated Accounts

The Appropriated Accounts were established to account for funds received from the State Legislature and the Federal government which are to be used for low-interest loans, no-interest deferred loans, programs for low- to moderate-income persons and families, innovative development and other housing related program costs.

The following describes the bond funds maintained by the Agency, all of which conform with the authorizing legislation and bond resolutions.

Housing Development

Bond proceeds for certain of the multifamily housing programs are maintained under Housing Development. These loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the bond restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the board restricted Alternative Loan Fund.

Bonds

The 1995 Series A and 1997 Series A bonds were issued to fund purchases of single family first mortgage loans. The Agency anticipates that future series will finance program obligations for other programs as well as single family mortgage loans.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

2. Other Funds of the Agency (continued)

Assets of the series bonds issued and outstanding under the Resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is the principal source of funding for home improvement loans. There are currently no outstanding bonds for the home improvement program. Home improvement loans in excess of \$5,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

This fund is the source of funding for the entry cost and monthly housing assistance programs for first-time homebuyers and below-market interim financing during construction and/or rehabilitation of single family housing.

Multifamily Endowment Fund

This fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing such as a tenant services program, a contingency fund, non-profit capacity building, flexible financing, and a program for leveraging investments in neighborhoods and children.

Alternative Loan Fund

An Alternative Loan Fund has been established in the Residential Housing Finance Bond Resolution to deposit funds in either the Housing Investment or Housing Affordability Fund, which were otherwise available to be transferred to the General Reserve Account. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds, or any other specific debt obligation of the Agency but is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is the source of funding for programs such as New Construction Tax Credits first mortgages and bridge loans, Home Energy Loans and other investment grade loans, as defined by the Agency.

The Alternative Loan Fund, Housing Affordability Fund, is the source of funding for Agency administrative costs, bond sale contributions, zero percent deferred multifamily loans, Low & Moderate Income Rental Program loans and other below market-rate loans with higher than ordinary risk factors.

Multifamily Housing

During August 1998, utilizing available prepayments, funds available within Multifamily Housing and optional redemption provisions, the Agency fully retired the remaining bonds. Any remaining assets were transferred to Residential Housing Finance.

Single Family

Bond proceeds for the bond-financed homeownership programs are maintained primarily under Single Family. These loans are secured by first mortgages on real property.

Each respective bond resolution described above prescribes the accounting for bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

The audited financial statements for the years ended June 30, 1999 and June 30, 1998 for the above mentioned funds are available upon request from the Agency.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

2. Other Funds of the Agency (continued)

The following represents condensed financial information on certain funds mentioned above (in thousands):

	Total Assets			Bonds Payable, Gross			Restricted Fund Balances			Revenues over Expenses		
	December 31, 1999	June 30, 1999	June 30, 1998	December 31, 1999	June 30, 1999	June 30, 1998	December 31, 1999	June 30, 1999	June 30, 1998	Six Months Ended December 31, 1999	Year Ended June 30, 1999	Year Ended June 30, 1998
Multifamily Housing	\$ —	\$ —	\$ 31,959	\$ —	\$ —	\$ 24,210	\$ —	\$ —	\$ 7,372	\$ —	\$ (134)	\$ 454
Housing Development	85,391	101,882	102,981	70,250	86,715	89,195	13,730	13,569	12,519	451	1,576	1,219
Residential Housing Finance	385,152	387,769	383,167	63,765	70,965	88,480	340,523	337,841	309,613	4,904	17,732	14,873
Single Family	1,681,443	1,793,134	1,681,994	1,559,490	1,668,100	1,560,055	81,284	85,084	84,285	(171)	6,620	10,433

Of the total Restricted Fund Balances listed above at December 31, 1999, June 30, 1999 and June 30, 1998, \$281,300,000, \$282,803,000 and \$281,137,000 are Bond Restricted, respectively, and \$154,237,000, \$153,691,000 and \$132,652,000 are Board Restricted, respectively.

As of December 31, 1999, June 30, 1999 and June 30, 1998 the Agency had committed \$82,145,000, \$80,391,000 and \$93,858,000 respectively, for the purchase or making of future loans from the above mentioned funds.

3. Summary of Significant Accounting Policies

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency follows the accrual basis of accounting.

Cash and Cash Equivalents, net

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements and any other investments, primarily US treasuries and agencies, which have 90 or less days remaining to maturity at the time of purchase.

Investment Securities, net

The Agency carries investment securities at fair market value and records unrealized gains and losses on investment securities as a result of changes in market valuations.

Loans Receivable, net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums or discounts and fees.

The allowance for loan losses is established based on management's evaluation of the loan portfolio.

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks; adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership, home improvement and home energy loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the number of days delinquent and the type of insurance coverage in force: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, private mortgage insurance and pool or self-insurance.

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 1999 and June 30, 1998.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

3. Summary of Significant Accounting Policies (continued)

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized using the effective interest method.

Interest Receivable on Loans

The Agency accrues interest on its non-deferred loans until they become 90 days or more delinquent in the case of multifamily loans or until they become real estate owned for all other loans.

Mortgage Insurance Claims Receivable, net

Mortgage insurance claims are filed on properties that are FHA insured or VA guaranteed.

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan or estimated fair market value less estimated selling costs.

Bonds Payable, net

Bonds payable are carried at their unpaid principal balances, net of unamortized deferred financing costs. Deferred finance costs are amortized using the effective interest method in the Single Family and Residential Housing Finance. In Housing Development and Rental Housing, deferred finance costs are amortized using the bonds outstanding method due to the unpredictable nature of loan prepayments.

Interfund Payable (Receivable)

Interfund payable primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received and pending transfer to the respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments financed with the Agency's bonds. These amounts are held under the terms of the related loans and Federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of the General Reserve Account. Also included in funds held for others are monitoring fees collected and pending disbursement in connection with the Class 4(d) Real Estate Tax Assessment Legislation.

Bond Resolution Restricted

Bond Resolution Restricted Fund Balances represent those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Board Resolution Restricted

Board Resolution Restricted Fund Balances represent those funds in the General Reserve Account and those funds which were otherwise available to be transferred to the General Reserve Account. Under the Agency's bond resolutions, these are pledged as security for the Agency's general obligation pledge under such resolutions. The Agency's Board is responsible for establishing the investment guidelines for these funds.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

3. Summary of Significant Accounting Policies (continued)

Fees Earned

Fees earned consists of fees related to the financing and administration of Section 8 properties, fees in connection with operating the Low Income Housing Tax Credit Program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fee income is recorded as it is earned.

Reduction in Carrying Value of Low Interest Rate Deferred Loans

Generally, the carrying value of those Housing Affordability Fund loans and Endowment Fund loans which are originated at interest rates ranging from 0-3% and for which repayment is deferred for up to 30 years is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues and Expenses and Changes in Restricted Fund Balances to describe various transfers between funds.

Administrative Reimbursement From (To) Funds

The Agency's administrative operations are funded primarily by a monthly transfer from each of the bond funds to the General Reserve Account in the amount of sixty basis points annually based on long-term bonds outstanding. For programs funded through state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations. Such cost recoveries are recorded in this account.

Transfer of Assets Between Funds

Funds in excess of the Housing Endowment Fund requirement, if any, in the General Reserve Account are transferred annually to the Residential Housing Finance, Alternative Loan Fund.

Contribution to Program Funds

The Agency's contributions to its bond issues, generally made from the Residential Housing Finance Alternative Loan Fund, Housing Affordability Fund, are reflected here.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable for fiscal year 1999 were \$168,877 and \$7,055,542, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the financial statements for the prior year have been reclassified to conform with the present year presentation.

