NOTICE

$180,000,000
Minnesota Housing Finance Agency
$120,000,000 Residential Housing Finance Bonds, 2006 Series K (AMT)
$6,740,000 Residential Housing Finance Bonds, 2006 Series L (Non-AMT)
$35,260,000 Residential Housing Finance Bonds, 2006 Series M (AMT)
$18,000,000 Residential Housing Finance Bonds, 2006 Series N (Taxable)

Official Statement, dated October 13, 2006

The Official Statement, dated October 13, 2006, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 6.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 6.0 may cause the Official Statement that you view or print to differ from the Official Statement.

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

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

NEW ISSUE

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

$180,000,000
Minnesota Housing Finance Agency
$120,000,000 Residential Housing Finance Bonds, 2006 Series K (AMT)
$6,740,000 Residential Housing Finance Bonds, 2006 Series L (Non-AMT)
$35,260,000 Residential Housing Finance Bonds, 2006 Series M (AMT)
$18,000,000 Residential Housing Finance Bonds, 2006 Series N (Taxable)

Dated Date of Series Bonds: Date of Delivery **Due: As shown on inside front cover**

Tax Exemption	Interest on the 2006 Series K Bonds, the 2006 Series L Bonds, and the 2006 Series M 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 28-31 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to such Series Bonds. *Interest on the 2006 Series N Bonds is includable in gross income for purposes of federal income taxation and is includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes.*
Redemption	The 2006 Series L Bonds, the 2006 Series M Bonds and the 2006 Series N Bonds are subject to optional redemption and to special redemption as described on pages 11-15 herein. The 2006 Series L Bonds, the 2006 Series M Bonds and the 2006 Series N Bonds are subject to mandatory tender at par as described on pages 15-17 herein.
Security	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. *The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Series Bonds and the Series Bonds are not a debt of the State.* See "Security for the Bonds" on pages 17-19 herein.
Interest Payment Dates	January 1 and July 1, commencing January 1, 2007, and on any redemption date or mandatory tender date.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	October 26, 2006 through the facilities of DTC in New York, New York.
Bond Counsel	Dorsey & Whitney LLP, Minneapolis, Minnesota.
Underwriters' Counsel	Kutak Rock LLP, Atlanta, Georgia.
Trustee	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix E hereto.

The Series Bonds are offered, when, as and if issued, subject to withdrawal or modification of the offer without notice and to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, as to the validity and tax exemption of the Series Bonds.

UBS Investment Bank **RBC Capital Markets**

Wells Fargo Brokerage Services, LLC

The date of this Official Statement is October 13, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

2006 Series K Bonds (AMT)

$120,000,000 3.620% Bonds Due November 6, 2007 (CUSIP 60415NE81*)

Price of 2006 Series K Bonds — 100%

2006 Series L Bonds (Non-AMT)

$6,740,000 Serial Bonds

Due	Principal Amount	Interest Rate	CUSIP*	Due	Principal Amount	Interest Rate	CUSIP*
July 1, 2008	$610,000	3.450%	60415NE99	July 1, 2013	$780,000	3.750%	60415NF64
July 1, 2009	640,000	3.500%	60415NF23	July 1, 2014	820,000	3.850%	60415NF72
July 1, 2010	670,000	3.550%	60415NF31	July 1, 2015	860,000	3.900%	60415NF80
July 1, 2011	710,000	3.600%	60415NF49	July 1, 2016	910,000	3.950%	60415NF98
July 1, 2012	740,000	3.650%	60415NF56				

Price of 2006 Series L Serial Bonds — 100%

2006 Series M Bonds (AMT)

$4,425,000 4.625% Term Bonds Due July 1, 2021 at 100% (CUSIP 60415NG22*)
$5,770,000 4.800% Term Bonds Due July 1, 2026 at 100% (CUSIP 60415NG30*)
$7,460,000 4.850% Term Bonds Due July 1, 2031 at 100% (CUSIP 60415NG48*)
$6,000,000 5.750% Term Bonds Due January 1, 2037 at 107.311% (CUSIP 60415NG55*)
$11,605,000 4.875% Term Bonds Due July 1, 2037 at 100% (CUSIP 60415NG63*)

