NOTICE

$4,060,000
Minnesota Housing Finance Agency
Rental Housing Bonds, 2006 Series C-1 (AMT)
Rental Housing Bonds, 2006 Series C-2 (AMT)

Placement Memorandum, dated August 4, 2006

The Placement Memorandum, dated August 4, 2006, has been posted on this website as a matter of convenience. The posted version of the Placement Memorandum has been formatted in Adobe Portable Document Format (Adobe Acrobat 6.0). Although this format should replicate the Placement Memorandum 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 6.0 may cause the Placement Memorandum that you view or print to differ from the Placement Memorandum.

The posting of the Placement Memorandum is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Placement Memorandum 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 Placement Memorandum from this website at any time.

NEW ISSUE

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

$4,060,000
MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2006 Series C-1 (AMT)
Rental Housing Bonds, 2006 Series C-2 (AMT)

Dated: Date of Delivery **Due: as shown on inside front cover**

Tax Exemption	Interest on the above-captioned bonds (collectively, the "Series C Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (See pages 21-22 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series C Bonds.)
Redemption	The Series C Bonds are subject to sinking fund, special and optional redemption as set forth on pages 9-10 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 C Bonds are general obligations of the Agency, payable out of any of the 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 C BONDS AND THE SERIES C BONDS ARE NOT A DEBT OF THE STATE. (See "Security for the Bonds" on pages 10-12 herein.)
Interest Payment Dates	February 1 and August 1, commencing February 1, 2007.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	August 15, 2006 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Trustee	Wells Fargo Bank, National Association.
Book-Entry Only System	The Depository Trust Company. (See Appendix F herein.)

The Series C Bonds are offered, when as and if issued, 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 C Bonds and certain other conditions.

RBC Capital Markets

The date of this Placement Memorandum is August 4, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

$2,860,000 2006 SERIES C-1 BONDS

$2,860,000 4.96% 2006 Series C-1 Term Bonds Due August 1, 2037 (CUSIP 60415N E57[(1)])

$1,200,000 2006 SERIES C-2 BONDS

Maturity Date	Principal Amount	Interest Rate	CUSIP
August 1, 2007	$1,200,000	4.21%	60415N E65[(1)]

Price of all Bonds — 100%

(1) The CUSIP number has been assigned by an organization not affiliated with the Agency and is included for the convenience of the holder of the Series C Bonds. The Agency is not responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness on the Series C Bonds or as indicated above.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency to give any information or representations, other than those contained in this Placement Memorandum 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 C 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 Placement Memorandum 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.

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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PLACEMENT MEMORANDUM
relating to
$4,060,000
MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2006 Series C-1 (AMT)
Rental Housing Bonds, 2006 Series C-2 (AMT)

The purpose of this Placement Memorandum (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, 2006 Series C-1 (the "Series C-1 Bonds") and 2006 Series C-2 (the "Series C-2 Bonds" and, together with the Series C-1 Bonds, the "Series C Bonds"), in connection with the sale of the Series C Bonds by the Agency. The Series C Bonds are being issued pursuant to the Act, a resolution of the Agency adopted on February 25, 1988, as amended (the "Bond Resolution"), and a series resolution of the Agency adopted July 27, 2006 (the "Series Resolution"); the Bond Resolution and the Series Resolution are herein sometimes called the "Resolutions." The Series C Bonds and any Rental Housing Bonds heretofore and hereafter issued pursuant to the Bond Resolution will be equally and ratably secured under the Bond Resolution and are herein sometimes called the "Bonds." Bonds outstanding under the Bond Resolution as of June 30, 2006 aggregated $204,445,000 in principal amount.

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Placement Memorandum. 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 C 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 making long-term mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income upon the determination by the Agency that such loans are not otherwise available from private lenders upon equivalent terms and conditions.

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 "Net Assets Restricted by Covenant and Operations to Date – General Reserve" footnote included in the notes to the financial statements of the Agency.

The proceeds of Bonds issued pursuant to the Bond Resolution are used to finance a portion of the activities undertaken pursuant to 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 nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, this Program is intended generally to provide long-term, fixed rate, first lien mortgage loans ("Mortgage Loans"), and, under certain circumstances, subordinate mortgage loans ("Subordinate Mortgage Loans"), to finance 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 C 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 C Bonds primarily to fund a long-term first mortgage loan to a private owner which will finance a portion of the costs of the acquisition and rehabilitation of a multifamily housing development in Cloquet, Minnesota. (See "THE DEVELOPMENT.") The Series C 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 federal or State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The net assets of the General Reserve are legally available if needed to pay debt service on any obligations of the Agency, including the Series C Bonds. (See "The Agency — Net Assets Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund.") (For purposes of the Resolutions, the General Reserve is designated as the General Reserve Account.)

There are further pledged as security for the payment of the Series C 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.")

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. The appropriations are not available to pay debt service on 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 or purchase price with respect to the Series C 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 State Auditor and six 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 state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

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 listed below:

Michael Finch, Chairman — Term expires January 2010, Minneapolis, Minnesota – Health Care Consultant

The Honorable *Patricia Anderson — Ex-officio*, St. Paul, Minnesota – State Auditor

Betty Lou Berg, Member — Term expires January 2008, St. Cloud, Minnesota – Real Estate Broker

Joseph Johnson III, Member — Term expires January 2009, Duluth, Minnesota – Banker

Paul Gaston, Member — Term expires January 2008, Vadnais Heights, Minnesota

Lee Himle, Member — Term expires January 2007, Spring Valley, Minnesota – Insurance Agency Owner

Marina Muñoz Lyon, Vice Chairman — Term expires January 2007, St. Paul, Minnesota – Foundation Officer.

Staff

The staff of the Agency presently consists of approximately 190 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:

Timothy E. Marx — Commissioner. Mr. Marx was appointed Commissioner in June 2003. Prior to his appointment Mr. Marx had been an attorney in the private practice of law since 1983, except for four years in public service for the City of Saint Paul. His practice involved the representation of public and nonprofit organizations in community development and finance, utility and telecommunications, environmental law, and related public policy and governmental relations matters. He served as general counsel to several major foundations and nonprofit organizations. From 1994 to 1998, Mr. Marx served as city attorney and then deputy mayor/chief of staff for the City of Saint Paul. Mr. Marx has a Bachelor of Arts degree from Saint John's University and received a combined J.D. from the University of Minnesota Law School and M.A. from the Humphrey Institute of Public Affairs.

Patricia Hippe — Deputy Commissioner. Ms. Hippe was appointed Deputy Commissioner effective May 2000. From January 1995 to the date of her appointment as Deputy Commissioner, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, National Association with responsibility for administration of taxable and tax-exempt bond issues. 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.

Mike LeVasseur — Director of Finance of the Agency since October 2000. From February 2000 to October 2000, he was the Director of Bankruptcy and Litigation at Conseco Finance Corporation. From 1981 to 2000, he held a variety of progressively more responsible finance, administration and credit positions within the 7th Farm Credit District, most recently as Vice President of Special Assets at the St. Paul Bank for Cooperatives. Mr. LeVasseur has a Bachelor of Science degree in Business Administration from the University of Minnesota, with a Senior Accounting Certificate.

Robert Odman — Assistant Commissioner, Multifamily 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.

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.

Independent Auditors

The financial statements of Agency as of and for the fiscal year ended June 30, 2005, included in this Placement Memorandum as Appendix C, have been audited by Larson, Allen, Weishair & Co., LLP, independent auditors, as stated in their report appearing herein.

Financial Statements of the Agency

The Agency financial statements included in this Placement Memorandum as Appendix C are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board. Readers are encouraged to pay particular attention to the Management's Discussion and Analysis and Notes to Financial Statements.

In Appendix B to this Placement Memorandum, the Agency has included unaudited financial statements of the General Reserve Account and the Rental Housing Fund as of and for the nine months ended March 31, 2006, which reflect, in the opinion of the Agency, all normal recurring adjustments necessary for a fair statement of the financial position and results of operation of those Funds for that period. Appendix B has been prepared by the Agency in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"). The information in Appendix B is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant for the benefit of the Beneficial Owners of the Series C 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, 2007, with each Nationally Recognized Municipal Securities Information Repository (a "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 and the manner in which such materials are filed is summarized below under the caption "Appendix D — Summary of Continuing Disclosure Agreement."

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a semiannual disclosure report for each of its multifamily bond resolutions and a quarterly disclosure report for each of its single family bond resolutions. Recent reports are available at the Agency's website at http://www.mhfa.state.mn.us/investor/investor_home.htm. The Reports are also sent to the Repositories. The Rental Housing Bond Resolution Disclosure Reports generally are filed semiannually. The most recent report is dated as of

December 31, 2005. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the securities.

Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from Program Funds to the General Reserve of the Housing Development Fund. The Agency has pledged to deposit in the General Reserve 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 further covenants that it shall use the money in the General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Act, including the creation of 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 the General Reserve 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 Net Assets Restricted By Covenant. Please refer to the comments under the heading "Net Assets-Restricted by Covenant" in the Notes to the Financial Statements of the Agency in Appendix C.

Under these guidelines, the Agency's General Reserve Net Assets Restricted By Covenant is to be maintained at a level at least equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of gross loans receivable.

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

	Nine-Months Ended March 31,	Fiscal Year Ended June 30,	
	2006	2005	2004
Revenues and other additions to restricted net assets:			
Fees earned (1)	$7,027	$8,092	$7,631
Interest earned on investments	864	730	617
Unrealized gain (loss) on investment securities, net	(86)	(251)	(2,042)
Administrative reimbursement (2)(3)	12,722	17,219	14,349
	20,527	25,790	20,555
Expenses and other reductions to restricted net assets:			
Transfer of assets between funds (4)	1,425	3,438	4,036
Salaries and benefits	10,438	13,693	13,131
Other general operating	4,423	5,227	5,782
	16,286	22,358	22,949
Net changes in net assets	4,241	3,432	(2,394)
Net assets beginning of period	33,547	30,115	32,509
Net assets end of period	$37,788	$33,547	$30,115

(1) Fees earned consist primarily of fees collected in conjunction with HUD contract administration, 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 in accordance with the Agency's Affordable Housing Plan based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus premiums on loans.

(3) Reimbursements 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. Costs associated with administering state appropriations are recovered from interest earnings on the appropriations. Costs associated with administering federal appropriations are recovered from the appropriation.

(4) Earnings from bond funds may be transferred to the General Reserve to the extent permitted by any resolution or indenture securing bonds of the Agency. In addition, funds in excess of the Housing Endowment Fund requirement may be transferred from the General Reserve to the Residential Housing Finance Fund. See the comments under the heading "Net Assets-Restricted by Covenant" in the Notes to the Financial Statements of the Agency in Appendix C for additional information.

The Agency also established an Alternative Loan Fund within the Residential Housing Finance Bond Resolution. The Agency invests amounts on deposit in this fund 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 is recorded as part of the Alternative Loan Fund in the Residential Housing Finance Bond Resolution. All interfund transfers are approved by the Agency.

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 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 $189,425,000. Most of the appropriations have been expended or committed by the Agency.

The appropriations are not available to pay debt service on the Bonds.

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 that have been refunded) is presently limited to $3,000,000,000. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of June 30, 2006:

	Number of Series	Bonds Maturing	Original Principal Amount (in thousands)*	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	24	2006-2047	$ 471,605	$ 204,455
Residential Housing Finance Bonds	45	2006-2037	1,524,235	1,376,075
Single Family Mortgage Bonds	59	2006-2035	1,312,240	363,955
Total Debt Outstanding	128		$ 3,308,080	$ 1,944,485

* Does not include the original principal amount of any series of bonds that have been, as of June 30, 2006, 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.

THE DEVELOPMENT

Description

The Agency intends to use the proceeds of the Series C Bonds primarily to make a long-term first mortgage loan which will finance a portion of the costs of the acquisition and rehabilitation of a multifamily housing development in Chaska, Minnesota.

The Development, known as Larson Commons (the “Development”), is located at 810 Cloquet Avenue in Cloquet, Minnesota. The Development is an existing 85-unit, seven-story building intended for occupancy by elderly tenants. The total development cost, including acquisition and rehabilitation, is estimated to be approximately $7,220,000. The rehabilitation is expected to be completed by April 2007.

The Agency will use the proceeds of the Series C-1 Bonds to be deposited in the Mortgage Loan Account to make a fully amortizing first Mortgage Loan with respect to the Development in August 2006. The first Mortgage Loan, in the principal amount of approximately $2,664,600 will be insured under the HUD Risk-Sharing Program, with HUD insuring 50% of any loss and the Agency incurring 50% of any loss. (See “RENTAL HOUSING PROGRAM—Low and Moderate Income Rental Program.”) The first Mortgage Loan has been established in an amount estimated to be supported by the net operating income of the Development. The Agency will also make a non-amortizing second mortgage bridge loan with respect to the Development, which will mature in full on July 1, 2007, in the total principal amount of $1,200,000 from the proceeds of the Series C-2 Bonds. The bridge loan will not be insured, and will be additionally secured by a letter of credit. The Agency will also make two subordinate non-amortizing deferred interest loans in the approximate principal amounts of $420,000 and $1,094,927 for the Development from Agency resources other than the proceeds of the Series C Bonds.

The Development is benefited by a project-based Section 8 Housing Assistance Payments Contract (the "HAP Contract") originally entered into with HUD in 1980, which has an expiration date of March 7, 2020. The borrower will enter into a covenant with the Agency under which it agrees to take all actions necessary to maintain housing assistance benefits for the Development during the life of the Mortgage Loan, to the extent housing assistance benefits are available from HUD or other sources. There is no assurance that housing assistance benefits will be made available after the expiration of the existing HAP Contract or that the available housing assistance benefits will provide assistance at rent levels equal to the levels provided under the existing HAP Contract. (See "RENTAL HOUSING PROGRAM—Section 8 Housing Assistance Payment Program.")

Estimated Sources and Uses of Bond Proceeds and Agency Funds

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

Sources:	
Principal Amount of Series C Bonds	$4,060,000
Agency Contribution	96,068
Total Sources of Funds	$4,156,068
Uses:	
Mortgage Loan Account	$3,864,600
Debt Service Reserve Fund	194,468
Revenue Fund	17,000
Cost of Issuance	80,000
Total Uses of Funds	$4,156,068

DESCRIPTION OF THE SERIES C BONDS

The Series C 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 C Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, is to serve as Trustee under the Bond Resolution.

The Series C-1 Bonds are issuable as term bonds in the denominations of $5,000 or any integral multiple thereof each of a single stated maturity. The Series C-2 Bonds are issuable as bonds of a single stated maturity in the denominations of $5,000 or any integral multiple thereof. The Series C Bonds mature on the dates and in the amounts set forth on the inside front cover hereof. The Series C Bonds shall bear interest from their dated date, payable semiannually thereafter on February 1 and August 1 of each year, commencing February 1, 2007, at the respective rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bonds. Interest on the Series C 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 F "Book-Entry-Only System."

For every exchange or transfer of Series C 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 C-1 Bonds with a stated maturity of August 1, 2037 are subject to mandatory redemption in part on each February 1 and August 1, commencing August 1, 2007 and concluding February 1, 2037, 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:

Date	Principal Amount	Date	Principal Amount
August 1, 2007	$10,000	February 1, 2023	$45,000
February 1, 2008	20,000	August 1, 2023	45,000
August 1, 2008	20,000	February 1, 2024	45,000
February 1, 2009	20,000	August 1, 2024	45,000
August 1, 2009	20,000	February 1, 2025	50,000
February 1, 2010	20,000	August 1, 2025	50,000
August 1, 2010	20,000	February 1, 2026	50,000
February 1, 2011	25,000	August 1, 2026	55,000
August 1, 2011	25,000	February 1, 2027	55,000
February 1, 2012	25,000	August 1, 2027	55,000
August 1, 2012	25,000	February 1, 2028	55,000
February 1, 2013	25,000	August 1, 2028	60,000
August 1, 2013	25,000	February 1, 2029	60,000
February 1, 2014	25,000	August 1, 2029	60,000
August 1, 2014	30,000	February 1, 2030	65,000
February 1, 2015	30,000	August 1, 2030	65,000
August 1, 2015	30,000	February 1, 2031	65,000
February 1, 2016	30,000	August 1, 2031	70,000
August 1, 2016	30,000	February 1, 2032	70,000
February 1, 2017	30,000	August 1, 2032	75,000
August 1, 2017	30,000	February 1, 2033	75,000
February 1, 2018	35,000	August 1, 2033	75,000
August 1, 2018	35,000	February 1, 2034	80,000
February 1, 2019	35,000	August 1, 2034	80,000
August 1, 2019	35,000	February 1, 2035	85,000
February 1, 2020	35,000	August 1, 2035	85,000
August 1, 2020	40,000	February 1, 2036	90,000
February 1, 2021	40,000	August 1, 2036	90,000
August 1, 2021	40,000	February 1, 2037	90,000
February 1, 2022	40,000	August 1, 2037 (maturity)	80,000
August 1, 2022	40,000		

Special Redemption at Par

The Series C 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 C Bonds not used to finance the Development, together with amounts allocable to the Development on deposit in the Debt Service Reserve Fund; (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Appendix E) relating to the Development; and (iii) in the event the Agency receives a Prepayment relating to the Development 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. The Agency will apply any such unexpended proceeds, Recovery Payments or Prepayments to the redemption of Series C Bonds, as determined by the Agency. If such Recovery Payments or Prepayments are not sufficient to redeem all Outstanding Series C Bonds as aforesaid, the Agency reserves the right to apply other funds to the special redemption of the Series C Bonds, in addition to the Recovery Payments or Prepayments.