Related Party Transactions

On October 30, 1998 and April 30, 1999, Residential Housing Finance purchased loans with an aggregate value of \$45,619,056 from Single Family utilizing available non-bond funds. The

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

3. Summary of Significant Accounting Policies (continued)

impact on the combined Statement of Revenues and Expenses and Changes in Restricted Fund Balances was immaterial.

The Alternative Loan Fund in Residential Housing Finance continues to reflect outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. The advances were made in order to take advantage of economically favorable conditions for redeeming bonds. The advances continue to be repaid according to the original debt schedule. This transaction was recorded in Interfund Payable.

Income Taxes

The Agency is an agency of the state of Minnesota and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are due to the Federal government are recorded in Accounts Payable. This liability does not reflect any unrealized appreciation or depreciation as a result of recording investment securities at fair market value.

4. Cash, Cash Equivalents and Investment Securities, Net

Investments consist of those permitted by the various bond resolutions, state law and Board policy.

Cash and cash equivalents are stated at cost which approximates market and are composed of the following (in thousands):

	December 31, 1999				June 30, 1999				June 30, 1998			
	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve Account	\$ —	\$12,879	\$ —	\$12,879	\$ —	\$4,166	\$ —	\$ 4,166	\$1,386	\$2,365	\$ —	\$ 3,751
Rental Housing	\$ —	\$11,466	\$35,568	\$47,034	\$ —	\$3,004	\$37,412	\$40,416	\$ —	\$4,676	\$42,920	\$47,596

Deposits may consist of commercial paper for the General Reserve Account and cash awaiting investment in the daily sweep vehicle for the remainder of the funds. The commercial paper is held by the Agency's agent.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities maturing in less than six years. Generally, repurchase agreements mature in one week or less. At June 30, 1999 the collateral for the repurchase agreements in the General Reserve Account is held by a third-party agent. The collateral for the repurchase agreements in the remainder of the funds is held by the trustee as trustee for the Agency.

Generally, investment agreements are uncollateralized, interest-bearing, time deposits with financial intermediaries with variable liquidity features which require from a one day to two week notice for deposits and/or withdrawals and are invested in accordance with the restrictions specified in the various bond resolutions. All the investment agreement providers have a Standard & Poor's credit rating of "A" or higher. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and collateral is not provided.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

4. Cash, Cash Equivalents and Investment Securities, Net (continued)

Investment securities are recorded at fair market value and the unrealized appreciation or depreciation in fair market value and are composed of the following (in thousands):

Funds	Fair Market Value								
	December 31, 1999			June 30, 1999			June 30, 1998		
	US Treasury and Agency	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value	US Treasury and Agency	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value	US Treasury and Agency	Unrealized Appreciation in Fair Market Value	Estimated Market Value
General Reserve Account	\$127,665	\$(920)	\$126,745	\$132,633	\$(80)	\$132,553	\$141,346	\$ 261	\$141,607
Rental Housing	\$ 9,925	\$(187)	\$ 9,738	\$ 4,938	\$ 34	\$ 4,972	\$ 7,204	\$1,660	\$ 8,864

US treasury and agency securities in the General Reserve Account are held by the Agency's agent in the name of the state of Minnesota. US treasury and agency securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and/or insurance reserves. The required balances at December 31, 1999, June 30, 1999 and June 30, 1998 for Rental Housing are \$24,145,000, \$24,201,000 and \$25,765,000, respectively.

5. Loans Receivable, Net

Loans receivable, net for Rental Housing consist of (in thousands):

	Rental Housing		
	December 31, 1999	June 30, 1999	June 30, 1998
Outstanding principal	\$289,731	\$300,694	\$309,026
Allowance for loan losses	(9,727)	(9,509)	(8,902)
Unamortized discount	(663)	(671)	(559)
Loans receivable, net	<u>\$279,341</u>	<u>\$290,514</u>	<u>\$299,565</u>

Substantially all loans in Rental Housing are secured by first mortgages on the real property.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

6. Bonds Payable, Net

Bonds payable, net for Rental Housing are as follows (in thousands):

	December 31, 1999	June 30, 1999	June 30, 1998
Outstanding principal	\$272,585	\$276,870	\$301,375
Unamortized deferred finance costs...	(6,441)	(7,431)	(8,155)
Unamortized deferred gain.....	29	36	50
Bonds payable, net.....	\$266,173	\$269,475	\$293,270

Outstanding principal of Rental Housing bonds payable are as follows (in thousands):

Series	Interest Rates	Maturity Due Dates	Outstanding Amount		
			December 31, 1999	June 30, 1999	June 30, 1998
1991 Series A	—	—	\$ —	\$ —	\$ 3,460
1993 Series A	—	—	—	—	1,855
1993 Series B	5.10% to 6.25%	2000-2022	11,730	11,915	12,765
1993 Series C	5.50% to 6.15%	2003-2014	1,125	1,145	1,185
1993 Series D	4.90% to 6.00%	2000-2022	4,330	4,375	4,465
1993 Series E	5.00% to 6.10%	2000-2022	19,420	19,745	23,275
1995 Series A	4.90% to 6.00%	2000-2019	1,695	1,695	1,745
1995 Series B	6.50% to 8.00%	2000-2018	2,845	2,845	3,025
1995 Series C-2	4.50% to 5.95%	2000-2015	29,395	30,140	33,615
1995 Series D	4.65% to 6.00%	2000-2022	173,235	180,650	198,730
1996 Series A	4.70% to 6.10%	2000-2027	2,745	2,785	2,820
1997 Series A	4.45% to 5.875%	2000-2028	4,680	4,750	4,750
1998 Series A	5.375%	2028	5,505	5,505	5,505
1998 Series B	6.60%	2019	4,130	4,180	4,180
1998 Series C	3.90% to 5.20%	2000-2029	2,865	2,865	—
1999 Series A	3.25% to 5.10%	2000-2024	4,275	4,275	—
1999 Series B	4.10% to 6.15%	2000-2025	3,160	—	—
1999 Series C	4.65%	2002	1,450	—	—
			\$272,585	\$276,870	\$301,375

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service primarily resulting from loan prepayments.

All bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in detail within the applicable series resolution.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

6. Bonds Payable, Net (continued)

Amounts of bonds maturing in the first five fiscal years subsequent to December 31, 1999, excluding bonds called for early redemption prior to June 30, 1999, as listed below, are as follows (in thousands):

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Thereafter</u>
Rental Housing	\$4,075	\$8,540	\$10,425	\$9,405	\$9,940	\$230,200

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued and to be issued by the program. The Agency believes that as of December 31, 1999, the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the bond resolution.

Gains or losses related to early redemptions are recognized on the redemption date.

7. Board Restricted Fund Balances

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from the bond funds to the General Reserve Account. The Agency has pledged to deposit in the General Reserve Account any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in the General Reserve Account only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing Finance Agency Act, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans to help meet the housing needs of low and moderate income Minnesota residents, the Agency's Board adopted the following investment guidelines. These guidelines are periodically evaluated in consideration of changes in the economy and changes in the Agency's specific risk profile. The Agency's Board in 1997 reaffirmed the guidelines in connection with a forward-looking risk analysis. The following table describes the balances to be maintained according to the guidelines. Amounts in this table do not include unrealized appreciation or depreciation resulting from valuing investment securities at fair market value.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

7. Board Restricted Fund Balances (continued)

<u>Board Resolution Restricted Fund Balances</u>	<u>Amount at June 30, 1999 (in thousands)</u>
Housing Endowment Fund	
An amount equal to 2% of loans outstanding will be invested in short term, investment grade paper at market interest rates.....	\$ 34,722
Housing Investment Fund	
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund will be invested in intermediate to long term, investment grade housing loans as defined by the Agency, at interest rates which could be up to 3% below market.....	70,411
Housing Affordability Fund	
Funds in excess of 5% of bonds outstanding will be used for administration of housing programs, contributions to bond issues, early bond redemptions and low interest rate loans with higher than ordinary risk factors.....	85,128
Combined Total	<u>\$190,261</u>

The Housing Endowment Fund is maintained in the Board Resolution Restricted Fund Balance of the General Reserve Account.