2006 Series N Bonds (Taxable)

$2,905,000 Serial Bonds

Due	Principal Amount	Interest Rate	CUSIP*	Due	Principal Amount	Interest Rate	CUSIP*
July 1, 2008	$260,000	5.230%	60415NG71	July 1, 2013	$335,000	5.410%	60415NH47
July 1, 2009	275,000	5.190%	60415NG89	July 1, 2014	355,000	5.460%	60415NH54
July 1, 2010	290,000	5.200%	60415NG97	July 1, 2015	375,000	5.490%	60415NH62
July 1, 2011	305,000	5.270%	60415NH21	July 1, 2016	390,000	5.530%	60415NH70
July 1, 2012	320,000	5.360%	60415NH39				

Price of 2006 Series N Serial Bonds — 100%

$15,095,000 5.760% Term Bonds Due January 1, 2037 at 100% (CUSIP 60415NH88*)

* CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the holder of the Series Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series Bonds or as indicated above.

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

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

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

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT
relating to
$180,000,000
Minnesota Housing Finance Agency
Residential Housing Finance Bonds,
2006 Series K, 2006 Series L, 2006 Series M, 2006 Series N, and 2006 Series N (Taxable)

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Residential Housing Finance Bonds, 2006 Series K (the "2006 Series K Bonds"), 2006 Series L (the "2006 Series L Bonds"), 2006 Series M (the "2006 Series M Bonds"), and 2006 Series N (Taxable) (the "2006 Series N Bonds") in connection with the offering and sale of such bonds by the Agency and for the information of all who may become initial holders of such bonds.

The 2006 Series K Bonds, the 2006 Series L Bonds, and the 2006 Series M Bonds are hereinafter collectively referred to as the "2006 Series KLM Bonds." The 2006 Series L Bonds, the 2006 Series M Bonds and the 2006 Series N Bonds are hereinafter collectively referred to as the "2006 Series LMN Bonds." The 2006 Series K Bonds and the 2006 Series LMN Bonds are hereinafter collectively referred to as the "Series Bonds."

The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, as further amended and supplemented (the "Bond Resolution"), and a series resolution of the Agency adopted on September 28, 2006 (the "Series Resolution"). (The Bond Resolution and the Series Resolution are herein sometimes called the "Resolutions.") The Residential Housing Finance Bonds now outstanding in the aggregate principal amount of $1,494,155,000 as of September 30, 2006 under the Bond Resolution (the "Outstanding Bonds") and any additional Residential Housing Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Series Bonds, will be equally and ratably secured and are herein sometimes called the "Bonds."

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

INTRODUCTION

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

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

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily 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 comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements included in Appendix A.

The Series Bonds are being issued to provide money for the Agency, from proceeds of the Series Bonds and from certain outstanding single family mortgage bonds refunded by the Series Bonds to be used, along with certain contributed funds of the Agency to continue its Program by purchasing Program Loans made by Lenders to low and moderate income persons for single family, owner-occupied housing within the State, by depositing certain amounts, if any, into the Debt Service Reserve Fund and by paying certain costs of issuance of the Series Bonds. No proceeds of the 2006 Series K Bonds will be disbursed to purchase Program Loans nor will any amounts be deposited into the Debt Service Reserve Fund and Insurance Reserve Fund with respect to the 2006 Series K Bonds until all or a portion of the 2006 Series K Bonds are refunded on a long-term basis. The Agency may acquire certain Program Loans from other funds and reimburse such funds from proceeds of the Series Bonds, including reinvestment earnings and, upon any refunding thereof, proceeds of the 2006 Series K Bonds. See "Estimated Sources and Uses of Funds - Series Bonds."