Optional Redemption

The Series C-1 Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2016, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium. The Series C-2 Bonds are not subject to optional redemption prior to their stated maturity.

General Provisions

Any Series C Bonds to be redeemed other than upon mandatory sinking fund redemption shall be redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the maturity dates, principal amount and price of Series C Bonds to be redeemed. If less than all Series C Bonds of a single maturity are to be redeemed, the Series C Bonds 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 C 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 C 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 C Bonds not affected by such defect or failure.

SECURITY FOR THE BONDS

The Bonds, including the Series C 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 C Bonds, are general obligations of the Agency, payable out of any of its 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 federal or 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 C Bonds.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, including the Series C Bonds, and said Series C 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 the Agency's 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 applicable subsidies, 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 E 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 Placement Memorandum, 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 C-1 Bonds shall be an amount equal to maximum annual debt service payable in any future fiscal year of the Agency with respect to the Series C-1 Bonds Outstanding, initially $194,830. Upon issuance of the Series C-1 Bonds, the sum of $194,468 will be deposited into the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the Series C-1 Bonds.

No funds will be appropriated to the Debt Service Reserve Fund with respect to the Series C-2 Bonds since, in addition to the other security provided pursuant to the Bond Resolution, payment of principal with respect to the bridge loan funded by the Series C-2 Bonds will be further secured by a letter of credit provided by the Mortgagor to the Agency upon issuance of the Series C-2 Bonds.

Upon issuance of the Series C Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution is expected to be approximately $21,024,255 and the value of the investments in the Debt Service Reserve Fund is expected to be approximately $21,553,148. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series C Bonds, on a parity basis.

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 secured by a debt service reserve fund if the amount in that debt service reserve fund or any other 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 each such fund at the time of such issuance from the proceeds of the 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 principal 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 reserve 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 C 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 proceeds of Bonds issued under the Bond Resolution 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.

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 either funded from Bond proceeds under the Bond Resolution, or are pledged as additional security 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 by outstanding Bonds under the Rental Housing Bond Resolution have been originated under the following programs:

—Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)

—Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)

— Section 236 Interest Reduction Payments New Construction Program

—Market Rate Mortgage Loan Program

In addition to the programs listed above, loans contributed as additional security under the Bond Resolution have been financed under the following programs:

— Apartment Renovation Mortgage Program

—Group Homes for the Developmentally Disabled Program

The following table provides summary data regarding the outstanding loans financed under or pledged as additional security for the Rental Housing Bond Resolution as of June 30, 2006 for the programs listed above:

Rental Housing Program Mortgage Loan Program Summary as of June 30, 2006

Program	Number of Developments	Number of Units	Outstanding Loan Amount	Percentage of Total Amount
Section 8 Housing Assistance Payment Program*	134	6,546	$132,049,749	61.88%
Apartment Renovation Mortgage Program	7	216	2,627,639	1.23
Low and Moderate Income Rental Program**	25	2,179	64,183,161	30.08
Market Rate Mortgage Loan Program	9	415	8,172,869	3.83
Section 236 Interest Reduction Payments Program***	8	543	6,118,548	2.87
Group Homes for the Developmentally Disabled	2	12	237,968	0.11
	185	9,911	$213,389,934	100.00%

*Includes five FHA insured Developments with 214 aggregate units and an aggregate outstanding loan amount of $4,335,885.
**Includes 15 HUD Risk-Sharing Developments with 1,329 aggregate units and an aggregate outstanding loan amount of $45,396,238. Also includes three FHA-insured Developments with 401 units and an aggregate outstanding loan amount of $7,056,892.
*** Includes one FHA insured Development with 31 units and an outstanding loan amount of $253,830.

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. Most recent developments financed under this program have also benefited from the receipt of federal housing tax credits. 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 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. In addition, under this program, the Agency uses its general reserves to provide construction and permanent financing for the acquisition, rehabilitation, refinancing 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 or rehabilitate 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 the Low and Moderate Income Rental 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 Urban 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 "Risk-Sharing 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 Risk-Sharing Act. The "HUD Risk-Sharing Program" 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 agency. 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 designated by HUD as a "qualified HFA" under the Risk-Sharing 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" and "Level II" approval under the regulations which means HUD agrees to reimburse the Agency 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 with review by the local HUD office. Substantially all of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

Prior to funding of a Mortgage Loan by the Agency, HUD issues a Risk-Sharing Approval Letter under which it agrees to endorse the Mortgage Note upon completion of construction and satisfaction of various conditions relating to the Mortgage Loan, including funding of all anticipated sources of funds. HUD is not obligated to reimburse the Agency for any losses which occur as a result of a default under the loan documents prior to completion of construction and endorsement of the Mortgage Note for insurance by HUD.

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 Contract") 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. For eight of these Developments, the original 20-year contracts for the Developments have expired, with contracts typically being renewed for a period of one to five years. It is anticipated that HUD will continue to 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.

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 ACC between HUD and the Agency and a HAP Contract between the Agency and the owner of the assisted development. Pursuant to the ACC, the Agency is to receive an annual contribution from 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 Contract. For projects with Section 8 units from a source other than the state agency set-aside program, the HAP Contract has been directly between the owner and HUD.

In recent years, the Agency has permanently financed developments which have HAP Contracts with either HUD or the Agency the terms of which expire within the initial ten years of the Agency's 30 or 40 year loans. It is anticipated, but not assured, that the federal government will continue to provide one to five year extensions of Section 8 subsidies for these developments upon the expiration of their current HAP Contracts. In general, renewal HAP Contracts beyond the expiration of the initial HAP Contract term and contracts for the project-basing of HUD vouchers or certificates (as described below) are subject to annual appropriation and spending authorization in the federal budget.

Contract Term State Agency Set-Aside Program

Under the HUD regulations, the initial term of the HAP Contract 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, including the initial period. Under the terms of the Agency's regulatory agreements with Development owners, the owners are required to renew their respective HAP Contracts as long as their mortgage is outstanding. The ACC remains in effect as long as the HAP Contract is in effect. Nonrenewal of the HAP Contract requires the written consent of the Agency whether or not the owner has mortgage financing remaining in place. See, however, "Certain Information Regarding Housing Assistance Payment Contracts – Recent Developments."

Although the Section 8 housing assistance payments are made directly or indirectly to the owner and, in effect, represent rental income, the HAP Contract may, with HUD's approval, be pledged by the owner to the Agency as mortgage lender on the Development. All of the HAP Contracts 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 Contract, 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 of the HAP Contract 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 HAP Contract and ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract unless approval to amend or terminate the HAP Contract or ACC has been obtained from the Assistant Secretary for Housing. See, however, "Certain Information Regarding Housing Assistance Payment Contracts – Recent Developments."

The Agency Regulatory Agreement

The uninsured Section 8 assisted Developments and developments financed under the HUD Risk-Sharing Program 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 15% 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 HAP Contracts and the Section 8 program which may affect payments made by HUD pursuant to the HAP Contracts 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 United States Housing Act of 1937, as amended (the "Housing Act").

Adjustments in Contract Rents

Each HAP Contract 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 Contract 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 Contract. However, pursuant to federal legislation enacted in 1997, 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 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 Contract. 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 Contract (which is set forth in each HAP Contract) exceeds the amount actually paid out under the HAP Contract 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. The above language notwithstanding, as a matter of practice HUD does not increase annual contributions contract authority until such time as the project account has been exhausted.

Recent Developments

In July, 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979 which interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related project. This would include any refinancing that included a prepayment. HUD also stated that it would agree to amend any HAP Contract to eliminate such termination. However, all of the currently outstanding Mortgage Loans of the Agency which involve this form of HAP Contract are the original permanent financing provided by the Agency.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials 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 C 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 HAP Contracts. 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 HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, 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 HAP Contracts 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 Contract 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 1997 and subsequent federal fiscal years.

Project-Based Vouchers

The Agency recently started to work with local housing and redevelopment authorities and public housing authorities to provide for project-based Section 8 Housing Choice Vouchers for a portion of the units in a development financed under the Low and Moderate Income Rental Program. Under this program approximately 20% of the units in a proposed development would receive year-to-year project-based Housing Choice Vouchers with the rents set at the Section 8 Existing Housing Fair Market Rent ("FMR") or payment standard. The Agency has found that the HUD-published FMR or payment standard is typically less than the market rent that could be charged without the subsidy; therefore, staff considers there to be minimal risk in the event of nonrenewal of the year-to-year ACC.

Section 8 Contract Administration

Recently, HUD began a program under which HUD enters 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 has entered 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 until further notice from 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, 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.

Beginning in 1999, the Agency has made loans to new and existing owners of Developments originally financed under the Section 236 program to refinance the original Mortgage Loan and make additional Mortgage Loans for rehabilitation and other project purposes in order to maintain the Developments as subsidized housing. For the Section 236 refinancings, the interest reduction payments are continued after the refinancing in various forms in accordance with the original payment schedule through the scheduled maturity date of the original Mortgage Loan. Since the new Mortgage Loans have had 30-year maturities, the term of the interest reduction payments is less than the term of the Mortgage Loan. The reduction in project revenue at the end of the term of the Section 236 contract has been taken into account in the underwriting of the new Mortgage Loans. In the one instance where a Section 236 mortgage was refinanced for an existing owner, the loan was financed from Agency resources and not financed or pledged under the Bond Resolution.

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. The Agency has continued to make loans under this Program, although all of the recent loans have been financed from Agency resources outside of the Bond Resolution. 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 permanent 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. The Agency is not presently making any Mortgage Loans pursuant to this Program.

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 Management Services Section is responsible for the supervision of all developments financed by the Agency, beginning with the feasibility processing and continuing through the new construction, rehabilitation or refinancing. During the latter stages of construction or rehabilitation, the Management Services 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 monitor the implementation of the management plan. 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 Management Services 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 owner and management agent along with a timetable for correcting deficiencies, if necessary.

- *Reporting Requirements*. Management agents for each Development are requested to submit regular accounting and 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.

  For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.

- *Training Sessions*. The Agency holds training sessions for new 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 of the Agency in Appendix C.

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 C Bonds in order that interest on the Series C 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 Development financed by the Series C Bonds, including the requirement that a certain portion of the Development be occupied or held for occupancy by low and moderate income persons and families, (2) provisions relating to the application of the proceeds of the Series C Bonds, (3) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Series C Bonds and other amounts, and (4) provisions which require that certain investment earnings related to the Series C Bonds be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series C Bonds to become includable 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 Development financed by the Series C Bonds, contain provisions (the "Tax Covenants"), including covenants of the Agency and the Owner, 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 C Bonds and the nature, use, cost and useful life of the Development, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the Series C Bonds is not includable 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 C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of the Development financed by the Series C 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 respective to individuals and other taxpayers on alternative minimum taxable income. In the opinion of Bond Counsel, interest on the Series C Bonds will be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and other taxpayers.

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 C Bonds is not includable 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 C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of the Development financed by the Series C Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Code. Interest on the Series C Bonds is includable in income for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Series C Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain social security and railroad retirement benefits to take interest on the Series C Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Series C Bonds, may be subject to taxation under Section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series C Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates and trusts. Indebtedness may be allocated to the Series C Bonds for this purpose even though not directly traceable to the purchase of the Series C Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Series C Bonds. In the case of a financial institution, no deduction is allowed under the Code for that portion of the holder's interest expense which is allocable to interest on the Series C Bonds within the meaning of Section 265(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Series C Bonds that is received or accrued during the taxable year. Interest on the Series C Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code, and is included in net investment income of foreign insurance companies under Section 842(b) of the Code.

The market value and marketability of the Series C Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the Series C Bonds or by future reductions in income tax rates.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES C BONDS OR RECEIPT OF INTEREST ON THE SERIES C BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

Not "Bank Qualified" Bonds

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

Certain State Legislation

Minnesota Statutes, Section 289A.50, subdivision 10, includes a statement of legislative 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. To the knowledge of the Agency, courts in only two states have addressed whether a state's exemption of interest on its own bonds or those of its political subdivisions, but not of interest on the bonds of other states or their political subdivisions, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. A court in Ohio decided in 1994 that the Ohio law was not unconstitutional, but the Kentucky Court of Appeals held early in 2006 that the Kentucky law violated the Commerce Clause. The Agency cannot predict the likelihood that interest on the Series C Bonds would become taxable (for Minnesota income tax purposes) under Section 289A.50, subdivision 10.

LEGAL MATTERS

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

FINANCIAL ADVISOR

The Agency has appointed Caine Mitter & Associates Incorporated to serve as financial advisor to the Agency on matters related to the issuance of the Series C Bonds.

PLACEMENT OF SERIES C BONDS

The Agency has appointed RBC Dain Rauscher Inc., doing business under the trade name RBC Capital Markets, to serve as placement agent for the Series C Bonds. An institutional investor (the "Purchaser") has agreed to purchase the Series C Bonds from the Agency at a price of $4,060,000, subject to certain conditions set forth in a Contract of Purchase relating to the Series C Bonds entered into between the Agency and the Purchaser.

MISCELLANEOUS

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

The execution and delivery of this Placement Memorandum have been duly authorized by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

By /s/Timothy E. Marx
Commissioner

August 4, 2006.