Cash, cash equivalents, investment securities and loans originated with monies in the Housing Investment Fund and Housing Affordability Fund are maintained in the Alternative Loan Fund in the Residential Housing Finance Fund.

All of the Rental Housing restricted fund balances at June 30, 1999 and June 30, 1998 are restricted per the bond resolution.

8. Defined Benefit Pension Plan

The Agency contributes to the Minnesota State Retirement System (System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees eligible for the General Employees' Retirement plan who retire at "normal" retirement age (age 65 for those hired on or before June 30, 1989, and the Social Security retirement age for those hired thereafter) or at age 62 and have at least 30 years of service, or at an age where age plus years of service equal or exceed 90, are entitled to a retirement benefit, payable monthly for life, equal to 1½ percent of the average of their highest five successive years of salary for each year of credited service. Employees may retire at any age with at least 30 years of service (for those hired on or before June 30, 1989) or at 55 with at least 3 years service credit and receive reduced retirement benefits. The System also provides death and disability benefits. Benefits are established by State Law.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

8. Defined Benefit Pension Plan (continued)

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System's benefit plan is summarized as follows:

Schedule of Funding Progress (dollars in thousands)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess Funded Actuarial Accrued Liability (EFAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	EFAAL as a % of Covered Payroll
07/01/98	\$5,390,526	\$5,005,165	\$385,361	107.7%	\$1,557,880	24.74%

Schedule of Employer Contributions (dollars in thousands)						
Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Combined
1998	7.13%**	\$1,557,880	\$62,901	\$48,176	\$62,315	129.35%

* Includes contributions from other sources (if applicable).

** Actuarially Required Contribution Rate calculated according to parameters of GASB 25 using a 30-year amortization of the excess funded accrued liability.

The information presented is as of July 1, 1998, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 1998, State of Minnesota Comprehensive Annual Financial Report for a more comprehensive description.

9. Commitments

As of December 31, 1999, the Agency had committed the following amounts for the purchase or origination of future loans (in thousands):

	Funds	Approximate Amount
General Reserve		\$ 0
Rental Housing		<u>11,071</u>
Total		<u><u>\$11,071</u></u>

The Agency has lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal years ended June 30, 1999 was \$817,337. Commitments for future minimum lease payments aggregate \$891,475 in 2000, \$925,808 in 2001, \$961,561 in 2002, \$996,797 in 2003, \$1,028,730 in 2004, and \$5,314,601 thereafter.

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect on such actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the General Reserve Account's financial position or results of operations.

MINNESOTA HOUSING FINANCE AGENCY
NOTES TO FINANCIAL STATEMENTS
(Information for the period after June 30, 1999 is unaudited)

10. Contingencies

The State of Minnesota and the Federal Department of Labor (DOL) reached an agreement in February 2000 with respect to an audit performed by the DOL regarding compliance with the Fair Labor Standards Act (FLSA). Under terms of the agreement, every state agency, including MHFA, will undertake a study to determine whether any professional, professional supervisory and professional unrepresented job classifications, previously thought to be exempt from overtime compensation under the FLSA, are non-exempt. The period of the study is March 1 through June 30, 2000. If any job classifications are determined to be non-exempt, MHFA may incur overtime expense for a prior period dating back to January 12, 1998. As of the date of this offering statement, no determinations have been made and no estimate of overtime, if any, can be made.

**MINNESOTA HOUSING FINANCE AGENCY
REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

Year 2000 Readiness Disclosure

The Agency utilizes a variety of computer programs in its daily operations, including programs to manage its portfolio of mortgage loans and to administer the receipt, disbursement, and investment of revenues under its programs. Computer programs are also utilized by its bond trustee, mortgage loan servicers, the counterparties for the agency's investments, the Agency's financial advisor, and other third parties upon which the Agency depends for its programmatic and financial operations. The Agency is not aware of any material Year 2000 related problems with respect to third parties referenced above.

The Agency implemented a Year 2000 plan under the direction of its Information Systems Steering Committee to address Year 2000 issues. The Agency did not experience any problems with Year 2000 issues and no impairment of its operations is occurring nor anticipated.

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

The following statements are extracted provisions of the Continuing Disclosure Agreement between the Agency and the Trustee, as agent.

Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement, the following capitalized terms shall have the following meanings:

“Agency Annual Report” shall mean any Annual Report provided by the Agency pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Agency Disclosure Representative” shall mean such officer of the Agency or a designee, or such other person or agent of the Agency as the Commissioners shall designate in writing to the Trustee from time to time

“Beneficial Owners” shall mean (1) in respect of a Bond subject to a book-entry-only registration system, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect a Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

“Listed Events” shall mean any of the events listed below under the heading “Reporting of Significant Events.”

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934 (“1934 Act”).

“State Repository” shall mean any public or private repository or entity as may be designated by the State as a state information depository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

Provision of Annual Reports.

(a) The Agency shall, not later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2000, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

(b) If on the date specified in subsection (a) for providing the Agency Annual Report to Repositories, the Trustee has not received a copy of the Agency Annual Report, the Trustee shall contact the Agency Disclosure Representative to determine if the Agency is in compliance with subsection (a). If the Trustee determines that the Agency has not filed its Agency Annual Report, when due, the Trustee shall file a notice with the Repositories as set forth in Exhibit A and as required by Rule 15c2-12(b)(5)(i)(D).

Content of Annual Reports. The Agency's Annual Report shall contain or include by reference the following:

Audited financial statements of the Agency for its prior fiscal year reporting on the balance sheets of the Agency's Rental Housing Program Fund and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses and changes in restricted fund balances and of cash flows. If, on the date the Agency is required to provide the Agency Annual Report, the Agency has not received a report of independent auditors, the Agency shall provide the Repositories and the Trustee with its unaudited financial statements prepared in substantially the format of its audited financial statements.

The Agency will also update the operating and financial data contained in Appendix A hereto.

Any or all of the items listed above may be provided by reference to other documents, including official statements of debt issues of the Agency or related public entities, which have been submitted to each of the Repositories. If the document provided by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Agency shall clearly identify each such other document so incorporated by reference in the Agency's Annual Report.

The accounting principles used by the Agency in the preparation of its financial statements are generally accepted accounting principles, referred to as "GAAP."

Reporting of Significant Events.

(a) This section shall govern the giving of notices of the occurrence of any of the following events with respect to the Series A Bonds:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the security;
7. Modifications to rights of security holders;
8. Bond calls;

9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities; and
11. Rating changes.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, other than items 8 and 9, inform the Agency Disclosure Representative of the occurrence of the event.

(c) Whenever the Agency obtains actual knowledge of the occurrence of a Listed Event, the Agency shall, as soon as practicable, take such steps as are necessary to determine if such event would constitute material information within the meaning of cases decided under the 1934 Act.

(d) If the Agency has determined that the occurrence of a Listed Event is material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall promptly notify the Trustee in writing. Such notice shall inform the Trustee that the occurrence is being reported by the Agency or instruct the Trustee to report the occurrence pursuant to subsection (f).

(e) If in response to information received from the Trustee under subsection (b), the Agency determines that the Listed Event would not be material within the meaning of cases decided under the 1934 Act, the Agency Disclosure Representative shall so notify the Trustee in writing and instruct the Trustee not to report the occurrence pursuant to subsection (f).

(f) If the Trustee has been instructed by the Agency Disclosure Representative to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with each National Repository or the Municipal Securities Rulemaking Board and each State Repository.

(g) Notice of Listed Events described in subsections (a) (8) and (9) need not be given under this section any earlier than notice of the underlying event is given to Holders of affected Bonds pursuant to the Resolution. Nothing in this Disclosure Agreement supersedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of Series A Bonds.