The Series Bonds are secured, on a parity with Bonds heretofore and hereafter issued under the Bond Resolution, by a pledge of all Program Loans, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution including the Program Obligations funded by the Agency from the Acquisition Account and Revenues received by the Agency in connection therewith. While the Program Obligations to be acquired with the proceeds of the Series Bonds will consist of single family housing loans secured by first or subordinate mortgages, under the Bond Resolution the Agency is authorized to acquire Program Obligations in connection with Housing, which would include single family loans, home improvement loans, multifamily loans and other housing related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. To date, only single family housing loans and home improvement loans have been financed as Program Obligations under the Bond Resolution. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans. See "Security for the Bonds" and "Appendix C — Summary of Certain Provisions of the Bond Resolution."

The Series Bonds are general obligations of the Agency payable from 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, or State or federal laws or restrictions that particular funds be applied 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 Bonds. See "The Agency – Net Assets Restricted By Covenant and Operations to Date – General Reserve." (For purposes of the Resolutions, the General Reserve is designated as the "General Reserve Account.")

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 except as otherwise set forth in this Official Statement.

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 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.

Michael A. Haley — Assistant Commissioner, Minnesota Homes Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

Frances J. O'Neill — Operations Manager of Minnesota Homes Division since July 1995. From May 1971 through June 1995, she was with the U.S. Department of Housing and Urban Development (HUD). From 1979 until 1986 she was Director of the Administration and Management Division, with responsibility for human resources, information systems and accounting. In 1986 she assumed the position of Deputy Director of the Housing Development Division, with responsibility for single family mortgage operations. Ms. O'Neill has a Bachelor of Science degree in Business Administration from Metropolitan State University.

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 the Agency as of and for the year ended June 30, 2006, included in this Official Statement as Appendix A 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 Official Statement as Appendix A 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.

Disclosure Information

The Agency will covenant for the benefit of the Beneficial Owners of the Series 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 Agency Annual Report or the notices of material events, and the manner in which such materials are filed, are summarized below under the caption "Appendix B — Summary of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions and a semiannual disclosure report for its multifamily bond resolution. 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 Residential Housing Finance Bond Resolution Disclosure Reports generally are filed quarterly. The most recent report is dated as of June 30, 2006, and revised as of October 11, 2006. 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.

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):

	Fiscal Year Ended June 30, 2006	2005
Revenues and other additions to restricted net assets:		
Fees earned (1)	$8,833	$8,092
Interest earned on investments	1,231	730
Unrealized gain (loss) on investment securities, net	(101)	(251)
Administrative reimbursement (2)(3)	16,730	17,219
	26,693	25,790
Expenses and other reductions to restricted net assets:		
Transfer of assets between funds (4)	(205)	3,438
Salaries and benefits	14,054	13,693
Other general operating	6,725	5,227
	20,574	22,358
Net changes in net assets	6,119	3,432
Net assets beginning period	33,547	30,115
Net assets end of period	$39,666	$33,547

(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) Reimbursement from appropriated accounts consist of the portion of direct and indirect costs of administering the programs funded by the 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 for additional information.

The Agency also established an Alternative Loan Fund within the 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 but 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 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 $228,969,000. 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 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 August 31, 2006:

	Number of Series	Bonds Maturing	Original Principal Amount (in thousands)*	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	24	2007-2047	$ 472,495	$ 200,300
Residential Housing Finance Bonds	43	2007-2038	1,664,235	1,494,155
Single Family Mortgage Bonds	59	2007-2035	1,312,240	331,205
Total Debt Outstanding	126		$ 3,448,970	$ 2,025,660

* Does not include the original principal amount of any series of bonds that have been, as of August 31, 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.