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 C BONDS

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
June 30, 2006

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 06/30/06	Undisbursed Mortgage Amount	Development Reserves (1) As Of 06/30/06	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
ABBEY FIELD (4)	St. Francis	5.230	702,599		241,306	08/01/13	HAP	(A)	42	42
APPLEWOOD WEST	Duluth	7.050	646,382		302,976	02/01/12	HAP	05/06/11	42	42
BIRCHWOOD EAST	Virginia	6.750	841,838		60,434	05/01/18	HAP	06/01/17	30	60
BIRMINGHAM	St. Paul	7.050	391,570		76,431	11/01/12	HAP	10/30/11	21	21
BLACKDUCK	Blackduck	7.500	401,805		298,699	12/01/17	HAP	10/01/16	30	30
BOARDWALK	Wayzata	6.500	1,290,494		260,344	12/01/19	HAP	10/23/18	77	77
BOSSEN PARK APTS	Minneapolis	6.680	2,572,305		232,029	02/01/30	LMIR/HRS	N/A	-	110
CAMBER HILL (4)	So. St. Paul	5.230	861,014		116,152	09/01/13	HAP	(A)	44	44
CANADIAN TERRACE	Minneapolis	7.550	269,085		90,305	09/01/16	MR	N/A	-	19
CASCADE	Fergus Falls	6.500	638,917		267,163	01/01/19	HAP	05/31/18	36	36
CEDAR HILLS (4)	Minnetonka	8.150	628,811		197,316	10/01/13	HAP	12/29/12	30	30
CEDAR TERRACE	St. Cloud	7.050	411,100		5,137	05/01/12	HAP	06/24/11	24	24
CEDAR VILLAS	Eagan	6.000	11,319,259		530,265	12/01/44	LMIR/HRS	N/A	21	104
CEDAR VILLAS	Eagan	6.000	553,827		See above	12/01/44	LMIR/HRS	See above	See above	See above
CENTENNIAL PLAZA	Le Center	7.500	422,424		180,342	12/01/17	HAP	12/10/16	40	40
CHICAGO AVE APT	Minneapolis	7.450	948,355		315,741	12/01/22	LMIR/HAP/FHA	(A)	60	60
CLIFF HILL	Burnsville	7.050	607,637		316,827	09/01/12	HAP	07/30/11	32	32
CLOVERDALE	St. Joseph	7.250	962,318		316,271	10/01/21	HAP	03/28/20	36	36
COLLEGE DRIVE (4)	Brainerd	8.150	470,029		426,817	10/01/13	HAP	11/29/12	24	24
COLONY APTS (3)	North Mankato	8.500	725,265		250,451	06/01/12	LMIR/HRS/236	06/01/12	120	120
COLONY APTS (3)	North Mankato	6.300	1,483,538		See above	05/01/30	LMIR/HRS	See above	See above	See above
COUNTRYSIDE T.H.	Fairmont	6.500	1,275,466		500,829	12/01/19	HAP	09/22/18	71	71
CROSSROADS	New Brighton	5.870	7,892,684		485,941	07/01/28	HAP	08/30/19	172	172
DEWEY PLACE/PINES	Foley	7.050	542,526		234,500	08/01/12	HAP	06/02/11	36	36
EASTGATE	Montevideo	7.250	1,167,828		152,311	09/01/21	HAP	07/31/20	46	46
EASTPORT	Mankato	6.500	1,651,150		595,311	10/01/19	HAP	08/16/18	78	78
EIGHTEENTH & CLINTON	Minneapolis	7.050	124,405		19,438	07/01/12	HAP	08/28/11	8	8
ELLIOT PARK APTS (4)	Minneapolis	8.150	448,917		73,743	12/01/13	HAP	01/31/13	30	30
ENDION SCHOOL (4)	Duluth	8.150	487,614		47,609	11/01/13	HAP	11/17/12	26	26
ETNA WOODS	St. Paul	7.050	338,083		12,333	02/01/12	HAP	07/01/11	20	20
EWING SQUARE	Brooklyn Center	7.250	611,826		127,767	01/01/20	HAP	01/02/19	23	23
FAIRVIEW APTS (3)	St. Peter	7.000	329,225		11,978	06/01/14	LMIR/HRS/236	06/01/14	48	48
FAIRVIEW APTS (3)	St. Peter	7.550	464,504		See above	05/01/30	LMIR/HRS	See above	See above	See above
FIFTEEN HUND PERKINS	Windom	7.250	1,115,738		190,505	03/01/21	HAP	11/27/19	48	48
FONTAINE TOWERS (4)	Rochester	8.150	3,896,335		821,874	12/01/15	HAP	06/30/13	151	151
FRANKLIN LANE	Anoka	7.350	431,629		See above	05/01/15	LMIR/FHA	See above	See above	See above
FRANKLIN LANE	Anoka	7.350	633,614		See above	05/01/27	LMIR	See above	See above	See above
FRANKLIN LANE (3)	Anoka	7.170	900,256		325,345	05/01/27	LMIR/FHA/236	05/01/15	66	66
GALWAY PLACE	Coon Rapids	7.050	604,580		310,505	01/01/12	HAP	05/28/11	36	36
GARDEN COURT	Winnebago	6.500	511,706		138,068	01/01/19	HAP	05/01/18	36	36
GENEVA VILLAGE	Oakdale	7.210	4,013,513		312,185	01/01/28	LMIR	N/A	-	175
GLENWOOD MANOR	Glenwood	7.050	543,645		310,859	01/01/12	HAP	05/27/11	36	36
GRAHEK APTS.	Ely	7.250	777,282		362,028	11/01/19	HAP	03/30/19	42	42
GREENWOOD APTS	Wadena	7.250	980,583		340,397	02/01/20	HAP	04/27/19	48	48
GREENWOOD PLACE	Faribault	7.250	1,281,417		190,912	10/01/20	HAP	06/05/19	51	51
GREYSOLON PLAZA	Duluth	6.500	4,500,507	1,699,493	262,050	10/01/11	HAP	10/22/10	150	150
GREYSOLON PLAZA-Bridge	Duluth	3.800	1,300,000		See above	01/01/08	HAP	See above	See above	See above
HARBOR POINT	Two Harbors	7.250	769,639		208,511	06/01/19	HAP	10/27/18	41	41
HEIGHTS MANOR	Columbia Heights	6.500	1,255,389		817,035	12/01/19	HAP	09/22/18	85	85
HENRY HILL	Granite Falls	7.250	478,920		884,773	05/01/10	HAP	10/19/09	54	54
HERITAGE HOUSE (4)	St. Paul	8.150	1,288,781		235,532	11/01/13	HAP	04/27/13	58	58
HERITAGE PRAIRIE	Wabasso	6.500	360,920		617,967	01/01/19	HAP	06/15/18	28	28
HERITAGE SQUARE	Hutchinson	7.550	466,139		164,248	11/01/16	MR	N/A	-	24
HICKORY RIDGE (4)	Maple Grove	8.150	761,884		70,119	03/01/15	HAP	01/28/13	32	32
HIGHLAND COMMONS	Arlington	6.500	652,847		121,557	10/01/19	HAP	01/09/19	41	41
HIGHWOOD HOMES	Prior Lake	7.250	448,917		222,052	11/01/11	HAP	09/29/10	36	36
HILLSIDE HOMES	Spring Valley	6.500	526,764		149,840	10/01/19	HAP	12/14/18	37	37
HILLSIDE MANOR EAST	Moose Lake	7.250	475,636		377,754	03/01/11	HAP	07/08/10	41	41
HILLSIDE TERRACE-LONG LAKE	Long Lake	6.720	1,909,473		315,887	08/01/34	LMIR/HRS	12/02/10	44	44
HILLSIDE TERRACE-MONTICELLO	Monticello	7.050	610,204		301,045	05/01/12	HAP	06/30/11	36	36

Footnotes and Program Type Legend are on the final page of this Appendix A.

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 06/30/06	Undisbursed Mortgage Amount	Development Reserves (1) As Of 06/30/06	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
HOLMES GREENWAY (4)	Minneapolis	5.230	1,285,980		951,723	10/01/13	HAP	(A)	50	50
HOMESTEAD APTS (3)	Mankato	7.000	885,390		141,784	06/01/14	LMIR/HRS/236	06/01/14	120	120
HOMESTEAD APTS (3)	Mankato	7.550	1,313,154		See above	05/01/30	LMIR/HRS	See above	See above	See above
HOPKINS VILLAGE (3)	Hopkins	7.120	2,279,487		607,612	09/01/24	LMIR/FHA/236	09/01/12	161	161
HOPKINS VILLAGE (3)	Hopkins	5.200	902,391		See above	09/01/24	LMIR/FHA	See above	See above	See above
HOPKINS VILLAGE (3)	Hopkins	5.200	364,957		See above	09/01/24	LMIR	See above	See above	See above
HUNTERS RIDGE	Minnetonka	6.500	2,450,818		693,248	08/01/21	HAP	09/04/20	25	123
INNSBRUCK (4)	Rochester	8.150	841,230		216,205	10/01/13	HAP	10/15/12	40	40
JEFFERSON SQUARE	Northfield	7.250	659,600		282,127	08/01/11	HAP	07/01/10	50	50
KALEVA	New York Mills	7.250	247,967		224,077	11/01/10	HAP	11/02/09	30	30
KENTUCKY LANE	Crystal	7.290	2,756,911		See rhfb	08/01/31	LMIR/HRS	N/A	-	67
KIMBERLY MEADOWS	Plymouth	7.050	743,203		366,463	10/01/12	HAP	08/31/11	39	39
KINGSWAY (4)	LeSueur	8.150	461,841		81,790	10/01/13	HAP	10/26/12	24	24
LAKE CRYSTAL	Lake Crystal	7.250	975,587		522,184	03/01/21	HAP	06/12/19	43	43
LANESBORO HTS. (4)	Elk River	8.150	594,022		297,614	10/01/13	HAP	09/28/12	30	30
LARSON COMMONS	Cloquet	7.250	1,900,332		627,576	01/01/21	HAP	03/07/20	85	85
LINCOLN CENTER	Chisholm	7.250	562,476		428,266	03/01/12	HAP	12/15/10	41	41
LORING TOWERS APARTMENTS	Minneapolis	6.140	8,346,184		870,278	04/01/35	LMIR/HRS/236	(A)	186	230
MADISON APT. (4)	Minneapolis	8.150	909,362		93,559	05/01/14	HAP	02/15/13	51	51
MANITOU RIDGE (3)	White Bear Lake	6.630	4,238,642		245,261	03/01/33	LMIR/HRS/236	10/01/14	118	118
MAPLE GROVE ESTATES (4)	Hermantown	8.150	1,003,518		370,679	11/01/13	HAP	09/16/12	48	48
MAPLE KNOLL	Maplewood	7.050	1,138,492		229,968	01/01/13	HAP	10/15/11	57	57
MAPLE RIDGE	Alexandria	6.500	836,405		79,862	01/01/21	HAP	07/31/18	40	40
MARSHALL AVE T.H.	St. Paul	7.050	194,069		31,043	08/01/12	HAP	10/08/11	12	12
MARSHALL SQUARE APTS	Marshall	6.450	1,625,499		160,437	02/01/36	LMIR/HRS/HAP	08/24/05	90	90
MARYLAND HOUSE	Minneapolis	7.250	2,240,794		698,406	01/01/22	HAP	01/08/21	79	79
MATTHEWS PARK	Minneapolis	7.500	384,844		186,094	12/01/17	HAP	09/28/16	24	24
MEDLEY PARK (4)	Golden Valley	8.150	637,368		203,974	03/01/14	HAP	12/01/12	30	30
MERIDIAN APTS	Duluth	6.500	674,795		333,145	05/01/19	HAP	07/20/18	39	39
MILACA PARK	Milaca	7.250	1,934,249		133,769	03/01/22	HAP	11/14/20	71	71
MILL POND VIEW	Pelican Rapids	7.250	1,432,235		1,062,062	09/01/20	HAP	09/20/19	66	66
MILLIE BENEKE	Glencoe	6.500	565,992		158,164	08/01/19	HAP	08/07/18	41	41
MILLPOND APTS	New Prague	7.050	775,850		372,723	09/01/20	HAP	08/14/11	44	44
MISSION OAKS (4)	Plymouth	8.150	551,759		314,055	02/01/14	HAP	05/27/13	26	26
MORGAN PARK (4)	Duluth	8.150	557,849		87,433	09/01/13	HAP	08/31/12	24	24
MOWER COUNTY	LeRoy	6.500	561,072		970,138	10/01/20	HAP	06/30/19	30	30
MUNGER TERRACE	Duluth	7.250	1,110,472		133,954	08/01/20	HAP	01/24/19	45	45
NEVADA SQUARE	Benson	7.250	916,703		382,935	04/01/20	HAP	03/30/19	40	40
NORTH MORA	Mora	7.250	804,382		14,141	05/01/21	HAP	12/06/17	35	35
NORTH STAR	Roseau	7.250	974,366		395,862	02/01/20	HAP	05/14/19	51	51
NORTHGATE WOODS	Blaine	7.250	1,959,631		499,441	07/01/21	HAP	08/29/20	75	75
NORTHWOOD COMMONS	Baudette	6.500	429,949		269,873	05/01/19	HAP	12/19/18	32	32
OAK HAVEN (4)	Minneapolis	8.150	205,584		67,037	02/01/13	HAP	12/21/12	10	10
OAKLAND SQUARE	Minneapolis	7.050	249,489		112,988	07/01/16	HAP	11/30/14	31	31
OAKWOOD HOMES	Karlstad	7.250	263,229		40,372	12/01/21	HAP	03/12/20	45	45
OAKWOOD HOMES	Karlstad	0.000	361,479		See above	See above	HAP	03/12/20	See above	See above
OKABENA	Worthington	7.250	990,729		458,448	07/01/19	HAP	11/30/18	60	60
OTTERKILL GARDEN	Bagley	7.500	407,142		110,932	02/01/18	HAP	05/01/17	30	30
PARK HAVEN (3)	Brooklyn Park	8.020	2,016,669		257,377	01/01/25	LMIR/FHA/236	01/01/13	174	174
PARK HAVEN (3)	Brooklyn Park	4.300	526,460		See above	01/01/13	LMIR/FHA	See above	See above	See above
PARK MANOR	Detroit Lakes	7.250	1,933,814		1,593,467	08/01/20	HAP	05/18/19	97	97
PARK VIEW TERRACE-M	Moorhead	7.500	1,677,122		1,159,099	12/01/17	HAP	05/15/17	121	121
PENNEL PARK APARTMENTS	Duluth	6.200	2,967,556		250,191	07/01/35	LMIR/HRS	07/01/35	100	101
PINE MANOR	Ely	7.250	381,781		67,673	06/01/11	HAP	07/27/10	30	30
PINE RIDGE	Grand Rapids	5.750	1,290,874		719,743	11/01/18	HAP	02/15/18	60	100
PRAIRIE ESTATES	Inver Grove Heigl	7.250	1,105,576		377,587	02/01/22	HAP	11/21/20	40	40
PRINCETON	Princeton	7.250	897,836		459,469	04/01/20	HAP	04/12/19	48	48
RED PINE ESTATE	Bemidji	7.250	1,034,737		683,998	08/01/11	HAP	08/29/10	86	86
RIPPLE RIVER	Aitkin	7.050	588,500		74,586	07/01/13	HAP	11/11/11	32	32
RIVER BEND	Fergus Falls	7.250	1,452,665		1,378,320	08/01/12	HAP	10/31/10	100	100
RIVERSIDE MANOR	Dawson	7.250	549,164		145,543	09/01/20	HAP	11/30/19	24	24
RIVERSIDE TERRACE	Thief River Falls	7.250	669,970		460,241	05/01/11	HAP	05/02/10	66	66
RIVERVIEW APTS	Appleton	6.500	518,479		431,025	12/01/19	HAP	10/13/18	37	37
RIVERVIEW MANOR	Floodwood	7.250	632,092		393,720	01/01/20	HAP	04/13/19	35	35
ROCK MANOR (4)	Luverne	8.150	434,158		8,560	02/01/14	HAP	10/27/12	24	24

Footnotes and Program Type Legend are on the final page of this Appendix A.

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 06/30/06	Undisbursed Mortgage Amount	Development Reserves (1) As Of 06/30/06	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
ROSEMOUNT PLAZA (4)	Rosemount	8.150	892,606		335,796	12/01/13	HAP	01/21/13	39	39
ROSEMOUNT TOWNHOUSES	Rosemount	7.250	702,800		32,422	10/01/21	FHA	(A)	28	28
ROSEVILLE SENIORS	Roseville	6.500	1,920,792		754,208	02/01/19	HAP	09/21/18	127	127
RUSH RIVERVIEW (4)	Rush City	8.150	469,491		130,209	10/01/13	HAP	11/30/12	24	24
RUSTIC CREEK	Two Harbors	7.050	854,595		121,067	02/01/13	HAP	12/07/11	40	40
SAHLMAN EAST	Cloquet	7.250	476,334		189,229	05/01/11	HAP	07/01/10	36	36
SHIELDS PLAZA	North Branch	6.500	713,101		212,622	04/01/18	HAP	04/12/18	49	49
SOUTH PARK MANOR	Dodge Center	7.250	1,010,331		1,897	08/01/13	HAP	09/12/20	37	37
SOUTHVIEW TERRACE	Hibbing	6.750	1,887,155		252,004	06/01/18	HAP	08/01/17	43	145
SUNRISE ESTATES	Jackson	7.250	520,753		83,809	12/01/11	HAP	10/30/10	40	40
SUNRISE MANOR	Sleepy Eye	7.050	530,315		62,934	05/01/12	HAP	10/01/11	32	32
SUNRISE MEADOW	St. Peter	6.500	1,264,838		259,646	05/01/19	HAP	06/01/18	63	63
THIRTYONE HUND FOURTH AVENUE	Minneapolis	7.500	108,689		27,444	01/01/24	LMIR	N/A	-	10
TODD 27	Long Prairie	7.250	881,351		76,861	04/01/21	HAP	06/25/20	44	44
TOWN SQUARE	East Grand Forks	7.250	1,968,023		438,008	12/01/21	HAP	10/08/19	81	81
VADNAIS HIGHLANDS	Vadnais Heights	6.600	1,759,256		161,812	03/01/34	MIR/HRS/HAF	(A)	35	35
VALLEY VIEW MANOR	Ada	6.500	511,511		719,531	04/01/19	HAP	06/28/18	40	40
VALLEYVIEW COMMONS	Mahnomen	6.500	424,561		798,656	04/01/19	HAP	10/13/18	32	32
VILLAGE TH	Chaska	7.250	741,593		269,879	02/01/22	HAP	02/01/21	28	28
WALNUT PLACE	Rockford	7.050	537,642		182,720	04/01/12	HAP	07/21/11	30	30
WARROAD	Warroad	7.250	826,741		16,925	12/01/21	HAP	12/17/20	30	30
WASHINGTON SQUARE	White Bear Lake	7.250	1,618,643		412,087	03/01/21	HAP	05/24/19	81	81
WAYBURY APARTMENTS	Carver	6.350	4,005,678	675,322	188,615	08/01/37	LMIR	10/01/08	114	114
WEST FALLS ESTATES	Interanational Fal	7.250	1,123,796		404,359	04/01/12	HAP	01/08/11	80	80
WESTFALLS-R.W. FALL	Redwood Falls	7.050	700,580		337,417	11/01/12	HAP	10/01/11	40	40
WESTGATE-GAYLORD #007108	Gaylord	6.500	390,652		121,992	03/01/19	HAP	07/01/18	31	31
WESTGATE-HIBBING	Hibbing	7.500	969,177		133,208	08/01/13	HAP	11/24/16	30	100
WESTGATE-HIBBING	Hibbing	0.000	1,247,500		See above	08/01/13	HAP	11/24/16	See above	See above
WESTGATE-NEW PRAGUE	New Prague	7.050	760,413		150,497	05/01/22	HAP	07/15/11	37	37
WHISPERING PINES	Caledonia	6.500	571,059		167,392	09/01/19	HAP	12/14/18	37	37
WHITTIER COOP	Minneapolis	7.250	775,026		52,989	10/01/18	FHA	(A)	45	45
WHITTIER TOWNHOMES (4)	Minneapolis	8.150	225,832		34,253	10/01/13	HAP	09/30/12	12	12
WILKINS TOWNHOMES (4)	St. Paul	8.150	416,205		227,179	01/01/13	HAP	12/02/12	23	23
WIMBLEDON GREEN (4)	St. Cloud	8.150	1,016,169		428,516	01/01/15	HAP	02/25/13	45	45
WOMENS ADVOCATES - 8	St. Paul	7.050	104,249		221,618	09/01/12	HAP	07/02/21	12	15
WOMENS ADVOCATES - 8	St. Paul	7.250	39,821		See above	09/01/12	HAP	07/02/21	See above	See above
WOODCREST MANOR	Mora	7.250	861,825		167,152	08/01/21	HAP	03/07/20	42	42
WOODLAND GARDEN	Duluth	7.250	1,172,247		384,573	01/01/20	HAP	06/15/19	60	60
WOODLAND PARK APTS (3)	St. Cloud	7.290	1,752,146		182,818	12/01/31	LMIR/HRS/236	11/01/15	86	86
WOODMOUNT	Cottage Grove	7.250	1,297,671		583,903	12/01/21	FHA	(A)	50	50
WYNDMARK	Rochester	7.550	1,408,135		286,527	03/01/17	MR	N/A	-	62
YORKDALE	Edina	7.250	2,017,453		178,732	05/01/20	HAP	01/08/19	90	90
YORKDALE	Edina	9.000	3,934,522		See above	05/01/20	HAP	See above	See above	See above
			$ 194,575,327	$ 2,374,815	$ 47,577,621				7,599	8,537