Management Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the Agency's Annual Report, or as a Listed Event, would be misleading without discussion, the Agency shall additionally provide a statement clarifying the disclosure in order that the statement made will not be misleading in the context in which it is made.

Termination of Reporting Obligation. The Agency's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series A Bonds in accordance with the Resolution.

Substitution of Obligated Person. The Agency shall not transfer its obligations under the Resolution unless the transferee agrees to assume all the obligations of the Agency under this Disclosure Agreement.

Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, if such amendment

or waiver is supported by an opinion of counsel experienced in federal securities laws, acceptable to each of the Agency and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Agency Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Agency chooses to include any information in any Agency Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Agency shall have no obligation under this Disclosure Agreement to update such information or include it in any future Agency Annual Report or notice of occurrence of a Listed Event.

Default.

(a) In the event of a failure of the Agency to provide to the Repositories the Agency Annual Report as undertaken by the Agency in this Disclosure Agreement, the Beneficial Owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Agency to comply with its obligations to provide Annual Reports under this Disclosure Agreement.

(b) Notwithstanding the foregoing, no Beneficial Owner shall have the right to challenge the content or adequacy of the information provided pursuant to this Disclosure Agreement by mandamus, specific performance or equitable proceedings unless Beneficial Owners of Bonds representing at least 25% aggregate principal amount of outstanding Bonds shall join in such proceedings.

(c) A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the Agency to comply with this Disclosure Agreement shall be an action to compel performance.

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APPENDIX D

**SUMMARY OF CERTAIN PROVISIONS
OF THE BOND RESOLUTION**

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SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various covenants and security provisions, certain of which are summarized below. The summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Resolution, to which reference is hereby made, copies of which are available from the Agency or the Trustee.

Resolution Constitutes Contract with Trustee and Bondholders

Upon acceptance by the Trustee of the trusts created in the Bond Resolution and upon the purchase of Bonds by a Holder thereof, the Bond Resolution and applicable Series Resolution shall constitute a contract of the Agency with the Trustee and the Bondholders. The pledge made and security interests granted in the Bond Resolution are for the equal benefit, protection and security of all such Bondholders; all Bonds shall be of equal rank without preference, priority or distinction except as expressly provided or permitted in the Bond Resolution. The Agency covenants that it will cause to be deposited with the Trustee all proceeds of Bonds, all Mortgages, Mortgage Loans, and other securities purchased from Bond Proceeds and all income thereon. The pledge of the Agency is valid and binding from the time when made and all Mortgages, Mortgage Loans, securities and income thereon pledged and received by the Agency shall be subject to the lien thereof. The Agency pledges its full faith and credit for payment of principal, interest, and premium, if any, on the Bonds; the Bonds are a general obligation of the Agency. The State has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency nor impair the rights or remedies of the Bondholders until the Bonds, together with interest due, are fully paid.

Definitions

The following are definitions of certain terms used in the Bond Resolution and in this Official Statement (but not otherwise defined herein).

Accreted Value: for any Capital Accumulator Bond or Bonds, as of any date, the value (which may be rounded to the nearest dollar) resulting from the compounding of interest on the original principal amount and accretion thereof to principal on each prior Interest Payment Date at the approximate yield expressed in the Bond and provided in the applicable Series Resolution.

Bond Requirement: as of any particular date of calculation, the sum of (i) that amount of the interest to become due on each Series of Outstanding Bonds at its next Interest Payment Date the deposit of which, once each month between that and the last such Interest Payment Date (or if none, since the Issue Date), would produce a sum sufficient to pay such interest, (ii) that amount of the Principal Installment due on each Series of Outstanding Bonds at its next Principal Installment Date, the deposit of which, once each month between that and the last such Principal Installment Date (or if none, once each month for a period of twelve months prior to the next Principal Installment Date), would produce a sum sufficient to pay such Principal Installment; (iii) any amount referred to in clause (i) and (ii) which has not been deposited in the Bond Fund in any month preceding the date of calculation; (iv) any Principal Installment and interest due and unpaid before the date of calculation; and (v) interest accrued on any such Principal Installment and (to the extent lawful) on any such interest, at the same rate as that borne by the Principal Installment before its maturity.

Capital Accumulator Bond: any Bond the interest on which is not currently payable on Interest Payment Dates during each year of its term (or portion of its term) but accrues and is accreted to principal on each Interest Payment Date and is payable as part of the Accreted Value of the Bond at maturity, or at a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Current Interest Bond: any Bond the interest on which is payable on Interest Payment Dates during each year of its term (or portion of its term), or to a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Debt Service Reserve Requirement: as of any particular date of computation, an amount of money (or cash equivalent available under a letter of credit, insurance policy, surety bond or similar security instrument issued by an institution whose debt obligations at the time of such issuance are rated as high as or higher than the Bonds by a nationally recognized bond rating agency) equal to the sum of amounts computed for each Series of Outstanding Bonds, each in accordance with the applicable Series Resolution.

Development: a specific improvement or structure constituting residential housing as defined in the Act, containing units for possession pursuant to a leasehold estate or cooperative ownership, and financed in whole or in part by the issuance of Bonds or Notes.

Escrow Payment: any payment made in order to obtain or maintain mortgage insurance and fire and other hazard insurance, including payments for any Federal, state, local or private program intended to assist in providing Mortgages, and any payments required to be made with respect to Mortgages for taxes or other governmental charges or other similar charges to a Mortgagor customarily required to be escrowed, and payments or charges constituting construction or operating contingency, performance or completion or replacement reserves required pursuant to the applicable Mortgage Loan or any Subordinate Mortgage Loan.

Expense Requirement: such amount of money as may from time to time by Series Resolution or Supplemental Bond Resolution of the Agency be determined to be necessary for the payment of costs and expenses of the Agency pursuant to the Program (other than costs and expenses properly payable from a Cost of Issuance Account).

Interest Payment Date: each date on which interest on any Series of Bonds is required to be paid under the applicable Series Resolution.

Investment Obligation: any of the following including put and call options in future contracts traded on a contract market designated and regulated by a federal agency, which at the time are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein: (i) direct general obligations of the United States of America; (ii) obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States; (iii) Bonds, debentures, participation certificates, notes or other debt issued by any of the following: Bank for Cooperatives, Federal Financing Bank, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal National Mortgage Association, Export-Import Bank of the United States, Student Loan Marketing Association, Farmers Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;

(v) interest-bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation or said deposits are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by a nationally recognized bond rating agency and maturing in 270 days or less; (viii) repurchase agreements and reverse repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from a nationally recognized rating agency at the time the contract or agreement is made at least equal to the rating of the Bonds, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by a nationally recognized bond rating agency or such contracts or agreements are secured by obligations described in clauses (i) through (iii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i) through (iii) of this Section, (xi) notes, Bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; and (xii) notes, Bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency.

Mortgage: a mortgage deed, deed of trust, or other instrument, which, except as otherwise provided in the Bond Resolution, shall constitute a first lien in the State on improvements and real property in fee simple, or on a leasehold under a lease having a remaining term which, at the time the Mortgage is acquired, does not expire for at least that number of years beyond the maturity date of the Mortgage Loan or Subordinate Mortgage Loan secured by such Mortgage which is equal to the number of years remaining until the maturity date of the Mortgage Loan or Subordinate Mortgage Loan.

Mortgage Loan: a loan by the Agency to a Mortgagor for the financing and/or refinancing of a Development for the purposes set forth in Section 101 of the Bond Resolution, secured by a Mortgage on the Development.

Mortgagor: a natural person, a public or private corporation, a partnership, a joint venture or other organization or entity, to the extent permitted by the Act and the rules of the Agency thereunder (including the Agency or any corporation, agency or instrumentality created or controlled by the Agency).