ESTIMATED SOURCES AND USES OF FUNDS — SERIES BONDS

The estimated sources and uses of funds related to the 2006 Series K Bonds are as follows:

Sources:

Principal Amount of 2006 Series K Bonds	$120,000,000.00
Agency Contribution	191,102.17
Total Sources of Funds	$120,191,102.17

Uses:

Deposit to 2006 Series K Acquisition Account	$120,000.000.00
Deposit to Costs of Issuance Account	50,000.00
Underwriters' Compensation	141,102.17
Total Uses of Funds	$120,191,102.17

Proceeds of the 2006 Series K Bonds are to be deposited in the 2006 Series K Acquisition Account and invested in Investment Obligations and will not be used to make or purchase Program Loans until such time as the 2006 Series K Bonds are refunded in whole or in part on a long-term basis; provided, however, that Program Loans may be financed with net earnings from the Investment Obligations. The Agency may acquire certain Program Loans from its other funds and reimburse such funds from proceeds of the 2006 Series K Bonds upon any such refunding.

The estimated sources and uses of funds related to the 2006 Series LMN Bonds are as follows:

Sources:

Principal Amount of 2006 Series LMN Bonds	$60,000,000.00
Original Issue Premium	438,660.00
Agency Contribution	3,000,000.00
Total Sources of Funds	$63,438,660.00

Uses:

Deposit to 2006 Series L-M-N Acquisition Account[1]	$60,714,038.17
Deposit to Costs of Issuance Account	175,000.00
Deposit to Revenue Fund	300,000.00
Deposit to Debt Service Reserve Fund	1,800,000.00
Underwriters' Compensation	449,621.83
Total Uses of Funds	$63,438,660.00

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1 Including $275,378, which constitutes the Agency Acquisition Contribution.

DESCRIPTION OF THE SERIES BONDS

General

The Series 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"), who will act as securities depository for each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, is to serve as Trustee. Interest on the Series 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. Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See "Appendix E — Book-Entry-Only System."

The Series Bonds are issuable in the denominations of $5,000 or any integral multiple thereof of single maturities. For every exchange or transfer of Series 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. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to redemption as hereinafter described.

Interest on the Series Bonds

The Series Bonds will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2007, at the respective rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Bonds. Interest on the Series Bonds will be payable to the holder of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the interest payment date, whether or not a business day (the "Record Date" for the Series Bonds).

Sinking Fund Redemption

The 2006 Series M Bonds maturing on July 1, 2021 are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter to and including January 1, 2021, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$395,000	July 1, 2019	$445,000
July 1, 2017	400,000	January 1, 2020	460,000
January 1, 2018	415,000	July 1, 2020	470,000
July 1, 2018	420,000	January 1, 2021	485,000
January 1, 2019	440,000	July 1, 2021 (Maturity)	495,000

The 2006 Series M Bonds maturing on July 1, 2026 are subject to mandatory redemption in part on January 1, 2022 and on each July 1 and January 1 thereafter to and including January 1, 2026, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2022	$510,000	July 1, 2024	$585,000
July 1, 2022	525,000	January 1, 2025	595,000
January 1, 2023	540,000	July 1, 2025	610,000
July 1, 2023	555,000	January 1, 2026	635,000
January 1, 2024	565,000	July 1, 2026 (Maturity)	650,000

The 2006 Series M Bonds maturing on July 1, 2031 are subject to mandatory redemption in part on January 1, 2027 and on each July 1 and January 1 thereafter to and including January 1, 2031, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2027	$665,000	July 1, 2029	$750,000
July 1, 2027	680,000	January 1, 2030	770,000
January 1, 2028	700,000	July 1, 2030	795,000
July 1, 2028	715,000	January 1, 2031	815,000
January 1, 2029	730,000	July 1, 2031 (Maturity)	840,000