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

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance As Of 06/30/06	Undisbursed Mortgage Amount	Development Reserves (1) As Of 06/30/06	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
116,118,120 S HOLMES	Shakopee	9.500	104,788		1,121	03/01/19	ARM	N/A	-	7
380-400 W LARPENTEUR	St. Paul	9.750	350,422		143,037	11/01/21	ARM	N/A	-	34
500 S. 2ND AVE.	Mankato	8.500	422,037		34,742	07/01/20	ARM	N/A	-	38
700-716 SELBY	St. Paul	9.500	302,097		56,055	10/01/20	ARM	N/A	-	38
830 13TH ST	St. Cloud	8.500	909,471		11,326	02/01/21	ARM	N/A	-	48
924 WASHINGTON	Bemidji	9.500	50,453		6,445	08/01/19	ARM	N/A	-	8
APOLLO APTS	Hutchinson	3.500	17,062		57,084	12/01/11	LMIR	N/A	-	10
CARRIAGE HOUSE-MOORH	Moorhead	6.500	822,640		59,574	07/01/22	MR	N/A	-	36
CHESTER TERRACE	Duluth	7.500	488,371		61,021	02/01/18	ARM	N/A	-	43
CLIFTON	Shakopee	7.250	1,491,225		388,569	03/01/21	HPA	11/19/19	56	56
DELTON MANOR	Bemidji	6.750	533,128		341,026	12/01/16	236	12/01/16	60	60
DOVER HILL	Golden Valley	6.750	3,194,153		2,019,679	12/01/16	236	12/01/16	196	234
MESABA VILLAS	Duluth	6.750	343,067		96,493	12/01/16	236	12/01/16	27	27
MILWAUKEE AVE	Minneapolis	6.750	150,601		108,966	12/01/16	236	12/01/16	12	12
NEWPORT PONDS APTS	Newport	3.500	619,141		474,891	03/01/13	LMIR/HRS	N/A	-	51
NORTH RIDGE ESTATES	No. Mankato	7.500	794,794		64,297	07/01/22	MR	N/A	-	30
NORTHWOOD APTS.	Glencoe	6.750	390,188		2,475	12/01/16	236	12/01/16	31	39
OUTREACH SIX ACRES,	Winsted	7.650	196,579		56,755	01/01/27	DD	N/A	6	6
PACIFIC AVENUE	Argyle	7.500	70,452		25,692	01/01/17	MR	N/A	-	11
PARK SOUTH APTS	Alexandria	3.500	332,696		349,164	01/01/13	LMIR	N/A	-	48
PASSAGES	Minneapolis	5.000	301,870		49,897	09/01/21	MR	N/A	-	17
PHALEN SHORES	St. Paul	6.000	1,215,261		180,636	07/01/19	MR	N/A	-	53
PHALEN SHORES	St. Paul	7.500	688,507		See above	06/01/17	MR	See above	See above	See above
PHALEN SHORES	St. Paul	6.750	86,366		See above	02/01/20	MR	See above	See above	See above
QUEENS LANE APT	Anoka	3.500	343,263		324,924	01/01/12	LMIR	N/A	-	44
SHADYWAY	Wayzata	6.500	41,389		58,040	05/01/13	DD	N/A	6	6
SLATER SQUARE	Minneapolis	7.460	791,136		275,315	11/01/18	MR	N/A	-	163
SLATER SQUARE	Minneapolis	7.500	1,258,484		See above	11/01/18	Mr	See above	See above	See above
THEATRE HEIGHTS	Columbia Heights	3.500	30,660		222,278	10/01/11	LMIR	N/1	-	22
THREE LINKS	Northfield	6.750	652,718		263,558	12/01/16	236	12/01/16	32	80
VIKING TERRACE	Worthington	6.750	600,863		10,023	12/01/16	236	12/01/16	40	60
VIRGINIA ROTARY	Virginia	7.250	253,830		89,655	11/01/15	236/FHA	11/01/15	31	31
WATERFORD	Oakdale	7.090	612,033		28,430	10/01/13	HAP/FHA	(A)	31	31
WEBBER APTS	Minneapolis	3.500	354,862		138,077	02/01/13	LMIR/HRS	N/A	-	31
Subtotal			$ 18,814,607	$ -	$ 5,999,245				528	1,374
Grand Total			$ 213,389,934	$ 2,374,815	$ 53,576,866				8,127	9,911

DESCRIPTION OF MORTGAGE LOANS INTENDED TO BE FINANCED WITH PROCEEDS FROM THE RENTAL HOUSING BONDS 2006, SERIES C-1 and C-2

Development Name	Location	Estimated Mortgage Rate	Estimated Mortgage Amount	Estimated Development Reserves	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total Units
Larson Commons	Cloquet	6.71%	$2,600,000	$100,000	08/01/38	LMIR/HUD Risk Share	03/07/10	85	85
		5.50%	1,200,000	-	07/01/07	LMIR Bridge Loan			
			$3,800,000	$100,000					

Footnotes and Program Type Legend are on the final page of this Appendix A.

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) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.
(3) Refinancings of existing 236 projects: The original interest reduction payments have not been increased to cover the additional debt service and are for less than the maximum term of the mortgage.
(4) Housing Development Series 91A bonds were refunded and the remaining loans were transferred to RH 2002A. The savings from this refunding (FAF, i.e. Finance Adjustment Factor) will go to developments who are willing to extend their commitment to Section 8. If these developments agree to extend their obligation to remain as Section 8 subsidized housing for an additional period, they will receive their pro-rata share of savings to be used for project improvements and operating assistance. The developments that do not wish to exend their commitment to Section 8 subsidized housing will forego receipt of any savings. The Agency will use those savings as needed for other multifamily developments.

(A) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.

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

APPENDIX B
CERTAIN FINANCIAL STATEMENTS REGARDING THE RENTAL HOUSING FUND AND THE GENERAL RESERVE

APPENDIX B

CERTAIN FINANCIAL STATEMENTS REGARDING THE RENTAL HOUSING FUND AND THE GENERAL RESERVE

(Unaudited)

For the nine months ended March 31, 2006

As prepared by the Agency's Accounting Department

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF NET ASSETS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

	March 31, 2006 (unaudited)	
	General Reserve	Rental Housing
ASSETS		
Cash and cash equivalents……………………	$ 7,256	$ 52,698
Investment securities………………………….	112,648	42,460
Loans receivable, net………………………….	-	202,864
Interest receivable on loans…………………..	-	1,247
Interest receivable on investments…………..	997	789
Unamortized bond issuance costs…………..	-	2,592
Capital assets, net…………………………….	3,116	-
Other assets……………………………………	1,242	11
Total Assets…………………………………..	$ 125,259	$ 302,661
LIABILITIES AND NET ASSETS		
Liabilities:		
Bonds payable, net…………………………..	$ -	$ 199,765
Interest payable………………………………	-	1,507
Accounts payable and other liabilities……..	3,083	1,877
Interfund payable…………………………….	1,429	20,315
Funds held for others………………………..	82,959	-
Total liabilities……………………………….	87,471	223,464
Net Assets:		
Restricted by bond resolution……………….	-	79,197
Restricted by covenant………………………	34,672	-
Invested in capital assets……………………	3,116	-
Total net assets…………………………….	37,788	79,197
Total liabilities and net assets………………	$ 125,259	$ 302,661

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

	For Nine Months Ended March 31, 2006 (unaudited)	
	General Reserve	Rental Housing
Revenues:		
Interest earned on loans……………………….	$ -	$ 10,061
Interest earned on investments……………..	864	2,887
Administrative reimbursement………………	12,722	-
Fees earned…………………………………..	7,027	652
Unrealized losses on securities net……………………………………………	(86)	(1,612)
Total revenues……………………………….	20,527	11,988
Expenses:		
Interest…………………………………………	-	8,736
Loan administration and trustee fees………	-	131
Administrative reimbursement………………	-	1,389
Salaries and benefits…………………………	10,438	-
Other general operating……………………..	4,423	-
Provision for loan losses…………………….	-	(222)
Total expenses……………………………..	14,861	10,034
Revenues over expenses…………………	5,666	1,954
Other charges:		
Non-operating transfer of assets between funds……………………………….	(1,425)	167
Change in net assets…………………………	4,241	2,121
Total net assets, beginning of year…………	33,547	77,076
Total net assets, end of year…………………	$ 37,788	$ 79,197

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

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

	For Nine Months Ended March 31, 2006 (unaudited)	
	General Reserve	Rental Housing
Cash flows from operating activities:		
Principal repayments on loans……………..	$ -	$ 15,760
Investment in loans…………………………..	-	(5,766)
Interest received on loans……………………	-	11,096
Deferred revenue……………………………..	8	-
Fees and other income received…………..	6,955	652
Salaries, benefits and vendor payments…..	(14,396)	(140)
Administrative reimbursement from funds……………………………………	12,947	(1,384)
Interest transferred to funds held for others……………………………………	(2,252)	-
Deposits into funds held for others…………	24,907	-
Disbursements made from funds held for others……………………………………	(20,612)	-
Interfund transfers and other assets……….	(1,636)	-
Net cash provided by operating activities…………………………	5,921	20,218
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds………………	-	7,915
Principal repayment on bonds………………	-	(12,460)
Interest paid on bonds and notes………….	-	(9,124)
Financing costs paid related to bonds issued………………………………………..	-	(128)
Interest paid/received between funds………	-	(1,749)
Principal paid/received between funds……..	-	(309)
Agency contribution to program funds……..	-	167
Transfer of cash between funds……………	(3,438)	-
Net cash (used) by noncapital financing activities…………….	(3,438)	(15,688)
Cash flows from investing activities:		
Interest received on investments…………..	2,797	2,982
Proceeds from maturity, sale, or transfer of investment securities…………	26,655	11,390
Purchase of investment securities…………	(29,520)	(7,689)
Net cash (used) by investing activities…………………………..	(68)	6,683
Net decrease in cash and cash equivalents………………………	2,415	11,213
Cash and cash equivalents, net:		
Beginning of year……………………………	4,841	41,485
End of year……………………………………	$ 7,256	$ 52,698

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

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

	For Nine Months Ended March 31, 2006 (unaudited)	
	General Reserve	Rental Housing
Revenues over expenses……………………	$ 5,666	$ 1,954
Adjustments to reconcile revenues over expenses to net cash provided by operating activities:		
Amortization of discounts and fees on loans…………………………..	-	(80)
Depreciation………………………………….	579	
Realized losses on securities, net……………………………………………	1	10
Unrealized losses on securities, net……………………………………………	86	1,612
Provision for loan losses…………………….	-	(222)
Capitalized inerest on loans and real estate owned………………………………	-	(78)
Interest earned on investments……………..	(865)	(2,942)
Interest expense on bonds and notes……..	-	8,736
Changes in assets and liabilities:		
Decrease in loans receivable, excluding loans transferred between funds…………	-	9,994
Decrease in interest receivable on loans…………………………	-	42
Increase in arbitrage rebate liability……….	-	1,196
Decrease in deferred revenue………………	8	-
Interest transferred to funds held for others………………………………………..	(2,252)	-
Decrease in accounts payable…………….	(111)	(1)
(Decrease) increase in interfund payable, affecting operating activities only…………………………………………..	(147)	5
Increase in funds held for others…………	4,295	-
Other…………………………………………..	(1,339)	(8)
Total adjustments…………………………..	255	18,264
Net cash provided by operating activities………………………….	$ 5,921	$ 20,218

MINNESOTA HOUSING FINANCE AGENCY
CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at March 31, 2006:

Funds	Deposits	Money Market Funds	Investment Agreements	US Treasuries and Agencies	Combined Totals
General Reserve……………………………	$ (304)	$ 6,980	$ -	$ 580	$ 7,256
Rental Housing ………………………………	-	17,598	35,100	-	52,698

Investment Securities

Investment securities are recorded at fair market value and are composed of the following at March 31, 2006:

	Fair Market Value		
Funds	US Treasuries and Agencies at Amortized Costs	Unrealized Appreciation/ (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve……………………………	$ 114,128	$ (1,480)	$ 112,648
Rental Housing ………………………………	42,395	65	42,460

MINNESOTA HOUSING FINANCE AGENCY
LOANS RECEIVABLE, NET
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C including the notes to the financial statements.

Loans receivable, net at March 31, 2006 consist of:

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve………………………………	$ -	$ -	$ -	$ -
Rental Housing ……………….……………	211,602	(7,489)	(1,249)	202,864

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0% to 5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. These loans are excluded from the table above, as they are fully reserved.

MINNESOTA HOUSING FINANCE AGENCY
BONDS PAYABLE, NET
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 20065 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements by any opinion from them.

Bonds payable, net at March 31, 2006 are as follows:

Funds	Outstanding Principal	Unamortized Deferred Gain	Bonds Payable, Net
General Reserve………………………………	$ -	$ -	$ -
Rental Housing ………………………………	203,635	(3,870)	199,765

Beginning in fiscal year 2006, deferred financing costs are presented as Unamortized Bond Issuance costs, which is an asset on the statement of net assets.

BONDS PAYABLE, NET (continued)
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Rental Housing Fund (the Funds) for the period ended March 31, 2006 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2006. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix B should be read in connection with the audited financial statements included in Appendix C, including the notes to the financial statements.

Rental Housing

Outstanding Principal of bonds payble at December 31, 2005 are as follows:

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
1995 Series C-2	5.25% to 5.95%	2006-2015	38,210	12,660
1995 Series D	5.35% to 6.00%	2006-2022	234,590	15,600
1996 Series A	5.40% to 6.10%	2006-2027	2,820	2,475
1997 Series A	5.00% to 5.875%	2006-2028	4,750	4,185
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,260
1998 Series C	4.45% to 5.20%	2006-2029	2,865	2,550
1999 Series A	4.25% to 5.10%	2006-2024	4,275	3,640
1999 Series B	5.10% to 6.15%	2006-2025	3,160	2,540
2000 Series A	5.35% to 6.15%	2008-2030	9,290	7,385
2000 Series B	5.90%	2031	5,150	4,775
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,570
2002 Series A	2.40% to 4.05%	2006-2014	27,630	21,665
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,635
2003 Series B	4.15% to 5.08%	2013-2031	1,945	1,885
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,050
2004 Series A	2.20% to 5.00%	2006-2035	9,345	9,105
2004 Series B	4.00% to 4.85%	2014-2035	3,215	3,190
2004 Series C	2.05% to 4.40%	2006-2022	80,000	73,970
2005 Series A-1	4.25% to 4.85%	2014-2035	1,725	1,725
2005 Series A-2	2.60%	2006	350	350
2006 Series A-1	4.40% - 5.10%	2016-2047	6,615	6,615
2006 Series A-2	3.80%	2008	1,300	1,300
			$ 466,585	$ 203,635

APPENDIX C
FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2005

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

In my fiscal year 2004 report I concluded that we begin "the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute." I am pleased to report that this conclusion was well founded, as the Agency completed another fiscal year during which it built upon its record of solid financial performance, significantly advanced its mission for the people of Minnesota, and conducted and began responding to its quadrennial Risk Based Capital Study for the purpose of assuring its future financial strength and ability to carry out its housing program mission.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve. This was aided by a significant increase in volume in our mortgage revenue bond program and significantly lower mortgage loan prepayments as the interest rate environment stabilized. Net assets of the State Appropriated fund decreased as expected due to spending down appropriations accumulated from prior years.