Outstanding: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date

of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

Prepayment: any money received from a payment of principal on a Mortgage Loan or Subordinate Mortgage Loan in excess of the scheduled payments of principal then due, or from the sale of a Mortgage Loan or Subordinate Mortgage Loan pursuant to Section 313 of the Bond Resolution, other than money constituting a Recovery Payment.

Principal Installment: as of any particular date of calculation, an amount equal to the sum of (i) the principal amount of Outstanding Current Interest Bonds which mature on a single future date, reduced by the aggregate amount of any Sinking Fund Installments payable before that date toward the retirement of such Outstanding Current Interest Bonds, plus (ii) the amount of any Sinking Fund Installment payable on said future date toward the retirement of such Outstanding Current Interest Bonds, plus (iii) the Accreted Value, as of the same future date, of Capital Accumulator Bonds which mature or are required to be redeemed as a Sinking Fund Installment on such date.

Program: the Agency's program of making Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Notes, for the purposes specified in Section 101 of the Bond Resolution.

Recovery Payment: any money received or recovered by the Agency, in excess of the expenses necessarily incurred by the Agency in collection thereof, from (i) the sale or other disposition of a Development acquired by the Agency, or (ii) condemnation of a Development or part thereof, or (iii) other proceedings taken in the event of default by the Mortgagor, or (iv) the sale or other disposition of a Mortgage in default for the purpose of realizing on the Agency's interest therein, or (v) mortgage insurance or guaranty or hazard insurance.

Redemption Price: when used with respect to a Bond or portion thereof, the principal amount of a Current Interest Bond or the Accreted Value of a Capital Accumulator Bond or any portion thereof plus the applicable premium, if any, payable upon redemption thereof in accordance with its terms.

Revenues: all payments, proceeds, rents, charges and other income derived by or for the account of the Agency from or related to the Program, including without limitation the scheduled amortization payments of principal of and interest on Mortgages (whether paid by or on behalf of the Mortgagor or occupants of the Development subject to the Mortgage), but not including Prepayments, Recovery Payments or Escrow Payments, and not including inspection, financing, application, commitment or similar fees or charges of the Agency which are included in the original principal amount of a Mortgage.

Sinking Fund Installment: any amount of money required by or pursuant to a Series Resolution as referred to in Section 202 of the Bond Resolution to be paid on a specified date by the Agency toward the retirement of any particular Term Bonds before their maturity.

Sinking Fund Installment Date: the date on which a Sinking Fund Installment is payable.

Subordinate Mortgage Loan: a Mortgage Loan, which may be junior and subordinate to other mortgage liens on a Development, made by the Agency pursuant to the authorization contained in Section 308 of the Bond Resolution.

Authorization of Bonds

In order to provide sufficient funds for the Program, Bonds of the Agency designated as Rental Housing Bonds are authorized by the Bond Resolution to be issued from time to time without limitation as to amount except as provided in the Bond Resolution or as may be limited by law, and shall be issued subject to the terms, conditions and limitations established in the Bond Resolution. The full faith and credit of the Agency is pledged for the security of the Bonds, including interest and redemption premiums thereon, and the Bonds are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of any other resolutions, indentures or state laws now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds.

Other Obligations

(A) Except as provided in Article II of the Bond Resolution, the Agency covenants that it will not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Revenues or will be payable from any of the Funds or Accounts established and created by or pursuant to the Bond Resolution, including the Debt Service Reserve Fund. The foregoing provision shall not be construed as prohibiting the Agency from entering into hedging transactions, such as interest rate swaps, in connection with the issuance of any Series of Bonds, or in connection with the payment of any Series of Outstanding Bonds.

(B) The Agency expressly reserves the right to adopt one or more additional bond or note resolutions and reserves the right to issue other obligations so long as they are not a charge or lien prohibited by paragraph (A) of this Section of the Bond Resolution.

Pledge of the Resolution

The Agency in the Bond Resolution covenants that it will cause to be paid to and deposited with the Trustee, or to its credit with Depositories designated by the Agency, and pledges and grants to the Trustee a security interest in, all proceeds of Bonds, all Mortgages and Mortgage Loans and other securities made and purchased from such proceeds (or from the proceeds of Notes paid from the proceeds of Bonds), and all income and receipt therefrom. This pledge is intended to be valid and binding from the time when made, and the Bond proceeds, Mortgages, Mortgage Loans, other securities, income and receipts pledge and hereafter received by the Agency are immediately to be subject to the lien thereof without any physical delivery or further act, and the lien of such pledge is intended to be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, whether or not such parties have notice thereof.

Custody and Application of Bond Proceeds

Each Series Resolution authorizing the issuance of a Series of Bonds is required to specify the purposes for which the proceeds of such Series of Bonds may be used and to provide for the disposition of the proceeds thereof. Purposes for which Bonds may be issued are (a) the making of Mortgage Loans, (b) the financing of Mortgage Loans previously made from the proceeds of Notes, (c) the refunding of Outstanding Bonds, and (d)

incident to these purposes, the deposit of amounts determined by or pursuant to the Bond Resolution to be credited and paid into the Funds and Accounts referred to in the Bond Resolution.

Note Accounts. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

Project Account and Mortgage Loan Accounts. Money in each Project Account and Mortgage Loan Account shall be held by the Trustee or a Depository as directed by an Officer's Certificate. The Trustee shall create specific Mortgage Loan Accounts within the Project Account to finance specific Developments and the Trustee shall from time to time pay out or permit the designated Depository to pay out money in any Mortgage Loan Account held for the purpose of making a Mortgage Loan, upon receipt by the Trustee (or by the Depository with a copy to the Trustee) of an Officer's Certificate as to each payment or withdrawal, stating:

- (i) the name of the Mortgagor to, and Development for, which the payment is to be made;
- (ii) the amount to be paid; and
- (iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

All interest and other income from time to time received from the deposit and investment of money in the Project Account or any Mortgage Loan Accounts shall be transferred as received to the Trustee for deposit in the Revenue Fund.

Promptly upon the fulfilling of its commitment to make a Mortgage Loan to a Mortgagor, or upon revocation of the commitment before any substantial disbursement of funds thereunder, the Agency will deliver to the Depository and the Trustee an Officer's Certificate stating such fact and the amount of money, if any, remaining in the applicable Mortgage Loan Account, and directing this amount to be transferred by the Depository to the Trustee and deposited by the Trustee in a designated Project Account or in one or more designated Mortgage Loan Accounts or the Redemption Fund.

Mortgage Provisions and Conditions

Each Mortgage Loan financed from the proceeds of Bonds or of Notes paid from the proceeds of Bonds or from amounts made available from the Redemption Fund, and the Mortgage securing it, shall conform to the following terms, conditions, provisions and limitations as well as those stated in "Program Covenants" herein, except to the extent, if any, that a variance therefrom is required by an agency or instrumentality of the United States guaranteeing, insuring, or otherwise assisting in the payment of the Mortgage Loans. In addition, the Agency may, solely from Excess Revenues under the Bond Resolution which could otherwise be withdrawn therefrom pursuant to Section 404(5) thereof, make Subordinate Mortgage Loans with respect to a Development

upon such terms and conditions as the Agency may deem appropriate, and without regard to the following provisions.

Lien. With respect to each Mortgage Loan, the Mortgage and complementary financing statements and other necessary documents shall be executed, recorded and filed in accordance with the requirements of existing laws, so as to create and constitute a valid first mortgage lien on the real property or leasehold interest in real property of the Mortgagor which is the site of the Development and improvements thereon for which the Mortgage Loan is made, and a valid security interest in all personal property acquired with proceeds of the Mortgage Loan and attached to or used in the operation of the Development.