The 2006 Series M Bonds maturing on January 1, 2037 (the "Series M PAC Term Bonds") are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter to and including July 1, 2036, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$80,000	July 1, 2027	$145,000
July 1, 2017	85,000	January 1, 2028	145,000
January 1, 2018	85,000	July 1, 2028	150,000
July 1, 2018	90,000	January 1, 2029	155,000
January 1, 2019	90,000	July 1, 2029	160,000
July 1, 2019	95,000	January 1, 2030	165,000
January 1, 2020	95,000	July 1, 2030	170,000
July 1, 2020	100,000	January 1, 2031	170,000
January 1, 2021	100,000	July 1, 2031	175,000
July 1, 2021	105,000	January 1, 2032	180,000
January 1, 2022	105,000	July 1, 2032	185,000
July 1, 2022	110,000	January 1, 2033	190,000
January 1, 2023	110,000	July 1, 2033	195,000
July 1, 2023	115,000	January 1, 2034	205,000
January 1, 2024	120,000	July 1, 2034	210,000
July 1, 2024	120,000	January 1, 2035	215,000
January 1, 2025	125,000	July 1, 2035	220,000
July 1, 2025	130,000	January 1, 2036	225,000
January 1, 2026	130,000	July 1, 2036	235,000
July 1, 2026	135,000	January 1, 2037 (Maturity)	240,000
January 1, 2027	140,000		

The 2006 Series M Bonds maturing on July 1, 2037 are subject to mandatory redemption in part on January 1, 2032 and on each July 1 and January 1 thereafter to and including January 1, 2037, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2032	$865,000	January 1, 2035	$1,015,000
July 1, 2032	890,000	July 1, 2035	1,045,000
January 1, 2033	915,000	January 1, 2036	1,075,000
July 1, 2033	940,000	July 1, 2036	1,100,000
January 1, 2034	960,000	January 1, 2037	1,135,000
July 1, 2034	990,000	July 1, 2037 (Maturity)	675,000

The 2006 Series N Bonds maturing on January 1, 2037 (the “Series N PAC Term Bonds” and, when used together with the Series M PAC Term Bonds, the “PAC Term Bonds”) are subject to mandatory redemption in part on January 1, 2017 and on each July 1 and January 1 thereafter to and including July 1, 2036, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2017	$205,000	July 1, 2027	$355,000
July 1, 2017	210,000	January 1, 2028	365,000
January 1, 2018	215,000	July 1, 2028	380,000
July 1, 2018	220,000	January 1, 2029	395,000
January 1, 2019	225,000	July 1, 2029	405,000
July 1, 2019	230,000	January 1, 2030	415,000
January 1, 2020	235,000	July 1, 2030	425,000
July 1, 2020	245,000	January 1, 2031	440,000
January 1, 2021	250,000	July 1, 2031	450,000
July 1, 2021	260,000	January 1, 2032	460,000
January 1, 2022	265,000	July 1, 2032	475,000
July 1, 2022	270,000	January 1, 2033	485,000
January 1, 2023	280,000	July 1, 2033	500,000
July 1, 2023	285,000	January 1, 2034	515,000
January 1, 2024	295,000	July 1, 2034	530,000
July 1, 2024	300,000	January 1, 2035	545,000
January 1, 2025	310,000	July 1, 2035	560,000
July 1, 2025	320,000	January 1, 2036	575,000
January 1, 2026	325,000	July 1, 2036	590,000
July 1, 2026	335,000	January 1, 2037 (Maturity)	605,000
January 1, 2027	345,000		

Special Redemption

Non-Origination. The 2006 Series LMN Bonds are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to par plus accrued interest, without premium (except that any Series M PAC Term Bonds so selected would be purchased at a price of par, plus accrued interest, plus the unamortized premium thereon as determined by the Agency by a straight line amortization of the original issue premium set forth on the inside cover of this Official Statement between the date of issue and July 1, 2015 (as of which date the premium would reduce to zero)), from moneys representing the 2006 Series LMN Bonds proceeds not used to purchase Program Loans and transferred to the Bond Redemption Fund from the 2006 Series L-M-N Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund transferred to the Bond Redemption Fund. In the event any 2006 Series LMN Bonds are to be redeemed as a result of non-origination, such Bonds shall be selected at random within a series and maturity from such series and maturities of the 2006 Series LMN Bonds as shall be determined by the Agency.

Excess Revenues. Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, in the Agency’s discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to par plus accrued interest, without premium, of Outstanding Bonds under the Bond Resolution (including the Series Bonds but with respect to the Series M PAC Term Bonds and the Series N PAC Term Bonds, not in excess of the respective maximum cumulative redemption schedules shown below) from such series, maturities and Sinking Fund Installments as the Agency may select at its option.