The Agency continued to advance the goals set forth in our current strategic plan, which was completed in February, 2004:

- End long-term homelessness;
- Increase minority homeownership;
- Preserve strategically the existing affordable housing stock;
- Increase housing choices for low- and moderate-income workers; and
- Establish the MHFA as a housing partner of choice.

The business plan to end long-term homelessness was finalized in March, 2004, and the first year benchmark for 200 units to be financed and in process was exceeded by 74. A number of stakeholders are investing—programmatically and financially—in this ambitious effort, and progress continues to be made in spite of significant challenges.

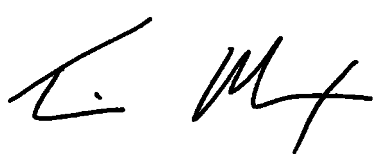
On June 30, 2005, a business plan to increase minority homeownership through the Emerging Markets Homeownership or EMHI was finalized and presented to the community. Development of the plan was lead by the Agency, the Fannie Mae Minnesota Partnership Office, and the Federal Reserve Bank of Minneapolis. Over 50 stakeholder groups, representing the Minnesota homeownership industry and the communities it serves, helped develop the plan, which sets a goal of 40,000 new emerging market Minnesota homeowners by 2012. Implementation is now underway.

Significant efforts and initiatives to advance the other goals are also in progress. Overall, there was continued strong demand for the Agency's programs. In the last program year (October 1, 2003 to September 30, 2004), the Agency continued its efforts to provide decent, safe, and affordable housing by serving nearly 56,000 households; 46% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000 and among tenants of Section 8 housing, 90% had incomes below $20,000 in 2004. The Agency provided $534 million of housing assistance in two main areas: First, $317 million for homeownership programs, primarily in the form of first mortgages and related entry cost assistance, and also for home improvement programs; and second, $217 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The decrease from the previous year for rental housing programs is largely due to several large loans having been closed in 2003 and reduced demand due to increased rental vacancy rates. The increase in housing assistance for homeownership programs over the previous year is attributable primarily to robust housing markets throughout the state, continuous availability of Agency first mortgage and home improvement resources, a strong network of lender delivery partners, and active program promotion and outreach. As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

The state of Minnesota's recently adopted biennial general fund budget and its capital budget reflect a continued commitment by the Governor and the Legislature to address the state's affordable housing needs. Just over $70.5 million was appropriated to the Agency for housing programs in 2006-07, a slight increase from the previous biennium, and a capital bonding appropriation of $12 million was provided to the Agency in support of the ending long-term homelessness initiative. In addition, the legislature took other action to support the state's housing needs including providing property tax relief to subsidized housing (a program to be administered by the Agency) and providing additional funding to other agencies which are working collaboratively with the Agency to implement the long-term homelessness initiative.

Finally, the Agency has worked with its financial advisor to complete the quadrennial Risk Based Capital Study. The study confirms that the Agency is able to meet its obligations to bondholders and maintain its current bond ratings. The study also projects that the Agency will continue to increase its net assets, but at a slower pace than in the past due to a number of market factors and policy decisions. Slower growth in net assets at a time when there are increasing housing program needs for these resources presents a challenge which the Agency must confront to maintain its financial strength and ability to address the housing needs of the future. The study makes a number of recommendations to address this issue, each of which will be pursued as the next two year affordable housing plan or program budget for federal fiscal years 2006-07 is developed and implemented.

The strength of an organization can, in part, be determined by its ability to anticipate challenges, understand them, and turn them into opportunities. The Risk Based Capital Study has allowed us to anticipate and understand the challenge of slower growth in our net worth. We are now about the business of identifying the opportunities this challenge will allow us to pursue. I am confident that I will be able to report progress on this matter, as well as continued progress in advancing the Agency's strategic goals, next year.



Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 15, 2005

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2005, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Larson, Allen, Weishair Co., LLP

Minneapolis, Minnesota
August 15, 2005

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (MHFA or the Agency) was created in 1971 by an Act of the Minnesota legislature. It 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 construction and rehabilitation of housing. MHFA 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. MHFA also receives funds appropriated by the federal government for similar purposes.

MHFA is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. The bonds and other obligations by law are not a debt of the State of Minnesota or any political subdivision thereof.

MHFA operates two program divisions — Multifamily and Minnesota Homes — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the Federal Low Income Tax Credit, Minnesota's Housing Trust Fund and MHFA's endowment funds and Alternative Loan Fund.

The members of MHFA (hereinafter referred to as the Board) consist of six members appointed at large by the Governor and one ex officio member (the State Auditor).

Independent Auditor Rotation

It is the Agency's normal business practice to rotate the engagement of its independent auditor each four years. During fiscal year 2005, the Agency solicited requests for proposals from qualified national and regional independent audit firms, resulting in the engagement of Larson, Allen, Weishair & Co., LLP for the next four years.

Risk Based Capital Study

Every four years the Agency conducts an extensive study of the credit worthiness and financial condition of its funds (not including State and Federal Appropriated accounts). The resulting report, known as the Risk Based Capital Study (Study), then becomes the basis for decisions about allocating resources and managing debt during the subsequent four years. The new Study, completed during fiscal year 2005, included a careful analysis of cash flows and other financial information to assure the appropriate matching of future liquidity to debt service obligations and affordable housing programs. Individual Agency funds were analyzed using expected-case economic assumptions and stress-case economic assumptions to determine their capital adequacy in various scenarios. The Study concludes that each individual fund is adequately capitalized to meet bond obligations and maintain credit ratings.

Discussion of Financial Statements

The financial section consists of three parts — independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of MHFA:

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of MHFA's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.

Discussion of Financial Statements (continued)

- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2004. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for MHFA operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). On the Statement of Revenues and Expenses for General Reserve, only the costs of administering MHFA programs are captured. The fees earned are generally related to the administration of the federal housing tax credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by MHFA.

Rental Housing

The majority of the loans presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially in the multifamily developments without project-based tenant subsidies. Maintaining asset quality remains a high priority for MHFA, so this portfolio continues to receive a significant amount of MHFA staff attention.

All of MHFA's new bond-financed multifamily loans are financed in Rental Housing. A portion of MHFA's Alternative Loan Fund is also available to finance multifamily developments.

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 Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2005.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2005.

The Homeownership Endowment Fund is a source of funding for entry cost housing assistance for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

Discussion of Individual Funds (continued)

The Multifamily Endowment 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, incentive loans and a program for leveraging investments in neighborhoods and communities.

The Housing Investment Fund is currently invested in investment grade housing loans, as defined by MHFA, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Housing Affordability Fund includes a housing administration contingency fund, consisting of cash and investment grade housing loans, as defined by MHFA, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This fund was historically the principal source of financing for MHFA's bond-financed homeownership programs. In fiscal year 2002 MHFA began to utilize the Residential Housing Finance Fund as its principal source of financing for these programs because of the increased flexibility afforded by that bond resolution. Certain Single Family funds in excess of bond resolution requirements are budgeted for and used for bond sale contributions in connection with bonds issued under the Residential Housing Finance Bonds resolution.

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee. Delinquency and foreclosure rates continue to track with the Minnesota Mortgage Bankers Association averages.

In addition to the uses described above, funds in excess of bond resolution requirements for each bond resolution described above are budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

State and Federal Appropriated Funds

The appropriated funds are maintained by MHFA for the purpose of receiving and disbursing monies legislatively appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged to support the bondholders or creditors of MHFA.

The State Appropriated Fund was established to account for funds received from the state legislature, which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs.

The Federal Appropriated Fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs.

General Overview

The following discussion is organized with two primary users in mind. The first primary user may be characterized with a focus on financial information particularly relevant from the perspective of bondholders and creditors of MHFA. The second primary user may be characterized with a focus on financial information particularly relevant to public funds appropriations, and the public policies those funds support.

The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated.

General Overview (continued)

MHFA financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The combined Agency-wide financial statements are provided to display a comprehensive view of all MHFA funds as required by accounting principles generally accepted in the United States of America. The Agency-wide financial statements reflect totals of similar accounts of various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency resolutions or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and creditors. General Reserve is created under the MHFA bond resolutions as part of the pledge of the general obligation of MHFA. MHFA covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes 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.

MHFA has no taxing power and neither the State of Minnesota nor any subdivision thereof is obligated to pay the principal or interest on debt and bonds issued by MHFA. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in MHFA to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to MHFA by the State of Minnesota or made available to MHFA from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

In addition to its audited annual financial statements, MHFA publishes quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on MHFA's web site at www.mhfa.state.mn.us.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)
Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total (1)		Change	Combined General Reserve and Bond Funds	
		2005	2004	$	2005	2004
Assets	Cash and Investments	1,389,770	1,335,512	54,258	1,314,505	1,249,343
	Loans receivable, Net	1,542,662	1,413,897	128,765	1,514,094	1,384,804
	Interest Receivable	11,151	11,334	(183)	10,826	10,820
	Total Assets	2,950,176	2,767,995	182,181	2,845,272	2,650,746
Liabilities	Bonds Payable	2,016,086	1,844,589	171,497	2,016,086	1,844,589
	Interest Payable	35,959	36,283	(324)	35,959	36,283
	Funds Held for Others	80,457	88,163	(7,706)	79,628	86,510
	Total Liabilities	2,149,821	1,986,907	162,914	2,148,080	1,983,768
Net Assets	Restricted by Bond Resolution	400,831	387,747	13,084	400,831	387,747
	Restricted by Covenant	293,597	277,457	16,140	293,597	277,457
	Restricted by Law	103,163	114,110	(10,947)	—	—
	Total Net Assets	800,355	781,088	19,267	697,192	666,978

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in $000's)

		Agency-wide Total (1)		Change	Combined General Reserve and Bond Funds	
		2005	2004	$	2005	2004
Revenues	Interest Earned	127,327	134,431	(7,104)	125,342	132,544
	Appropriations Received	195,611	189,913	5,698	—	—
	Fees and Reimbursements	10,930	10,344	586	26,624	23,232
	Total Revenues	352,642	338,726	13,916	154,240	146,754
Expenses	Interest Expense	79,863	89,514	(9,651)	79,863	89,514
	Appropriations Disbursed	173,842	180,098	(6,256)	—	—
	Fees and Reimbursements	5,297	5,339	(42)	17,451	14,834
	Payroll, Gen. & Admin.	20,842	20,310	532	19,817	19,165
	Loan Loss/Value Adjustments	37,087	48,894	(11,807)	6,895	4,722
	Total Expenses	333,375	357,818	(24,443)	124,026	128,235
	Revenues over Expenses	19,267	(19,092)	38,359	30,214	18,519
	Beginning Net Assets	781,088	800,180	(19,092)	666,978	648,459
	Ending Net Assets	800,355	781,088	19,267	697,192	666,978

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
65,162	75,265	86,169	(10,904)
129,290	28,568	29,093	(525)
6	325	514	(189)
194,526	104,904	117,249	(12,345)
171,497	—	—	—
(324)	—	—	—
(6,882)	829	1,653	(824)
164,312	1,741	3,139	(1,398)
13,084	—	—	—
16,140	—	—	—
—	103,163	114,110	(10,947)
30,214	103,163	114,110	(10,947)

Change $	Combined State and Federal Appropriations Funds 2005	2004	Change $
(7,202)	1,985	1,887	98
—	195,611	189,913	5,698
3,392	750	775	(25)
7,486	198,402	191,972	6,430
(9,651)	—	—	—
—	173,842	180,098	(6,256)
2,617	4,290	4,168	122
652	1,025	1,145	(120)
2,173	30,192	44,172	(13,980)
(4,209)	209,349	229,583	(20,234)
11,695	(10,947)	(37,611)	26,664
18,519	114,110	151,721	(37,611)
30,214	103,163	114,110	(10,947)

FINANCIAL HIGHLIGHTS

When reading the following financial highlights section referring to the General Reserve and bond funds, the reader is encouraged to review the Fund Financial Statements included as supplementary information in the 2005 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets in General Reserve and bond funds has been comparatively stable with loans receivable, investments, cash, cash equivalents, and interest receivable comprising the majority of assets. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending that supports a public mission objective. Loans receivable, net increased 9% to $1,514 million at June 30, 2005 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 5% to $1,315 million at June 30, 2005 due to proceeds of loan prepayments on hand and higher levels of debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased negligibly to $10.826 million at June 30, 2005.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable increased 9% to $2,016 million at June 30, 2005 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable decreased 1% to $35.959 million at June 30, 2005 as a result of lower average cost of bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 8% to $79.628 million at June 30, 2005 as multifamily loans were repaid and escrow balances disbursed.

Accounts payable and other liabilities increased 4% to $15.807 million at June 30, 2005 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

Interfund payable/receivable exists primarily as a result of pending administrative and program reimbursements among funds. Most administrative expenses are paid from General Reserve, with the bond funds and Appropriated Funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the

General Reserve and Bond Funds — Statement of Net Assets (continued)

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. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 5% to $697.192 million at June 30, 2005 as a result of consistent financial performance of the bond funds.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained adequate in fiscal year 2005, increasing from fiscal year 2004 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the affects of unrealized gains and losses on investments, both total revenues and total expenses decreased compared to the prior year. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, decreased during the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 5% to $125.342 million compared to the prior year, consistent with historically low interest rates. Loan interest decreased in fiscal year 2005 as new loan purchases and originations continue to be made at historically low interest rates. While investment yields increased slightly during the year, investment interest earned decreased in fiscal year 2005 as the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2004.

Administrative reimbursements to General Reserve from bond funds were $12.193 million in fiscal year 2005 compared to $9.532 million during the prior fiscal year. General Reserve also received reimbursements of $5.026 million from the State and Federal Appropriated funds to recover certain costs incurred to administer state and federal housing programs during fiscal year 2005 compared to $4.817 million during the prior fiscal year.

Other fee income to General Reserve and bond funds increased 6% to $9.405 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $2.274 million of unrealized gains on investment securities during fiscal year 2005, compared to $9.022 million of unrealized losses during the prior year, for a net increase of $11.296 million. As the investment securities neared maturity, market value more closely approximated par value resulting in a net unrealized gain in 2005 compared to a net unrealized loss in 2004.

Interest expense of the bond funds decreased 11% to $79.863 million compared to the prior year as a result of reduced interest rates on recently issued bonds.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 18% to $17.451 million compared to the prior year. The majority of the increase results from the administrative reimbursement rate in the bond funds being restored to its historical level in fiscal year 2005 after having been reduced in fiscal year 2004 when requirements were lower. It should be noted that $12.193 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 3% to $19.817 million compared to the prior year as operating expenses continue to increase modestly.

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $3.246 million to $5.738 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds decreased 48% to $1.157 million, consistent with management's assessment of loan portfolio risk.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements.

Combined revenues over expenses including unrealized gains and losses for General Reserve and the bond funds increased $11.695 million to $30.214 million compared to prior year. After considering the non-operating effects of $11.296 million of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are consistent with the prior year performance. This level of net revenues over expenses remains comparable within the range of performance of General Reserve and the bond funds in recent years. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds have increased 5% to $697.192 million as a result of revenues over expenses for fiscal year 2005. The net assets of General Reserve, Rental Housing, and Residential Housing Finance have increased while net assets of Single Family have decreased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of public funds by the State of Minnesota and funds made available to MHFA by the federal government for housing related policy purposes. The public policy of housing preservation and development is a long-term commitment that commonly requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the Appropriated Funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2005 combined balance decreased 13% to $75.265 million as a result of combined disbursements for programs, loans and expenses being in excess of combined appropriations received and revenues in the current year.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2005 State Appropriated Fund loans receivable decreased 2% to $28.568 million reflecting lower current year net loan program activity.

Interest receivable in Appropriated Funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on Appropriated Funds at June 30, 2005 decreased 37% to $.325 million primarily as a result of lower average investment balances.

Accounts payable and other liabilities represent amounts payable for HUD Section 236 interest reduction payments, Section 8 FA/FAF savings and accrued expenses for federal and state housing programs. The balance payable at June 30, 2005 was $1.512 million compared to $2.720 million at June 30, 2004. The reduction in accounts payable and other liabilities is largely attributable to reduced program activity.

For administrative convenience, certain State Appropriated Fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing

State and Federal Appropriated Funds — Statement of Net Assets (continued)

activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to MHFA. At June 30, 2005 the combined net interfund receivable was $.600 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, HUD's share of savings from certain debt refinancing activities, and the interest income earned on those unexpended funds. At June 30, 2005 the balance of funds held for the federal government was $.829 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $103.163 million as of June 30, 2005 compared to the prior period, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2005.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by the various agreements between MHFA and the State of Minnesota or agencies of the federal government. Unexpended appropriations proceeds are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $189.913 million at June 30, 2004 to $195.611 at June 30, 2005. Federal appropriations received increased by $6.510 million while state appropriations received decreased by $.812 million.