Title. Before the disbursement of Bond proceeds to make the Mortgage Loan or to pay Notes the proceeds of which were used to make it, the Mortgagor shall have acquired marketable title in fee simple to the site of the Development, or a leasehold interest therein sufficient as the subject of a Mortgage as defined in Section 103 of the Bond Resolution, subject only to liens and encumbrances which in the reasonable judgment of the Agency do not materially affect its value or usefulness for the intended use; and there shall be deposited with the Trustee, or with an agent (which may be the Agency) authorized by the Trustee to receive on its behalf and transmit to the Trustee, (i) the Mortgage; (ii) the note evidencing the Mortgage Loan; (iii) an acceptable title opinion or title insurance policy; and (iv) originals or photocopies of all other agreements and certificates of the Mortgagor relating to the Development.

Participation. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

Prepayments. With respect to each Mortgage Loan, the Mortgage shall not permit a Prepayment of the Mortgage Loan without the consent of an Authorized Officer of the Agency, unless required by an agency of the United States as contemplated in this section; but the Agency may undertake in the Mortgage to give its consent if the conditions with respect to Prepayment stated below exist.

Insurance and Escrow. With respect to each Mortgage Loan, the Mortgage or an accompanying document shall require the Mortgagor:

- (a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;
- (b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and
- (c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

Disbursements. Before the disbursements of a Mortgage Loan from Bond proceeds the Mortgagor shall have completed the Development and paid all costs thereof in a manner approved by an Authorized Officer, or shall have:

(a) obtained all governmental approvals required by law for the acquisition and construction of the Development;

(b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;

(c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

The Agency may impose additional disbursement requirements, or modify the foregoing requirements, to the extent required to comply with the rules, regulations or procedures of any agency or instrumentality of the United States guaranteeing, insuring or otherwise participating in the making of a Mortgage Loan or the repayment thereof.

Alienation. Except as provided below, with respect to each Mortgage Loan, the Mortgage shall not permit the sale, lease or encumbrance of the Development without the written consent of the Agency, by its Authorized Officer, which consent may be given (but need not be given) only in the cases of:

(a) receipt of full Prepayment conforming to the requirements stated below;

(b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;

(c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;

(d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;

(e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;

(f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or

(g) grant of a subordinate mortgage lien on the Development or a portion thereof.

Enforcement. The Agency shall diligently enforce, and take all reasonable steps, actions and proceeding necessary for the enforcement, of all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Agency, including the prompt collection of Mortgage repayments and fees and charges and other Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Mortgage securing a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the Bond Resolution, the Agency shall commence foreclosure proceedings against each Mortgagor in default under the provisions of a Mortgage, shall bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and shall acquire and take possession of such Development.

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

Upon or after foreclosure of a Development under a Mortgage securing a Mortgage Loan, or acquisition thereof from the Mortgagor in lieu of foreclosure:

(a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;

(b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;

(c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and

(d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

The foregoing provisions regarding foreclosure of mortgages shall not apply to Mortgages securing Subordinate Mortgage Loans, and the Agency may proceed to protect and enforce the rights of the Agency under a Mortgage securing a Subordinate Mortgage Loan in such manner as the Agency, in its sole discretion, deems appropriate.

Prepayment. The Agency may consent to the Prepayment of any Mortgage Loan, in whole or in part, provided that:

(a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:

(i) the unpaid principal balance of the Mortgage Loan: plus

(ii) accrued interest to the date of the Prepayment; plus

(iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and

(b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

The Agency may consent to the Prepayment of any Subordinate Mortgage Loan upon such terms as it, in its sole discretion, deems appropriate.

Modification. Except as otherwise permitted by the terms of the Bond Resolution, the Agency shall not consent to the modification of the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner materially detrimental to Bondholders. No reduction in the interest rate or schedule of payments will be made which would result in a failure by the Agency to comply with its Revenue Covenant. Notwithstanding the foregoing, the Agency may consent to the modification of the terms of any Subordinate Mortgage Loan or Mortgage securing such loan in any manner and to any extent the Agency, in its sole discretion, deems appropriate.

Sale. The Agency may sell any Mortgage or other obligation securing a Mortgage Loan provided that after such sale an Authorized Officer determines the Agency will remain in compliance with its Revenue Covenant. The Agency may sell any Mortgage or other obligation securing a Subordinate Mortgage Loan upon such terms and conditions as the Agency, in its sole discretion, deems appropriate.

Program Covenants—Revenue Covenant

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other

Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

There shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution, and interest and other income estimated by the Agency to be derived from the investment or deposit of moneys available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from such calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans).

The Agency reserves the right:

(a) at the time of issuance of any Series of Bonds for the purpose of repaying notes or Bonds the proceeds of which were used to make a Mortgage Loan, to consent to a reduction of the interest on that Mortgage Loan, provided that the Agency will then be in compliance with the preceding paragraph;

(b) at any time, to forgive a portion of the interest on a Mortgage Loan by consenting to the establishment of scheduled payments of principal and interest lower than those required to amortize the Mortgage Loan during its then remaining term at the agreed interest rate, provided that (i) the scheduled payments of principal and interest on all Mortgage Loans, giving effect to that and all similar reductions then in effect, will in the aggregate be sufficient to comply with the preceding paragraph, and (ii) if it is subsequently determined by an Authorized Officer that such aggregate scheduled principal and interest payments will or may be insufficient for such compliance, such forgiveness may be terminated in whole or in part with respect to subsequent payments on that Mortgage Loan; and

(c) to consent to any modifications to a Subordinate Mortgage Loan, including forgiving all or a portion of principal thereof or interest thereon, as the Agency may determine in its sole discretion. The Agency reserves the right to withdraw any amount from its General Reserve Account and deposit it in the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

Deposit of Revenues and Other Money

The Agency will collect and deposit or will require a Servicer to collect and deposit with the Trustee or a Depository, on the date of receipt so far as practicable, all Revenues, Prepayments, Recovery Payments and Escrow Payments receivable from Mortgagors, and will forward or require the Depository to forward promptly to the Trustee statements of each amount deposited except Escrow Payments. The Trustee shall be accountable only for moneys actually so deposited, other than Escrow Payments. All moneys so deposited shall be apportioned by the Agency or Servicer and paid into and credited on the books of the Depository and the Trustee as follows:

- (a) Revenues to the Revenue Fund:
- (b) Prepayments and Recovery Payments to the Redemption Fund; and
- (c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

Funds and Accounts

Revenue Fund. As of the first and on or before the tenth day of each month after the first delivery of Bonds, from any moneys in the Revenue Fund then held by the Trustee and Depositories, the Trustee shall withdraw and pay into each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting to each Fund preceding it in the tabulation the full amount indicated for that Fund:

(a) to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Bond Requirement;

(b) to the Debt Service Reserve Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Debt Service Reserve Requirement;

(c) to an Account in the Revenue Fund held by the Trustee at its Principal Office, the additional amount needed to make each of the payments which will be required under the foregoing clauses (a) and (b) to be made as of the first day of the following month:

(d) to the Expense Fund, the amount then required to increase the balance therein to the Expense Requirement (provided that the Agency may elect to receive the Expense Requirement from time to time by payment directly from the Revenue Fund upon providing the Trustee with an Officer's Certificate as provided in the Bond Resolution); and

(e) when authorized by an Officer's Certificate, the Trustee may credit Revenues to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions) upon receipt, up to the amount of the current Bond Requirement, and in excess of that requirement if the current Debt Service Reserve and Expense Requirements, if any, have been met. In the event that on any Interest Payment Date, after payment of all interest and Principal Installments then due, the amounts in all Funds and Accounts referred to in clauses (a) to (d) equal or exceed the Requirements applicable thereto, any amount then on hand in the Revenue Fund and any Revenues thereafter received in excess of the current requirements of all of said Funds and Accounts may be transferred to the Agency's General Reserve Account, and shall be so transferred upon request in writing by an Authorized Officer; provided that no such transfer shall be made unless, after giving effect to such transfer, total assets of the Bond Resolution shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by an Officer's Certificate.