As used herein, “Excess Revenues” shall mean the Revenues, including prepayments (except as described below), on deposit in the Revenue Fund received in excess of (i) the maturing principal and Sinking Fund Installments and any required mandatory redemptions, together with interest from time to time and payable, on Bonds Outstanding under the Bond Resolution, (ii) amounts needed to maintain the Debt Service Reserve Fund and the Insurance Reserve Fund at their respective Requirements, and (iii) amounts required by the Agency to pay fees and other costs in connection with the Bonds associated with maintaining the Program.

Tax-Restricted Receipts. To comply with certain provisions of federal tax law, all available prepayments and regularly scheduled repayments of mortgage principal allocable to the proceeds of the 2006 Series KLM Bonds and, (i) with respect to the proceeds of the 2006 Series KLM Bonds allocated to the refunding of Outstanding Bonds of the Agency, received 10 years after the original issuance date of the bonds refunded or (ii) with respect to the remaining proceeds of the 2006 Series KLM Bonds, if any, received 10 years after the delivery of the 2006 Series KLM Bonds (collectively, the "Tax-Restricted Receipts"), are required to be applied no later than the close of the first semi-annual period beginning after the date of receipt to the retirement of the 2006 Series L Bonds and the 2006 Series M Bonds through payment thereof at maturity or redemption; provided, no such redemption shall be required if the amount available and required to be used to redeem the 2006 Series L Bonds and the 2006 Series M Bonds is less than $100,000. The following percentages of scheduled payments and prepayments of mortgage principal allocated to the proceeds of the Series Bonds and certain other amounts contributed by the Agency for deposit to the 2006 Series L-M-N Acquisition Account (the "Agency Acquisition Contribution") (see "Estimated Sources and Uses of Funds – Series Bonds" herein) received on or after the following dates constitute the Tax-Restricted Receipts for purposes of the following redemption provisions relating to the PAC Term Bonds (notwithstanding any change in federal tax law subsequent to the issuance of the Series Bonds):

Dates	Percentages
October 26, 2006 to June 30, 2014	10.93%
July 1, 2014 to June 30, 2015	63.67%
July 1, 2015 to June 30, 2016	68.09%
July 1, 2016 and thereafter	70.38%

Tax-Restricted Prepayments. To the extent not needed to make regularly scheduled payments on the 2006 Series L Bonds and the 2006 Series M Bonds, prepayments of principal that are Tax-Restricted Receipts (the "Tax-Restricted Prepayments") received by or on behalf of the Agency shall first be applied to redeem the Series M PAC Term Bonds on a cumulative basis up to the Series M Maximum Cumulative Amounts during each Redemption Period beginning as set forth in the following table (taking into account Series M PAC Term Bonds redeemed in prior periods, including by regularly scheduled sinking fund installments, from Excess Revenues and from Unrestricted Prepayments, as defined and described below):

Redemption Period	Series M Maximum Cumulative Amounts†	Redemption Period	Series M Maximum Cumulative Amounts†
January 1, 2008	$170,000	January 1, 2012	$3,400,000
July 1, 2008	405,000	July 1, 2012	3,785,000
January 1, 2009	740,000	January 1, 2013	4,235,000
July 1, 2009	1,175,000	July 1, 2013	4,625,000
January 1, 2010	1,655,000	January 1, 2014	5,100,000
July 1, 2010	2,110,000	July 1, 2014	5,400,000
January 1, 2011	2,560,000	January 1, 2015	5,985,000
July 1, 2011	2,990,000	July 1, 2015	6,000,000

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† Based on an approximation of 100% TBMA prepayment experience. Amounts actually to be redeemed pursuant to this provision would be reduced proportionately to the extent any of the Series M PAC Term Bonds were redeemed from non-origination of Series Bonds proceeds.