Interest income from investments increased slightly throughout the year as investment yields in general were above the previous historically low levels while investment assets decreased during the year. The combined interest income increased 4% to $1.914 million at June 30, 2005.

Loan interest income from State Appropriations loan assets continues to be minimal at $.071 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of $.750 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2005.

Unrealized losses on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized losses decreased from $.603 million at June 30, 2004 to an unrealized gain of $.056 million at June 30, 2005 as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve increased 3% to $4.251 million compared to the prior year, primarily as a result of increased expense to administer state appropriated programs. It should be noted that $4.251 million of the total administrative reimbursement revenue in General Reserve was interfund charges of the State Appropriated fund which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Combined appropriations disbursed decreased 3% to $173.842 million compared to prior year, reflecting reduced State Appropriations disbursed of $10.367 million and increased federal appropriations disbursed of $4.111 million to support housing policy objectives.

Reduced expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in less reductions in carrying value of certain loans. Net reductions of

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

carrying value decreased 32% to $30.077 million compared to the prior year, as a result of making fewer fully reserved deferred loans for low- and moderate-income housing.

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense decreased 10% to $1.025 million at June 30, 2005.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $10.947 million at June 30, 2005, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2005 long-term debt totaling $1,357 million and short-term debt totaling $659 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2005, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2005, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. MHFA is increasingly issuing variable-rate debt to provide below-market, fixed-rate mortgages for homeownership. Generally, interest-rate swaps are purchased to hedge against potential loss stemming from the difference between variable-rate liabilities and related fixed-rate assets. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm general obligation ratings for MHFA of AA+ and Aa1 respectively. MHFA's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. In addition to ongoing reporting to and communications with the bond rating services, periodically MHFA prepares a comprehensive study of the creditworthiness and financial strength of its funds (excluding the appropriated funds). Information obtained from the analysis is presented to the bond rating services and is used by MHFA staff to make decisions about management of assets and debt. (See Risk Based Capital Study.)

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority. During the year, MHFA completed the issuance/remarketing of 25 series of bonds aggregating to $799 million. This is compared to the combined issuance and remarketing of 26 series totaling $761 million the previous year. In recent years, MHFA has retired high rate debt when it becomes optionally

Significant Long-term Debt Activity (continued)

redeemable and resources were available. Bonds are issued as capital is needed for program purposes, as opportunities for economic refundings occur, and for preservation of bonding authority.

A total of $625 million in principal payments and $75 million of interest payments were made during the year. Of the total principal payments, $363 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

In a special session, the 2005 Minnesota Legislature adopted a biennial budget for FY 2006-2007 that appropriates monies to MHFA at a level nearly identical to the previous biennium. $700,000 more or about 1% increase to the base was appropriated for this biennium as compared to the previous biennium. The State faced another budget deficit, although considerably smaller than the previous biennium. State appropriations are used for specific programs and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

Questions and inquiries may be directed to either Mr. Mike LeVasseur or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2005 (with comparative totals for June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Assets	Cash and cash equivalents	$1,067,625	$ 950,429
	Investment securities	322,145	385,083
	Loans receivable, net	1,542,662	1,413,897
	Interest receivable on loans	7,523	7,395
	Interest receivable on investments	3,628	3,939
	Mortgage insurance claims receivable	922	763
	Real estate owned	905	1,593
	Capital assets, net	2,764	1,774
	Other assets	2,002	3,122
	Total assets	$2,950,176	$2,767,995
Liabilities	Bonds payable, net	$2,016,086	$1,844,589
	Interest payable	35,959	36,283
	Accounts payable and other liabilities	17,319	17,872
	Funds held for others	80,457	88,163
	Total liabilities	2,149,821	1,986,907
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	400,831	387,747
	Restricted by covenant	293,597	277,457
	Restricted by law	103,163	114,110
	Invested in capital assets	2,764	1,774
	Total net assets	800,355	781,088
	Total liabilities and net assets	$2,950,176	$2,767,995

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		2005 Agency-wide Total	2004 Agency-wide Total
Revenues	Interest earned on loans	$ 90,344	$ 95,338
	Interest earned on investments	36,983	39,093
	Appropriations received	195,611	189,913
	Administrative reimbursement	775	686
	Fees earned and other income	10,155	9,658
	Unrealized gains (losses) on securities	2,330	(9,625)
	Total revenues	336,198	325,063
Expenses	Interest	79,863	89,514
	Loan administration and trustee fees	5,297	5,339
	Salaries and benefits	13,693	13,131
	Other general operating	7,149	7,179
	Appropriations disbursed	173,842	180,098
	Reduction in carrying value of certain low interest rate deferred loans	35,815	46,467
	Provision for loan losses	1,272	2,427
	Total expenses	316,931	344,155
	Revenues over (under) expenses	19,267	(19,092)
	Change in net assets	19,267	(19,092)
Net Assets	Total net assets, beginning of year	781,088	800,180
	Total net assets, end of year	$800,355	$781,088

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2005 (with comparative totals for June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Restricted by law	—	—	—	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 6,648	$ 4,088	$1,067,625	$ 950,429
58,052	6,477	322,145	385,083
28,568	—	1,542,662	1,413,897
—	—	7,523	7,395
236	89	3,628	3,939
—	—	922	763
—	—	905	1,593
—	—	2,764	1,774
—	746	2,002	3,122
$93,504	$11,400	$2,950,176	$2,767,995
$ —	$ —	$2,016,086	$1,844,589
—	—	35,959	36,283
454	1,058	17,319	17,872
(816)	216	—	—
—	829	80,457	88,163
(362)	2,103	2,149,821	1,986,907
—	—	400,831	387,747
—	—	293,597	277,457
93,866	9,297	103,163	114,110
—	—	2,764	1,774
93,866	9,297	800,355	781,088
$93,504	$11,400	$2,950,176	$2,767,995

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Appropriations received	—	—	—	—
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over (under) expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 71	$ —	$ 90,344	$ 95,338
1,692	222	36,983	39,093
34,257	161,354	195,611	189,913
—	—	17,219	14,349
750	—	10,155	9,658
5	51	2,330	(9,625)
36,775	161,627	352,642	338,726
—	—	79,863	89,514
39	—	5,297	5,339
4,251	—	16,444	13,663
—	—	13,693	13,131
1,025	—	7,149	7,179
13,347	160,495	173,842	180,098
30,077	—	35,815	46,467
115	—	1,272	2,427
48,854	160,495	333,375	357,818
(12,079)	1,132	19,267	(19,092)
—	—	—	—
(12,079)	1,132	19,267	(19,092)
105,945	8,165	781,088	800,180
$ 93,866	$ 9,297	$800,355	$781,088

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve Account	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$ 8,328	$ —	$ 237,211	$ 368,968
(38,206)	—	(408,440)	(356,231)
71	—	89,900	92,078
(1,035)	—	(1,932)	(1,118)
1,000	—	10,400	9,513
(39)	—	(23,054)	(23,619)
34,257	161,831	196,088	189,434
(13,425)	(161,401)	(174,826)	(179,136)
(4,359)	—	772	664
—	(21)	(2,505)	(2,660)
—	1,634	32,079	36,615
—	(2,458)	(39,510)	(36,568)
739	—	(570)	(337)
(12,669)	(415)	(84,387)	97,603
—	—	799,018	764,426
—	—	(624,885)	(765,673)
—	—	(74,921)	(89,538)
—	—	(5,951)	(4,726)
—	—	—	—
—	—	—	—
—	—	(142)	(1,418)
—	—	—	—
—	—	—	—
—	—	93,119	(96,929)
—	—	(628)	(741)
1,558	319	35,852	40,734
—	—	6,993	6,593
86,200	—	304,196	386,841
(74,697)	—	(237,949)	(341,577)
13,061	319	108,464	91,850
392	(96)	117,196	92,524
6,256	4,184	950,429	857,905
$ 6,648	$ 4,088	$1,067,625	$ 950,429

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase (decrease) in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2005 Total	2004 Total
$(12,079)	$ 1,132	$ 19,267	$ (19,092)
—	—	(589)	(3,464)
—	—	555	481
—	—	(1,184)	(2,026)
(5)	(51)	(2,330)	9,625
114	—	1,271	2,427
30,077	—	35,815	46,467
—	—	(466)	(537)
(1,692)	(222)	(37,345)	(38,320)
—	—	79,863	89,514
(29,878)	—	(171,229)	12,737
—	—	(128)	637
—	—	2,285	1,358
—	(21)	(2,505)	(2,660)
(88)	(908)	17	1,476
632	2	374	—
—	(824)	(7,431)	47
250	477	(627)	(1,067)
(590)	(1,547)	(103,654)	116,695
$(12,669)	$ (415)	$ (84,387)	$ 97,603

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) 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 construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency 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 also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 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, which are included in this report, all of which conform with the authorizing legislation and bond resolutions:

General Reserve

General Reserve 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 escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs are maintained under the Rental Housing bond resolution. 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 Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. 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 a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

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

Nature of Business and Fund Structure (continued)

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, incentive loans and a program for leveraging investments in neighborhoods and communities.

Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance to deposit funds in either the Housing Investment Fund or Housing Affordability Fund, which were otherwise available to be transferred to General Reserve. 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, and is generally available to pay any debt obligation of the Agency.

The Alternative Loan Fund, Housing Investment Fund, is currently invested in investment grade loans, as defined by the Agency, and may also be used to advance funds to retire high rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade housing loans, as defined by the Agency, for future Agency administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans including zero-percent deferred loans, and other below market-rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

Bonds issued for homeownership programs have been issued under Single Family and Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. 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.

State Appropriated

The State Appropriated fund was established to account for funds received from the state legislature which are to be used for programs for low-to moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, innovative development and other housing-related program costs. The net assets of the State Appropriated fund are not available to support the bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low-to moderate-income persons and families in the form of no-interest deferred loans, grants, support to other non-profit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not available to support the bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

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

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

On March 27, 2003 GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures, which amends GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase*, to require disclosure of information covering four principal areas:

- Investment credit risk disclosures, including credit quality information issued by rating agencies.
- Interest rate disclosures that include investment maturity information, such as weighted average maturities or segmented time distribution.
- Interest rate sensitivity for investments highly sensitive to changes in interest rates (e.g., inverse floaters, enhanced variable-rate investments, and certain asset-backed securities).
- Foreign exchange exposures that would indicate the foreign investment's denomination.

GASB Statement No. 40 is effective for the Agency's fiscal year ending June 30, 2005. This GASB Statement was adopted by the Agency for the fiscal year ended June 30, 2005 and did not affect the Agency's net assets.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Under GASB Statement No. 42, a capital asset generally should be considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Additionally, GASB Statement No. 42 requires impaired capital assets that are idle to be disclosed, and those that will no longer be used by the government to be reported at the lower of carrying value or fair value. GASB Statement No. 42 also requires that an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset to be netted with the impairment loss, if any. The provisions of GASB Statement No. 42 are effective for the Agency's fiscal year ending June 30, 2006. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities

Summary of Significant Accounting Policies (continued)

(assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2007. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2004, the GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*. This statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement stipulates the basis for recognizing liability and expense for voluntary and involuntary employee termination benefits. The Statement is effective for the Agency's fiscal year ending June 30, 2006. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

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

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others.

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 allowances for loan losses are 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 and home improvement 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.

Summary of Significant Accounting Policies (continued)

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, 2005.

Premiums, discounts or fees resulting from the purchase or origination of mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Prepayments of mortgages are taken into account in the calculation of the amortization. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, or until they become 'real estate owned' (described below) for all other loans.

Mortgage Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

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. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred financing costs. Premiums, discounts and deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) 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 but not yet transferred to their respective funds.

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. 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 General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds pending disbursement to HUD, such as McKinney Act savings and Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Summary of Significant Accounting Policies (continued)

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2004 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs to the extent of interest earnings on the appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $775,000 are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $16,444,000 between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the Low Income Housing Tax Credits program, annual fees related to certain multifamily housing development loans and private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program. Fees earned and other income is recorded as it is earned.

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, 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 Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, periodic transfers to bond funds to fulfill bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2005 were $1.92 million and $3.60 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Related Party Transactions

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 the bonds. The advances continue to be repaid according to the original debt repayment schedule. The advances are recorded in Interfund Payable (Receivable).

Income Taxes

The Agency, as a component unit of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. Also included in this category is yield compliance liability owed to the United States Treasury.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), corporate obligations, Minnesota municipal bonds and other investments consistent with requirements of safety and liquidity that do not violate applicable provisions of the bond resolutions, state law or Board policy.

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2005 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Investment Agreements	Combined Totals
General Reserve	$ 1,379	$ 3,462	$ —	$ 4,841
Rental Housing	697	7,511	33,277	41,485
Residential Housing Finance	7,686	77,084	759,841	844,611
Single Family	5,288	9,212	151,452	165,952
State Appropriated	—	6,648	—	6,648
Federal Appropriated	969	3,119	—	4,088
Agency-wide Totals	$16,019	$107,036	$944,570	$1,067,625

Deposits may consist of commercial paper for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require 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 funds. As of June 30, 2005, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "Aa3" or higher. The individual investment agreements are unrated. 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.

Investment securities are recorded at fair market value and are composed of the following at June 30, 2005 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$111,122	$ (430)	$110,692
Rental Housing	46,163	1,677	47,840
Residential Housing Finance	83,114	1,262	84,376
Single Family	13,220	1,488	14,708
State Appropriated	58,261	(209)	58,052
Federal Appropriated	6,444	33	6,477
Agency-wide Totals	$318,324	$3,821	$322,145

Cash, Cash Equivalents and Investment Securities (continued)

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name. US agency investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. The municipal investments have a Standard & Poor's rating of AAA and a Moody's rating of Aaa.

Examining the maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $3.821 million), along with maturities of the Agency's debt securities, as of June 30, 2005, consist of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

		Maturities (In Years)				
Type	Par Value	Less than 0.5	0.5 - 1	1 - 2	2 - 10	10 or More
Deposits	$ 15,050	$ 15,050	$ —	$ —	$ —	$ —
Money market fund	107,036	107,036	—	—	—	—
Investment agreements	944,570	944,570	—	—	—	—
Commercial Paper	969	969	—	—	—	—
US Agencies	301,656	76,200	66,500	110,030	32,305	16,621
US Treasuries	18,385	—	—	—	—	18,385
Municipals	2,000	—	2,000	—	—	—
Agency-wide Totals	$1,389,666	$1,143,825	$68,500	$110,030	$32,305	$35,006

Investments in any one issuer that represent 5 percent or more of total investments as of June 30, 2005 are as follows (in thousands):

Investment Issuer	Amount
IXIS Funding Corporation, investment agreements	$327,240
Bayerische Landesbank, investment agreements	268,214
FSA Capital Management Services, investment agreements	155,615

The Agency maintains certain deposits and investments throughout the year that are subject to custodial credit risk. As of June 30, 2005, those amounts subject to this risk consists of the following:

	Amount
Deposits not covered by depository insurance and uncollateralized (including $107,036 in a money market fund)	$122,086
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	146,924
Agency-wide Total	$269,010

Net realized gain on sale of investment securities of $1.184 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2005 are as follows (in thousands):

Funds	Amount
Rental Housing	$20,753
Residential Housing Finance	19,377
Single Family	23,803
Totals	$63,933

Loans Receivable, Net

Loans receivable, net at June 30, 2005 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	220,946	(7,350)	(1,176)	212,420
Residential Housing Finance	905,182	(10,242)	(1,155)	893,785
Single Family	413,053	(103)	(5,061)	407,889
State Appropriated	29,603	(1,035)	—	28,568
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,568,784	$(18,730)	$(7,392)	$1,542,662

Substantially all loans in the table above are secured by first or second mortgages on the real property. Mortgage loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) are largely privately insured or insured by the FHA, VA, or RD. Insurance minimizes, but does not completely eliminate, loan losses. Mortgage loans in the Single Family fund are also protected by an insurance reserve fund.