Bond Fund.

(a) The Trustee shall withdraw from the Bond Fund, prior to each Interest Payment Date an amount equal to the unpaid interest due on the Outstanding Bonds on or before that date, and shall cause it to be applied to the payment of said interest when due, or shall transmit it to one or more Paying Agents who shall apply it to such payment as provided in Series Resolutions.

(b) If the withdrawals required under (a) above on the same and every prior date have been made, the Trustee shall withdraw from the Bond Fund, prior to each Principal Installment Date and Sinking Fund Installment Date, an amount equal to the principal amount or Accreted Value of the outstanding Bonds, if any, maturing or subject to mandatory redemption on or before that date and shall cause it to be applied to the payment of the principal or Accreted Value of said Bonds when due or transmit it to Paying Agents who shall apply it to such payment.

(c) Each withdrawal from the Bond Fund under (a) and (b) above shall be made not earlier than five (5) days prior to the Interest Payment or Principal Installment Date or Sinking Fund Installment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Bond Fund until the Interest Payment Date or Principal Installment Date or Sinking Fund Installment Date.

(d) The Trustee shall apply money in the Bond Fund to the purchase or the redemption of Outstanding Term Bonds subject to mandatory redemption in the manner provided in this paragraph and Section 702 of the Bond Resolution, provided that no such Bond shall be purchased during the period of thirty (30) days next preceding the Date of a Sinking Fund Installment established for such Bonds. The price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased pursuant to this paragraph shall not exceed the Redemption Price applicable on the next date on which such Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in this paragraph, the Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as the Agency may determine in an Officer's Certificate furnished to the Trustee.

(e) As soon as practicable after the forty-fifth and before the thirtieth day prior to the Date of each Sinking Fund Installment, unless a different notice period is required by the applicable Series Resolution, the Trustee shall call for redemption on that date the principal amount or Accreted Value of the remaining Bonds entitled to said Installment, and on that date the Trustee shall apply the money in the Bond Fund to the payment of the Redemption Price of the Bonds so called for redemption.

(f) No amount is to be withdrawn or transferred from or paid out of the Bond Fund except as described in this Section.

Debt Service Reserve Fund.

(a) If at any time there is not a sufficient amount in the Bond Fund to provide for the payment when due of Principal Installments of and interest on the Outstanding Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency then remaining. The Trustee shall notify the Agency in writing ten (10) days prior to any such withdrawal from the Debt Service Reserve Fund.

(b) In addition to the payments made into the Debt Service Reserve Fund pursuant to Section 404 of the Bond Resolution or otherwise, the Agency shall deposit in the Debt Service Reserve Fund any money appropriated and paid to the Agency by the State pursuant to the Act for the purpose of restoring the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

(c) If as of the first day of any month the amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, the Trustee within ten (10) days thereafter shall withdraw any amount therein in excess of the Debt Service Reserve Requirement, and pay the same into the Revenue Fund.

(d) The Agency shall at all times maintain the Debt Service Reserve Fund and will do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of Article IV of the Bond Resolution and of the Act.

(e) In order to better secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve Fund) and (b) the amount, if any, determined by the Agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received into the Revenue Fund during that year, for the payment of the principal and interest due and payable in that year on all then Outstanding Bonds and Notes secured by the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund or Revenue Fund, as provided in the Bond Resolution.

(f) No amount is to be withdrawn from or paid out of the Debt Service Reserve Fund except as described in this Section.

Expense Fund.

(a) Money deposited in the Expense Fund, if any, shall be disbursed for the payment of continuing expenses of the Program (including operating and maintenance expenses of Developments in the possession of the Agency) upon receipt of an Officer's Certificate stating the name of the party to be paid, the amount to be paid and the purpose of the payment.

(b) Income received or other money held in the Expense Fund in excess of the Expense Requirement shall be credited by the Trustee to the Revenue Fund.

(c) No amount is to be withdrawn, transferred or paid out of the Expense Fund except as described in this Section.

Redemption Fund.

(a) The Trustee shall establish a Suspense Account in the Redemption Fund, to which it shall credit all Prepayments and Recovery Payments, and all surplus amounts transferred from Mortgage Loan Accounts under Section 307(G) of the Bond Resolution; each of which shall be used and applied as directed by an Officer's Certificate, either (i) to provide additional funds to a Mortgage Loan Account for an increase in the amount of a Mortgage Loan authorized by the Agency, or (ii) for the establishment of one or more Mortgage Loan Accounts for new Mortgage Loans made by the Agency, or (iii) for the purchase or redemption of Outstanding Bonds; provided that as of the first day of each month while any Prepayment or Recovery Payment is held in the Suspense Account, the Trustee shall transfer from that Account to the Bond Fund the scheduled monthly payment of principal of the Mortgage Loan with respect to which the Prepayment or Recovery Payment was received,

less the amount of any payment of principal actually received with respect to such Mortgage Loan, if such transfer is required in order to meet the Bond Requirement.

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

(d) Notwithstanding the foregoing, any Prepayment or Recovery Payment received with respect to a Subordinate Mortgage Loan may be used and applied, as directed by an Officer's Certificate, in such manner as the Agency, in its sole discretion, may determine.

(e) Income from the investment of the Redemption Fund shall be credited as received to the Revenue Fund.

(f) No amount is to be withdrawn or transferred from or paid out of the Redemption Fund except as described above.

Escrow Accounts. Escrow Payments received by the Agency or a Servicer, whether separately or as part of some other payment, shall be deposited in an Escrow Account and shall be promptly applied by the Agency or Servicer to the purpose for which such payments were received, and any such payments received by the Trustee or a Depository, whether separately or as part of some other payment, shall immediately be paid to the Agency and applied by the Agency to the purpose for which they were received.

General Reserve Account. All amounts authorized in Article IV of the Bond Resolution to be withdrawn from the Revenue Fund and deposited in the General Reserve Account of the Agency shall be free and clear of any lien or pledge created by the Bond Resolution and may be used for any purpose authorized by the Act, subject to the provisions of Section 102, clauses (6) and (7) of the Bond Resolution.

Investment and Deposit of Funds.

(a) Subject to instructions from time to time received from an Authorized Officer (which need not be in writing), and with the objective of assuring the maximum yield reasonably possible on money held in each Fund, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in Investment Obligations defined in Section 103 of the Bond Resolution (including interest-bearing time deposits and certificates of deposit). All Investment Obligations shall mature or be redeemable (at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage

Loan disbursements and for the payment of the principal and Accreted Value of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions. The maturity date of a security purchased under a repurchase agreement shall be deemed to be the agreed repurchase date. The maturity date of a time deposit or certificate of deposit shall be deemed to be any date on which, with such notice as may be required, the deposit may be withdrawn without loss of interest.

(b) Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of paragraph (a) of this Section. Moneys in separate funds or Series Accounts may be invested in common trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or Series Account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of paragraph (a) of this Section and to the restrictions on Investment Obligations imposed by each Series Resolution. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary in order to make any disbursement or repurchase of Mortgage Loans, payment of expenses of debt service. Investment Obligations need not be disposed of to make required transfers from one Fund or Account to another, but one or more Investment Obligations or portions thereof may be transferred in lieu of cash.

(c) Subject to approval by an Authorized Officer, the Trustee or another Fiduciary may apply money pertaining to any Fund or Account created by or pursuant to the Bond Resolution to the purchase of Investment Obligations owned by it or its individual capacity, and may sell to itself in its individual capacity Investment Obligations held by it in any such Fund or Account as such Fiduciary.