To the extent Tax-Restricted Prepayments allocable to the Series Bonds are received by the Agency, which, together with Unrestricted Prepayments allocated to the redemption of the Series M PAC Term Bonds (see "Unrestricted Prepayments" below), are sufficient to redeem Series M PAC Term Bonds up to the Series M Maximum Cumulative Amounts in accordance with the schedule above, any excess Tax-Restricted Prepayments are to be used as follows: (1) to the extent required by applicable federal tax law, (a) to redeem Outstanding 2006 Series L Bonds or 2006 Series M Bonds (other than the Series M PAC Term Bonds), from such series and maturities selected by the Agency, or (b) if no 2006 Series L Bonds or 2006 Series M Bonds other than Series M PAC Term Bonds are Outstanding, to redeem Outstanding Series M PAC Term Bonds, in each case on any date, in whole or in part, at a price equal to par plus accrued interest, without premium; or (2) to the extent not required by applicable federal tax law, at the option of the Agency, to redeem any Outstanding Bonds (other than the PAC Term Bonds).

Unrestricted Prepayments. While any of the Series N PAC Term Bonds remain Outstanding, moneys received from prepayments of mortgage principal allocable to the proceeds of the Series Bonds and the Agency Acquisition Contribution remaining after deducting the Tax-Restricted Prepayments (as of any date of calculation, the "Unrestricted Prepayments"), net of any Unrestricted Prepayments used to pay the 2006 Series LMN Bonds at maturity or pursuant to regularly scheduled sinking fund installments, are to be applied to redeem the Series N PAC Term Bonds on a cumulative basis up to the Series N Maximum Cumulative Amounts during each Redemption Period beginning as set forth in the following table (taking into account Series N PAC Term Bonds redeemed in prior periods, including by regularly scheduled sinking fund installments and from Excess Revenues):

Redemption Period	Series N Maximum Cumulative Amounts†	Redemption Period	Series N Maximum Cumulative Amounts†
January 1, 2008	$315,000	July 1, 2015	$13,205,000
July 1, 2008	845,000	January 1, 2016	13,510,000
January 1, 2009	1,620,000	July 1, 2016	13,775,000
July 1, 2009	2,620,000	January 1, 2017	14,000,000
January 1, 2010	3,790,000	July 1, 2017	14,195,000
July 1, 2010	4,950,000	January 1, 2018	14,365,000
January 1, 2011	6,065,000	July 1, 2018	14,510,000
July 1, 2011	7,140,000	January 1, 2019	14,640,000
January 1, 2012	8,170,000	July 1, 2019	14,750,000
July 1, 2012	9,155,000	January 1, 2020	14,845,000
January 1, 2013	10,040,000	July 1, 2020	14,920,000
July 1, 2013	10,835,000	January 1, 2021	14,990,000
January 1, 2014	11,595,000	July 1, 1021	15,045,000
July 1, 2014	12,350,000	January 1, 2022	15,095,000
January 1, 2015	12,815,000		

† Based on an approximation of 100% TBMA prepayment experience. Amounts actually to be redeemed pursuant to this provision would be reduced proportionately to the extent any of the Series N PAC Term Bonds were redeemed from non-origination of Series Bonds proceeds.

To the extent Unrestricted Prepayments are received by the Agency sufficient to redeem Series N PAC Term Bonds up to the Series N Maximum Cumulative Amounts in accordance with the schedule above, any excess Unrestricted Prepayments shall first be applied to redeem the Series M PAC Term Bonds on a cumulative basis up to the Series M Maximum Cumulative Amounts during each Redemption Period as set forth in the schedule on page 13. To the extent Unrestricted Prepayments are received by the Agency sufficient to redeem Series N PAC Term Bonds up to the Series N Maximum Cumulative Amounts in accordance with the schedule above and to redeem Series M PAC Term Bonds up to the Series M Maximum Cumulative Amounts in accordance with the schedule on page 13, any excess Unrestricted Prepayments may be applied at the option of the Agency to redeem any Outstanding Bonds (other than the Series N PAC Term Bonds in advance of the Series N Maximum Cumulative Amounts schedule and the Series M PAC Term Bonds in advance of the Series M Maximum Cumulative Amounts schedule).