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2005, the amount of these loans originated was $5.355 million in the Housing Affordability Fund, $4.012 million in the Homeownership Endowment Fund, $1.355 million in the Multifamily Endowment Fund and $34.478 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2005 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$101,657
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	6,494
Other homeownership loans, generally secured by a second mortgage	10,285
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	573,402
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	27,479
Multifamily, first mortgage loans	13,548
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	124,913
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	36,007
Residential Housing Finance Totals	$893,785

By statute, the Agency is limited to financing real estate located within the State of Minnesota. Collectibility depends on local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2005 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,170	$58	$1,228
Rental Housing	—	3	3
Residential Housing Finance	—	25	25
Single Family	—	—	—
State Appropriated	—	—	—
Federal Appropriated	746	—	746
Agency-wide Totals	$1,916	$86	$2,002

Bonds Payable, Net

Bonds payable, net at June 30, 2005 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 208,180	$ (2,697)	$ —	$(4,283)	$ 201,200
Residential Housing Finance	1,314,705	(5,750)	3,692	—	1,312,647
Single Family	507,615	(5,376)	—	—	502,239
Totals	$2,030,500	$(13,823)	$3,692	$(4,283)	$2,016,086

Summary of bond activity from June 30, 2004 to June 30, 2005 (in thousands):

Funds	June 20, 2004 Bonds Outstanding	Par Issued	Par Repaid	June 30, 2005 Bonds Outstanding
Rental Housing	$ 221,685	$ 85,290	$ 98,795	$ 208,180
Single Family	700,410	—	192,795	507,615
Residential Housing Finance	935,210	712,790	333,295	1,314,705
Totals	$1,857,305	$798,080	$624,885	$2,030,500

Outstanding principal of bonds payable at June 30, 2005 are as follows (in thousands):

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.10% to 5.95%	2005-2015	$ 38,210	$14,120
1995 Series D	5.25% to 6.00%	2005-2022	234,590	17,035
1996 Series A	5.30% to 6.10%	2005-2027	2,820	2,525
1997 Series A	4.95% to 5.875%	2005-2028	4,750	4,275
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,420
1998 Series C	4.40% to 5.20%	2005-2029	2,865	2,610
1999 Series A	4.15% to 5.10%	2005-2024	4,275	3,755
1999 Series B	5.00% to 6.15%	2005-2025	3,160	2,660
2000 Series A	5.35% to 6.15%	2008-2030	9,290	7,745
2000 Series B	5.90%	2031	5,150	4,880
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,650
2002 Series A	2.00% to 4.05%	2005-2014	27,630	23,500
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds (continued)				
2003 Series B	4.15% to 5.08%	2013-2031	$ 1,945	$ 1,915
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,080
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
2004 Series B	4.00% to 4.85%	2014-2035	3,215	3,215
2004 Series C	1.75% to 4.40%	2005-2022	80,000	80,000
2005 Series A-1	4.25% to 4.85%	2014-2035	1,725	1,725
2005 Series A-2	2.60%	2006	350	350
			458,770	208,180
Residential Housing Finance Bonds				
1995 Series A	5.05% to 5.85%	2005-2017	53,645	14,995
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,540
2002 Series B	3.85% to 5.65%	2005-2033	59,650	26,220
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.80% to 5.35%	2005-2033	25,760	24,030
2002 Series E	4.30% to 5.00%	2013-2020	12,805	11,520
2002 Series F	2.85% to 5.40%	2005-2032	52,195	44,675
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	39,045
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series H	1.62%	2005	38,610	19,445
2003 Series I	1.85% to 5.25%	2005-2035	25,000	24,280
2003 Series J	Variable	2033	25,000	24,860
2003 Series K-1	2.25%	2006	24,150	24,150
2003 Series K-2	2.25%	2006	20,045	20,045
2003 Series L-1	2.35%	2006	21,600	21,600
2003 Series L-1	2.35%	2006	111,515	111,515
2004 Series A	3.20% to 4.25%	2011-2018	22,480	21,575
2004 Series B	1.55% to 5.00%	2005-2033	94,620	89,590
2004 Series C	4.70%	2035	14,970	14,365
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,110
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,475
2004 Series F-1	2.45% to 4.50%	2006-2012	4,600	4,600
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	36,160
2004 Series G	Variable	2032	50,000	50,000
2004 Series H	1.62%	2005	41,510	41,510
2004 Series I	2.20%	2005	740	740
2004 Series J	2.30%	2005	56,540	56,540
2004 Series K	2.30%	2005	63,045	63,045
2005 Series A	2.40% to 4.125%	2007-2018	14,575	14,575
2005 Series B	4.75% to 5.00%	2030-2035	20,425	20,425
2005 Series C	Variable	2035	25,000	25,000
2005 Series D	2.90%	2006	54,010	54,010
2005 Series E	2.95%	2006	116,005	116,005
2005 Series F	2.95%	2006	29,985	29,985
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2005 Series H	3.00% to 5.00%	2007-2036	$ 51,050	$ 51,050
2005 Series I	Variable	2036	40,000	40,000
			1,433,335	1,314,705
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.55% to 5.95%	2005-2017	26,740	8,020
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.95% to 6.25%	2005-2015	16,365	8,310
1993 Series D	6.40%	2027	17,685	3,410
1993 Series F	6.25%	2020	9,500	1,580
1994 Series D	5.00%	2005	91,660	5,245
1994 Series E	4.80% to 5.90%	2005-2025	31,820	13,735
1994 Series T	5.40% to 6.125%	2005-2017	16,420	2,135
1995 Series B	6.40% to 6.55%	2017-2027	35,815	9,070
1995 Series D	6.40% to 6.45%	2015-2025	40,160	9,545
1995 Series G	7.25% to 8.05%	2005-2012	8,310	935
1995 Series H	6.40%	2027	19,240	3,700
1995 Series I	6.35%	2017-2018	7,450	1,435
1995 Series J	5.10% to 6.10%	2005-2019	16,065	2,920
1995 Series K	6.20%	2020	1,495	365
1995 Series L	6.25%	2027	12,950	3,155
1995 Series M	5.00% to 5.875%	2005-2017	32,025	8,710
1996 Series A	6.375%	2028	34,480	5,305
1996 Series B	6.35%	2018-2019	7,990	2,715
1996 Series C	5.40% to 6.10%	2005-2015	12,345	2,535
1996 Series D	5.35% to 6.00%	2005-2017	23,580	3,290
1996 Series E	6.25%	2022-2023	14,495	2,965
1996 Series F	6.30%	2026-2028	18,275	3,740
1996 Series G	6.25%	2026-2028	41,810	7,075
1996 Series H	6.00%	2021	13,865	2,350
1996 Series I	7.17% to 8.00%	2005-2017	14,325	1,955
1996 Series J	5.60%	2021	915	260
1996 Series K	4.50% to 5.40%	2005-2017	9,280	3,315
1997 Series A	5.20% to 5.95%	2005-2017	22,630	4,920
1997 Series B	6.20%	2021	9,180	2,800
1997 Series C	6.25%	2029	27,740	3,220
1997 Series D	5.80% to 5.85%	2019-2021	15,885	5,130
1997 Series E	5.90%	2029	23,495	4,385
1997 Series F	7.12% to 7.25%	2005-2007	11,620	600
1997 Series G	5.25% to 6.00%	2005-2018	40,260	4,125
1997 Series I	5.50%	2017	9,730	4,245
1997 Series K	5.75%	2026-2029	22,700	9,895
1997 Series L	6.65% to 6.80%	2005-2007	9,550	860
1998 Series A	4.65% to 5.20%	2008-2017	5,710	1,985
1998 Series B	4.65% to 5.50%	2005-2029	17,030	4,345
1998 Series C	4.45% to 5.25%	2005-2017	21,775	7,730
1998 Series E	5.40%	2025-2030	30,500	14,340
1998 Series F-1	4.55% to 5.45%	2005-2017	10,650	3,495

Bonds Payable, Net (continued)

Series	Interest rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1998 Series G-1	5.60%	2022	$ 6,150	$ 2,610
1998 Series H-1	5.65%	2031	14,885	6,315
1998 Series F-2	4.75% to 5.70%	2005-2017	11,385	6,005
1998 Series G-2	6.00%	2022	6,605	4,390
1998 Series H-2	6.05%	2031	15,965	10,620
1999 Series B	5.00% to 5.25%	2013-2020	18,865	10,165
1999 Series C	4.40% to 4.85%	2005-2024	21,960	6,310
1999 Series D	5.45%	2026-2031	23,975	12,945
1999 Series H	5.30% to 5.80%	2011-2021	16,350	7,790
1999 Series I	4.80% to 6.05%	2005-2031	34,700	12,400
1999 Series J	5.00%	2017	4,745	3,605
1999 Series K	3.40% to 5.35%	2005-2033	44,515	32,720
2000 Series A	5.25% to 5.85%	2009-2020	18,650	9,215
2000 Series B	5.25% to 5.55%	2005-2024	16,580	6,115
2000 Series C	6.10%	2030-2032	30,320	14,985
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	28,675
2000 Series H	4.10% to 5.50%	2005-2023	32,475	19,430
2000 Series I	4.90% to 5.80%	2005-2019	20,185	11,890
2000 Series J	5.40% to 5.90%	2023-2030	29,720	18,660
2001 Series A	5.35% to 5.45%	2017-2022	14,570	9,770
2001 Series B	4.30% to 5.675%	2005-2030	34,855	20,720
2001 Series E	2.00% to 4.90%	2006-2035	23,000	22,395
			1,389,555	507,615
Combined Totals			$3,281,660	$2,030,500

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 resulting primarily 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.

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2005, are as follows (in thousands):

Fiscal Year	Rental Housing Bonds Principal	Rental Housing Bonds Interest	Residential Housing Finance Bonds Principal	Residential Housing Finance Bonds Interest
2006	$11,260	$ 9,136	$501,465	$ 38,313
2007	11,325	8,778	187,315	29,465
2008	11,470	8,397	16,540	25,159
2009	12,040	7,978	11,950	24,665
2010	12,665	7,507	17,455	24,103
2011-2015	61,125	29,264	83,040	110,467
2016-2020	41,145	17,726	88,100	91,466
2021-2025	19,220	9,662	108,155	71,224
2026-2030	14,400	5,407	136,400	48,403
2031-2035	7,820	2,418	148,740	19,712
2036-2040	2,675	1,094	15,545	549
2041-2045	3,035	428	—	—

Fiscal Year	Single Family Mortgage Bonds Principal	Single Family Mortgage Bonds Interest	Combined Totals Principal	Combined Totals Interest
2006	$ 46,660	$ 26,983	$559,385	$ 74,432
2007	9,500	25,491	208,140	63,734
2008	9,565	25,013	37,575	58,570
2009	10,100	24,529	34,090	57,173
2010	11,195	23,992	41,315	55,601
2011-2015	76,455	109,076	220,620	248,808
2016-2020	92,020	85,009	221,265	194,201
2021-2025	108,505	57,175	235,880	138,061
2026-2030	110,965	24,737	261,765	78,547
2031-2035	32,020	2,867	188,580	24,996
2036-2040	630	15	18,850	1,658
2041-2045	—	—	3,035	428

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of the table above based on the mandatory tender dates of those bonds. This presentation does not alter the expectation that these bonds will be remarketed long-term at or prior to their mandatory tender date. COBs are secured by investment contracts that are structured to provide liquidity at each debt service payment date in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, and 2005 Series C and I accrue interest at a rate that changes each week. The rate is determined through a weekly remarketing of the outstanding bonds. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate as of June 30, 2005. As rates vary, variable rate bond interest payments will vary.

Bonds Payable, Net (continued)

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 respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2005, it is in compliance with those covenants and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

As of or after June 30, 2005, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with issuing variable rate mortgage revenue bonds. The intentions of the swaps were to create synthetic fixed rate debt at a lower interest rate than achievable from long-term fixed rate bonds and to achieve the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

Swap Payments and Associated Debt

Using rates as of June 30, 2005, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2006	$ 440	$ 3,398	$ 2,250	$ 6,088
2007	—	3,941	2,071	6,012
2008	—	3,941	1,791	5,732
2009	—	3,941	1,521	5,462
2010	—	3,941	1,257	5,198
2011-2015	—	19,706	2,740	22,446
2016-2020	4,655	19,604	(2,612)	21,647
2021-2025	39,955	17,447	(5,689)	51,713
2026-2030	63,885	11,007	(5,957)	68,935
2031-2035	52,445	3,211	(2,234)	53,422
2036-2040	3,480	61	(21)	3,520

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2005, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on approximately the 10-year anniversary date of the swaps. The Agency has the right to terminate swaps at fair value at any time.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$ 25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ (294,770)	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	24,860,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.24% per annum	(2,001,922)	July 1, 2033	Aa2**/ AA+***
RHFB 2004G	50,000,000	July 22, 2004	4.165%	64% of one-month LIBOR* plus 0.28% per annum	(3,582,471)	January 1, 2032	Aa2**/ AA-***
RHFB 2005C	25,000,000	March 2, 2005	3.587%	64% of one-month LIBOR* plus 0.28% per annum	(795,342)	January 1, 2035	Aa2**/ AA+***
RHFB 2005I	40,000,000	June 2, 2005	3.570%	64% of one-month LIBOR* plus 0.28% per annum	(2,024,920)	January 1, 2036	Aa1**/ AA-***
Total	$164,860,000				$(8,699,425)		

*London Interbank Offered Rate
**Moody's Investors Service, Inc.
***Standard & Poor's Inc.

Swap Valuation

The Fair Values presented above were estimated by the Agency's counterparties to the swaps. The valuation was determined by calculating the difference between the present values of each fixed cash flow to be paid and each floating cash flow to be received by the Agency based upon the current market yield curve. The present value factors for each cash flow are based on the implied zero coupon yield curve determined by current market rates. Additionally, the values of the call options are determined by calculating the present value of each predicted option outcome, whose interest rate prediction variance is determined by current market implied volatility. Together these calculations along with accrued interest at the fixed contractual interest rate determine the current fair value of the Agency's swap contracts. The Fair Values in the table above represent the termination payments that would have been due had the swaps been terminated as of June 30, 2005. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

The Agency's swap contracts are based upon the International Swap Dealers Association Master Agreement, which includes standard termination events. The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap under favorable financial terms. To reduce the Agency's termination risk, the swap contracts limit the counterparty's ability to terminate due to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

Interest Rate Swaps (continued)

Credit Risk

The terms of the swaps expose the Agency to potential credit risk with the counterparty upon the occurrence of a termination event. The fair value of a swap represents the Agency's current credit exposure to the counterparties with which the swaps were executed. As of June 30, 2005, the Agency did not have a net credit risk exposure to its counterparties because the combined swap positions had a negative net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2005.

Amortization Risk

The Agency may incur amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within the swaps to enable the Agency to closely manage the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate the swaps at market value at any time.

Basis Risk

The Agency incurs the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts from its swaps. This basis risk exists because the Agency pays a variable rate on its bonds based on the weekly tax-exempt BMA rate but under the terms of its swaps receives a variable rate based upon the one-month, taxable LIBOR rate. Basis risk will vary over time due to inter-market conditions. As of June 30, 2005, the interest rate on the Agency's variable rate debt was 2.30% to 2.35% per annum while the interest rate on the swaps was 2.252% to 2.271% per annum. In order to reduce the cumulative effects of basis risk, the variable rate determination structure for interest receipts within the swap is based upon a regression analysis of the long-term relationship between these two interest rate indices.

Tax Risk

The structure of the variable interest rate payments the Agency receives from its swap contracts are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents a risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it was economically unfeasible to transfer to the swap counterparty.

Defeased Debt

On November 17, 2004, the Agency issued $80,000,000 of Rental Housing Bonds, 2004 Series C that, together with an Agency contribution of $4.241 million, defeased, in part, previously issued Rental Housing Bonds, 1995 Series D. Consequently, the trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after that date. The reacquisition price exceeded the net carrying amount of the defeased debt by $4.726 million, which has been netted against the new debt and amortized over the remaining life of the new debt. The refunding of these bonds decreased total future debt service by approximately $12.774 million and resulted in a present value savings of approximately $8.114 million. At June 30, 2005, the outstanding principal of the defeased bonds was $0.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2005 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,273	$1,307	$ 3,580
Rental Housing	1,029	—	34	1,063
Residential Housing Finance	1,884	—	2,128	4,012
Single Family	7,030	—	122	7,152
State Appropriated	—	—	454	454
Federal Appropriated	—	—	1,058	1,058
Agency-wide Totals	$9,943	$2,273	$5,103	$17,319

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.683 million, in Residential Housing Finance is $1.579 million and in Single Family is $4.576 million, for a total of $6.838 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2005 consist of the following (in thousands):

	Funds	Due from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$ —	$ 5	$ 23	$ —	$ 2	$216	$ 246
	Rental Housing	58	—	—	—	—	—	58
	Residential Housing Finance	3,777	21,058	—	—	—	—	24,835
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	271	547	—	—	818
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$3,835	$21,063	$294	$547	$ 2	$216	$25,957

The $21.058 million due to Residential Housing Finance reflects advances made to Rental Housing in fiscal 1997 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Rental Housing. Repayment of the advances continues according to the original debt repayment schedule. The portion that will not be repaid within one year is $19.882 million.