Additional Bonds

The Bond Resolution provides that after authorization by a Series Resolution and compliance with such requirements as are set forth therein, Bonds of any Series may be delivered upon the following, among other, conditions:

The Agency shall furnish to the Trustee:

(a) copies of the Bond Resolution and the applicable Series Resolution, certified by an Authorized Officer;

(b) a Counsel's Opinion that:

(i) the Bond Resolution and the applicable Series Resolution have been duly adopted by the Agency and are valid and binding upon it and enforceable in accordance with their terms;

(ii) the Bond Resolution creates the valid pledge which it purports to create; and

(iii) the principal amount of the Bonds to be issued and other obligations theretofore issued by the Agency does not exceed any legal limitation; and

(c) an Officer's Certificate stating:

(i) the amounts to be deposited in all Funds and Accounts;

(ii) that the issuance of the Bonds will have no material adverse effect on the ability of the Agency to pay the Principal Installments of and interest on all Bonds (including the Outstanding Bonds and the Bonds then to be issued);

(iii) that after such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of Notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans or with respect to the Bond Resolution, with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all Funds and Accounts created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on the Bonds then Outstanding and the additional Series of Bonds (excluding from such calculations amounts to be received by the Agency pursuant to any Subordinate Mortgage Loans); and

(iv) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by the additional Bonds).

The Trustee shall determine and certify:

(a) that it has received the documents listed above; and

(b) that the amount of Bond proceeds to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

Amendments of the Bond Resolution

Amendments of or supplements to the Bond Resolution may be made by a Supplemental Bond Resolution (a "Supplemental Resolution").

Supplemental Resolutions may become effective upon filing with the Trustee if they add restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency, or make any other change which, in the judgment of the Trustee, is not prejudicial to the Trustee and which does not adversely affect the interests of Bondholders. Other Supplemental Resolutions become effective only with consent of the Holders of at least a majority in principal amount and Accreted Value of the Outstanding Bonds affected thereby.

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Accreted Value thereof or the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment, without unanimous consent of the Bondholders.

Any amendment may be made with unanimous consent of the Bondholders, except that no amendment shall change any of the rights or obligations of any Fiduciary without the consent of the Fiduciary.

Defeasance

If the Agency shall pay or cause to be paid to the Holders of the Bonds, the principal, Accreted Value and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, then, unless there shall be an Officer's Certificate delivered to the Trustee to the contrary, the pledge of the Revenues, Prepayments, Recovery Payments and other moneys, securities and funds pledged by the Bond Resolution and the covenants, agreements and other obligations of the Agency to the Bondholders thereunder shall be discharged and satisfied.

Bonds and interest thereon for the payment or redemption of which moneys shall have been deposited with the Trustee shall be deemed to have been paid, provided that, if any of such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investment Obligations which are direct obligations of the United States or guaranteed by the United States. If the maturing principal of such Investment Obligations and the interest to fall due thereon at least equal the amount of money required for the payment on any future date of the interest on and principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid.

Events of Default

Each of the following shall constitute an event of default under the Bond Resolution: (a) interest on any of the Bonds is not paid on any date when due, or the principal, Accreted Value or Redemption Price of any of the Bonds is not paid at maturity or at a Redemption Date at which the Bonds have been called for redemption; (b) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; (c) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution, or applicable Series Resolution contained and such default shall continue for a period of ninety (90) days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (d) certain acts of bankruptcy, insolvency or reorganization by the Agency.

Remedies

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the request of the Holders of twenty-five percent (25%) in principal amount and Accreted Value of the Bonds then Outstanding affected by an event of default described in clause (a) or (b) of "Events of Default" above, or twenty-five percent (25%) in principal amount and Accreted Value of all Bonds then Outstanding if the event of default is one described in clauses (c) or (d) of "Events of Default" above, proceed to protect and enforce the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Bond Resolution unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Bond Resolution contained is intended to affect or impair the right of any Bondholder to enforce the payment of the principal or Accreted Value of and interest on his Bonds at the time and place expressed in the Bonds.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

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BOOK-ENTRY-ONLY SYSTEM

DTC is to act as securities depository for the Series A Bonds. The ownership of one fully registered book-entry bond for each maturity, as set forth on the inside front cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. So long as Cede & Co. is the Registered Owner of the Series A Bonds, as nominee of DTC, references herein to the Bondowners, Owners or Registered Owners of the Series A Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series A Bonds.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic, computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Series A Bonds must be purchased by or through Direct Participants, which will receive a credit for the Series A Bonds on the records of DTC. The ownership interest of each actual purchaser of each Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transactions. Beneficial Owners of Series A Bonds will not receive certificates representing their beneficial ownership interests in such Bonds, unless use of the book-entry-only system is discontinued as described below,

Transfers of ownership interests in the Series A Bonds are to be accomplished by book-entries made by DTC and in turn by the Direct Participants and Indirect Participants who act on behalf of the Beneficial Owners of such Bonds. To facilitate subsequent transfers, all Series A Bonds deposited by DTC Participants are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series A Bonds with DTC and the registration of such Bonds in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series A Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series A Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Bonds of the Series A maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Under the Series Resolution, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations under the Resolutions to the extent of the payments so made.

Principal, redemption price and interest payments on the Series A Bonds will be made by the Trustee to DTC or to its nominee. Such payments to the Beneficial Owners will be solely the responsibility of DTC, the Direct Participants and, where appropriate, Indirect Participants. DTC's current practice is to credit Direct Participant's accounts on the payment date in accordance with their respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions of the Beneficial Owner and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name." Such payments will be the sole responsibility of such Direct Participant or Indirect Participant and not of DTC, the Agency or the Trustee, subject to any statutory and regulatory requirements as may be in effect from time to time.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series A Bonds (i) payments of principal of or interest and premium, if any, on the Series A Bonds, (ii) certificates representing an ownership interest or other confirmation official ownership interest in Series A Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series A Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series A Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series A

Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to owners of Series A Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series A Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry-Only System

DTC may discontinue services with respect to the Series A Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Series A Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of the Series A Bonds held in the Beneficial Owner's name, shall become the Bondowner.

The Agency may determine to discontinue the system of book-entry transfers through DTC (or a successor securities depository) for the Series A Bonds. In such event, the Series A Bonds are to be delivered as described in the Series Resolution.

APPENDIX F

OPINION OF BOND COUNSEL

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FORM OF OPINION OF BOND COUNSEL

[Letterhead of Dorsey & Whitney LLP]

[To be dated the date of issuance of the Rental Housing Bonds, 2000 Series A]

MINNESOTA HOUSING FINANCE AGENCY
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Rental Housing Bonds, 2000 Series A

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, issuance and delivery by the Minnesota Housing Finance Agency (the "Agency") of its Rental Housing Bonds, 2000 Series A, in the principal amount of \$9,290,000 (the "Series A Bonds") which are issuable only as fully registered bonds of single maturities.

The Series A Bonds are dated, mature on the dates, in the amounts, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The Series A Bonds are subject to redemption, including special redemption at par, prior to their maturity upon the terms provided in the Series Resolution.

In this connection, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary for purposes of this opinion, including the Agency's Bond Resolution, MHFA No. 88-12, adopted February 25, 1988, as amended (as so amended, the "Bond Resolution"), and the Series Resolution, MHFA No. 00-21, adopted April 6, 2000 (the "Series Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the Series A Bonds with the covenants contained in the Bond and Series Resolutions, and the loan documentation relating to the Development, it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and the Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Series Resolutions; (3) the Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured

by the covenants contained in the Bond and Series Resolutions, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to other bonds or notes, and state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any Series A Bond for any period during which such Series A Bond is held by a person who is a "substantial user" of the Development financed by the Series A Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Interest on the Series A Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from ownership or disposition of the Series A Bonds.

Noncompliance by the Agency or the owners of the Developments financed by the Series A Bonds with their covenants in the Bond and Series Resolutions, or applicable loan documentation relating to the Development, may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series A Bonds.

It is to be understood that the rights of the holders of the Series A Bonds and the enforceability thereof, and of the Bond and Series Resolutions, may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Dated: _____, 2000.

Respectfully yours,