All remaining balances resulted from the time lag between the dates that (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2005 consist of the following (in thousands):

Transfer to — Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve-administrative reimbursement	$—	$1,909	$6,050	$4,234	$4,359	$772	$17,324
Rental Housing	—	—	—	—	—	—	—
Residential Housing Finance	—	1,853	—	—	—	—	1,853
Single Family	—	—	—	—	—	—	—
State Appropriated	—	—	120	620	—	—	740
Federal Appropriated	—	580	—	—	—	—	580
Agency-wide Totals	$—	$4,342	$6,170	$4,854	$4,359	$772	$20,497

Interfund transfers recorded in Interfund Payable (Receivable) are used to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds, and to move payments from Rental Housing to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2005, consist of the following (in thousands):

Transfer to — Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
General Reserve	$ —	$—	$ —	$ —	$—	$—	$ —
Rental Housing	—	—	998	—	—	—	998
Residential Housing Finance	4,036	—	—	13,993	—	—	18,029
Single Family	—	—	—	—	—	—	—
State Appropriated	—	—	—	—	—	—	—
Federal Appropriated	—	—	—	—	—	—	—
Agency-wide Totals	$4,036	$—	$998	$13,993	$—	$—	$19,027

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve 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 General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from

Net Assets (continued)

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 investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile. The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2005 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$30,783	$ —	$ —	$30,783
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(155)	155	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	30,783	(155)	155	30,783
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) 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	70,742	—	—	70,742
Unrealized appreciation in fair market value of investments	—	240	—	240
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	70,742	240	—	70,982

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of 5% of bonds may 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	$191,581	$ —	$ —	$191,581
Unrealized appreciation in fair market value of investments		406	(155)	251
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	191,581	406	(155)	191,832
Agency-wide Total	$293,106	$491	$ —	$293,597

The Housing Endowment Fund (Pool 1) is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2005.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law.

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 who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for

Defined Benefit Pension Plan (continued)

each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The Agency's pension contribution to the System for the year ending June 30, 2005 was $444 thousand.

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	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/04	$7,884,984	$7,878,363	$ (6,621)	100.08%	$1,965,546	(0.34)%
07/01/03	7,757,292	7,830,671	73,379	99.06	2,009,975	3.65
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)

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*	Percent Contributed
2004	9.43%	$1,965,546	$82,102	$103,249	$78,622	76.15%
2003	8.34	2,009,975	83,850	83,782	80,399	95.96
2002	6.79	1,915,350	79,487	50,565	76,614	151.52

*This includes contributions from other sources (if applicable).

The information presented is as of July 1, 2004, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2004, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Risk Management

MHFA is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. MHFA manages these risks through state of Minnesota insurance plans including the state of Minnesota Risk Management Fund, a self-insurance fund, and through purchased insurance coverage.

Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for MHFA's needs. MHFA bears a $1,000 deductible per claim for the following coverage limits.

Real and Personal Property	Actual Cost
Business interruption/loss of use/extra expense	$25,000,000
Bodily injury and property damage per person	$ 300,000
Bodily injury and property damage per occurrence	$ 1,000,000
Faithful performance/commercial crime	$11,000,000
Employee dishonesty	$ 25,000

MHFA retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three years.

Risk Management (continued)

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

MHFA participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. MHFA workers compensation costs and claims have been negligible during the last three years.

Commitments

As of June 30, 2005, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	621
Residential Housing Finance	167,853
Single Family	—
State Appropriated	70,689
Federal Appropriated	25,412
Agency-wide Totals	$264,575

The Agency has cancelable lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2005 was $.969 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year				
	2006	2007	2008	2009	Total
Amount:	$967	$983	$913	$858	$3,721

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2005 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2005 there was no balance outstanding. The line of credit activity for the year ended June 30, 2005, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$0	$0	$0

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of 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 General Reserve's financial position or results of operations.

Subsequent Events

On June 9, 2005 the Board of the Agency approved series resolutions authorizing the issuance of $162,005,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2005 Series J, 2005 Series K, 2005 Series L and 2005 Series M were delivered on August 4, 2005.

The Agency called for early redemption subsequent to June 30, 2005 the following bonds:

Program Funds	Retirement Date	Par Value
Residential Housing Finance	July 1, 2005	$11,385,000
Single Family	July 1, 2005	31,740,000
Rental Housing	August 24, 2005	560,000

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2001 – 2005

		2001	2002	2003	2004	2005
Loans Receivable, net	Multifamily programs	$ 353,893	$ 337,087	$ 348,196	$ 362,870	$ 350,881
	Homeownership programs	1,228,105	1,212,436	1,009,937	932,777	1,061,556
	Home improvement programs	108,860	104,537	92,345	89,157	101,657
	Total	$1,690,858	$1,654,060	$1,450,478	$1,384,804	$1,514,094
Bonds Payable, net	Multifamily programs	$ 325,314	$ 267,739	$ 246,701	$ 216,928	201,200
	Homeownership programs	1,640,348	1,668,449	1,579,978	1,607,661	1,794,886
	Home improvement programs	—	—	20,000	20,000	20,000
	Total	$1,965,662	$1,936,188	$1,846,679	$1,844,589	$2,016,086
Loans purchased or originated during year	Multifamily programs	$ 14,143	$ 18,341	$ 58,607	$ 50,509	$ 20,056
	Homeownership programs	165,633	229,603	145,748	216,109	305,899
	Home improvement programs	40,027	37,281	35,391	34,981	44,279
	Total	$ 219,803	$ 285,225	$ 239,746	$ 301,599	$ 370,234
Net Assets	Total net assets	$ 582,674	$ 612,361	$ 648,459	$ 666,978	$ 697,192
	Percent of total assets	21.5%	22.6%	24.6%	25.2%	24.5%
Revenues over Expenses	Revenues over expenses for the year(1)	$ 42,023	$ 29,687	$ 36,098	$ 18,519	$ 30,214

Notes:

(1) Includes Administrative Reimbursement revenue received from State Appropriated fund of $5,618 in 2002, $4,497 in 2003, $4,131 in 2004, and $4,251 in 2005. This revenue item was included in revenues over expenses beginning in 2002 due to GASB 34 presentation requirements.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2005 (with comparative totals for June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,841	$ 41,485	$ 844,611	$165,952
	Investment securities	110,692	47,840	84,376	14,708
	Loans receivable, net	—	212,420	893,785	407,889
	Interest receivable on loans	—	1,289	3,956	2,278
	Interest receivable on investments	819	1,153	815	516
	Mortgage insurance claims receivable	—	—	485	437
	Real estate owned	—	—	289	616
	Capital assets, net	2,764	—	—	—
	Other assets	1,228	3	25	—
	Total assets	$120,344	$304,190	$1,828,342	$592,396
Liabilities	Bonds payable, net	$ —	$201,200	$1,312,647	$502,239
	Interest payable	—	3,846	18,334	13,779
	Accounts payable and other liabilities	3,580	1,063	4,012	7,152
	Interfund payable (receivable)	3,589	21,005	(24,541)	547
	Funds held for others	79,628	—	—	—
	Total liabilities	86,797	227,114	1,310,452	523,717
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	77,076	255,076	68,679
	Restricted by covenant	30,783	—	262,814	—
	Invested in capital assets	2,764	—	—	—
	Total net assets	33,547	77,076	517,890	68,679
	Total liabilities and net assets	$120,344	$304,190	$1,828,342	$592,396

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$1,056,889	$ 939,989
257,616	309,354
1,514,094	1,384,804
7,523	7,395
3,303	3,425
922	763
905	1,593
2,764	1,774
1,256	1,649
$2,845,272	$2,650,746
$2,016,086	$1,844,589
35,959	36,283
15,807	15,152
600	1,234
79,628	86,510
2,148,080	1,983,768
400,831	387,747
293,597	277,457
2,764	1,774
697,192	666,978
$2,845,272	$2,650,746

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$14,552	$ 44,910	$ 30,811
	Interest earned on investments	730	3,442	21,695	9,202
	Administrative reimbursement	17,219	—	—	—
	Fees earned and other income	8,092	892	421	—
	Unrealized gains (losses) on securities	(251)	1,449	177	899
	Total revenues	25,790	20,335	67,203	40,912
Expenses	Interest	—	12,836	34,935	32,092
	Loan administration and trustee fees	—	239	3,361	1,658
	Administrative reimbursement	—	1,909	6,050	4,234
	Salaries and benefits	13,693	—	—	—
	Other general operating	5,227	—	897	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(135)	5,873	—
	Provision for loan losses	—	(521)	1,667	11
	Total expenses	18,920	14,328	52,783	37,995
	Revenues over expenses	6,870	6,007	14,420	2,917
Other changes	Non-operating transfer of assets between funds	(3,438)	998	16,433	(13,993)
	Change in net assets	3,432	7,005	30,853	(11,076)
Net Assets	Total net assets, beginning of year	30,115	70,071	487,037	79,755
	Total net assets, end of year	$33,547	$77,076	$517,890	$ 68,679

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 90,273	$ 95,296
35,069	37,248
17,219	14,349
9,405	8,883
2,274	(9,022)
154,240	146,754
79,863	89,514
5,258	5,302
12,193	9,532
13,693	13,131
6,124	6,034
5,738	2,492
1,157	2,230
124,026	128,235
30,214	18,519
—	—
30,214	18,519
666,978	648,459
$697,192	$666,978

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

		General Reserve Account	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 22,977	$ 92,607	$ 113,299
	Investment in loans	—	(6,045)	(363,753)	(436)
	Interest received on loans	—	15,457	44,718	29,654
	Other operating	—	—	(897)	—
	Fees and other income received	8,057	892	451	—
	Salaries, benefits and vendor payments	(18,623)	(214)	(2,603)	(1,575)
	Administrative reimbursement from funds	17,324	(1,909)	(6,050)	(4,234)
	Interest transferred to funds held for others	(2,484)	—	—	—
	Deposits into funds held for others	30,445	—	—	—
	Disbursements made from funds held for others	(37,052)	—	—	—
	Interfund transfers and other assets	(1,057)	—	368	(620)
	Net cash provided (used) by operating activities	(3,390)	31,158	(235,159)	136,088
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	85,290	713,728	—
	Principal repayment on bonds	—	(98,795)	(333,295)	(192,795)
	Interest paid on bonds and notes	—	(11,339)	(27,580)	(36,002)
	Financing costs paid related to bonds issued	—	(3,053)	(2,898)	—
	Interest paid/received between funds	—	(1,635)	1,635	—
	Principal paid/received between funds	—	(218)	218	—
	Premium paid on redemption of bonds	—	—	—	(142)
	Agency contribution to program funds	—	188	13,805	(13,993)
	Transfer of cash between funds	(4,036)	810	3,226	—
	Net cash provided (used) by noncapital financing activities	(4,036)	(28,752)	368,839	(242,932)
Cash flows from investing activities	Investment in real estate owned	—	—	(95)	(533)
	Interest received on investments	3,566	3,539	19,655	7,215
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	1,558	5,435
	Proceeds from maturity, sale or transfer of investment securities	99,604	14,180	97,912	6,300
	Purchase of investment securities	(95,710)	(21,913)	(38,016)	(7,613)
	Net cash provided (used) by investing activities	7,460	(4,194)	81,014	10,804
	Net increase (decrease) in cash and cash equivalents	34	(1,788)	214,694	(96,040)
Cash and cash equivalents	Beginning of year	4,807	43,273	629,917	261,992
	End of year	$ 4,841	$ 41,485	$ 844,611	$ 165,952

2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
$ 228,883	$ 359,918
(370,234)	(301,599)
89,829	92,036
(897)	(252)
9,400	8,988
(23,015)	(23,321)
5,131	4,852
(2,484)	(2,649)
30,445	35,917
(37,052)	(35,751)
(1,309)	(463)
(71,303)	137,676
799,018	764,426
(624,885)	(765,673)
(74,921)	(89,538)
(5,951)	(4,726)
—	—
—	—
(142)	(1,418)
—	—
—	—
93,119	(96,929)
(628)	(741)
33,975	37,624
6,993	6,593
217,996	235,743
(163,252)	(225,311)
95,084	53,908
116,900	94,655
939,989	845,334
$1,056,889	$ 939,989

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2005 (with comparative totals for the year ended June 30, 2004)

Reconciliation of revenue over expenses to net cash provided (used) by operating activities

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over expenses	$ 6,870	$ 6,007	$ 14,420	$ 2,917
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(65)	1,000	(1,524)
Depreciation	555	—	—	—
Realized losses (gains) on sale of securities, net	9	—	(1,193)	—
Unrealized losses (gains) on securities, net	251	(1,449)	(177)	(899)
Provision for loan losses	—	(521)	1,667	11
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(135)	5,873	—
Capitalized interest on loans and real estate owned	—	(67)	(123)	(276)
Interest earned on investments	(739)	(3,438)	(21,548)	(9,706)
Interest expense on bonds and notes	—	12,836	34,935	32,092
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	16,932	(271,146)	112,863
Decrease (increase) in interest receivable on loans	—	408	(1,069)	533
Increase in arbitrage rebate liability	—	625	1,046	614
Interest transferred to funds held for others	(2,484)	—	—	—
Increase in accounts payable	124	20	791	78
Increase (decrease) in interfund payable, affecting operating activities only	479	—	(119)	(620)
Increase (decrease) in funds held for others	(6,607)	—	—	—
Other	(1,848)	5	484	5
Total	(10,260)	25,151	(249,579)	133,171
Net cash provided (used) by operating activities	$ (3,390)	$31,158	$(235,159)	$136,088

	2005 Total General Reserve and Bond Funds	2004 Total General Reserve and Bond Funds
	$ 30,214	$ 18,519
	(589)	(3,464)
	555	481
	(1,184)	(2,023)
	(2,274)	9,022
	1,157	2,230
	5,738	2,492
	(466)	(537)
	(35,431)	(36,478)
	79,863	89,514
	(141,351)	58,319
	(128)	637
	2,285	1,358
	(2,484)	(2,649)
	1,013	518
	(260)	(91)
	(6,607)	166
	(1,354)	(338)
	(101,517)	119,157
	$ (71,303)	$137,676

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Member

Marina Muñoz Lyon, Vice Chair
Member

The Honorable Patricia Anderson
Ex officio member
State Auditor, State of Minnesota

Lee Himle
Member

Betty Lou Berg
Member

Paul Gaston
Member

Joseph Johnson III
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
Caine Mitter & Associates

Underwriting Team
UBS Financial Services Inc.
Piper Jaffray & Co.
RBC Dain Rauscher Inc.

Certified Public Accountants
Larson, Allen, Weishair & Co., LLP

Location

The Minnesota Housing Finance Agency offices are located at 400 Sibley Street, Suite 300, St. Paul, Minnesota 55101-1998.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mhfa.state.mn.us

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

The Minnesota Housing Finance Agency does not discriminate on the basis of race, color, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.

APPENDIX D
SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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 ended June 30, 2007, 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 information on the Mortgage Loans and the Developments substantially similar to that found in Appendix A.

Any or all of the items listed above may be provided by reference to other documents, including Placement Memorandums 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 Placement Memorandum, 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 accounting principles generally accepted in the United States of America, 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 C 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 C 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 C 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, and assuming the Rule is applicable to the Series C Bonds.

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.

Alternative Filing Systems. To the extent Agency filings or notices are required to be made under this Disclosure Agreement, the Agency reserves the right to use www.DisclosureUSA.org currently maintained by the Municipal Advisory Council of Texas, or any similar system that is acceptable to the Securities and Exchange Commission.

APPENDIX E
SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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 Placement Memorandum (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 following conditions with respect to Prepayment exist:

(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.

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.

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.

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 is 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 F
BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for the Series C Bonds. The ownership of one fully registered Series C Bond for each maturity 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 C Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series C Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series C 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. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of beneficial ownership interests in the Series C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series C Bonds on DTC's records. The ownership interest of each actual purchaser of each Series C Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series C Bonds, except in the event that use of the Book-Entry System for the Series C Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series C Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series C Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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 C 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.

Conveyance 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 will be sent to DTC. If less than all of the Series C 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 Series C Bonds of such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to any Series C Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price and interest on the Series C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the issuer, the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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.

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 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 C Bonds (i) payments of principal of or interest and premium, if any, on the Series C Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series C Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Series C 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 Placement Memorandum. The current "Rules" applicable to DTC are on file with the Securities 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 C 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 C 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 C Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series C Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry System

DTC may discontinue its book entry services with respect to all the Series C 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 C Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of such Series C 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 C Bonds. In such event, the Series C Bonds are to be delivered as described in the Series Resolution.

APPENDIX G
OPINION OF BOND COUNSEL

FORM OF OPINION OF BOND COUNSEL

[To be dated the date of issuance of the Rental Housing Bonds, 2006 Series C-1 and Series C-2]

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Rental Housing Bonds, 2006 Series C-1 and Series C-2

Ladies and Gentlemen:

We have acted as bond counsel the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2006 Series C-1 and 2006 Series C-2, in the aggregate principal amount of $4,060,000 (the "Series C Bonds"), which are issuable only as fully registered bonds.

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

As bond counsel, 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 and supplemented (as so amended and supplemented, the "Bond Resolution"), and the Series Resolution, Resolution No. MHFA 06-40, adopted July 27, 2006 (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 C 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 existing law as of 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 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 C 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 federal or 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 C 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 C 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 C 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 C Bond for any period during which such Series C Bond is held by a person who is a "substantial user" of the Development financed by the Series C 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 C 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 C Bonds. All owners of Series C Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing the Series C Bonds.

Noncompliance by the Agency or the owner of the Development financed by the Series C 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 C Bonds.

It is to be understood that the rights of the holders of the Series C 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: ___________, 2006.

Respectfully yours,