Projected Weighted Average Lives of the PAC Term Bonds. The following information is provided in order to enable potential investors to evaluate the PAC Term Bonds which are the subject of special redemptions described above.

The weighted average life of a bond refers to the average of the length of time that will elapse from the date of issuance of such bond to the date each installment of principal is paid to the bondholder weighted by the amount of such installment. The weighted average life of the respective PAC Term Bonds will be influenced by, among other things, the rate at which Program Loans are originated and the rate at which principal payments (including scheduled payments and principal prepayments) are made on the Program Loans allocable to the Series Bonds. An investor owning less than all of the Series M PAC Term Bonds or the Series N PAC Term Bonds may experience redemption at a rate which varies from the average life of the respective PAC Term Bonds.

Prepayments of mortgage loans are commonly projected in accordance with a prepayment standard model. The following table, entitled "Projected Weighted Average Lives for the PAC Term Bonds" assumes, among other things, that (i) the Program Loans prepay at the indicated percentages of The Bond Market Association ("TBMA") prepayment experience, (ii) all amounts in the 2006 Series L-M-N Acquisition Account will be used to purchase Program Loans, (iii) all Program Loans financed with the proceeds of the 2006 Series LMN Bonds and the Agency Acquisition Contribution will be financed by March 19, 2007, (iv) all Program Loans financed with net earnings from the 2006 Series K Bonds will be financed by January 1, 2008, (v) 20% of the Program Loans have 40-year terms, (vi) 80% of the Program Loans have 30-year terms, (vii) all scheduled principal and interest payments on Program Loans and Prepayments thereof are received thirty days after the date on which due and there are no foreclosure losses experienced on such Program Loans, and (viii) the PAC Term Bonds are not redeemed pursuant to optional redemption or from Excess Revenues. Based on such assumptions, some or all of which are unlikely to reflect actual experience, the following table provides certain projected weighted average life information for the PAC Term Bonds.

Projected Weighted Average Lives for the PAC Term Bonds
(in years)

Prepayment Experience	2006 Series M PAC Term Bonds Average Life†	2006 Series N PAC Term Bonds Average Life†
0%	22.02	22.08
50%	10.10	9.24
75%	8.68	5.68
100%	4.99	5.61
150%	4.99	5.61
200%	4.99	5.61
300%	4.99	5.61
400%	4.99	5.61
500%	4.99	6.07

† The weighted average life may be impacted if PAC Term Bonds are redeemed with Excess Revenues, as described above.

No assurance can be given that prepayments of principal of the Program Loans will conform to any level of a particular prepayment projection, schedule or model or that prepayments will be available to be applied to redemptions of any of the Series Bonds, including the PAC Term Bonds. The rates of principal prepayments on Program Loans are generally influenced by a variety of economic, geographical, social and other factors, including servicing decisions, changing property values, prevailing interest rates and the time within which Program Loans are originated. In general, if prevailing interest rates fall significantly below the interest rates on the Program Loans financed by the Series Bonds, such Program Loans may be likely to prepay at higher rates than if prevailing interest rates remain at or above the interest rates on such Program Loans. Conversely, if prevailing interest rates rise above the interest rates on the Program Loans financed by the Series Bonds, the rate of prepayments might be expected to decrease. The rates of delinquencies and foreclosures on Program Loans will also affect the expected special redemption schedules. The Agency cannot predict the number of Program Loans financed by the Series Bonds that may become delinquent or in foreclosure proceedings. For these reasons, the Agency cannot offer any assurances as to the rate at which the Program Loans financed by the Series Bonds will prepay and offers no assurance that the scheduled amounts will, in fact, be available to effect any redemptions described herein.

Optional Redemption of 2006 Series LMN Bonds

The 2006 Series L Bonds, the 2006 Series M Bonds and, up to the Series N Maximum Cumulative Amounts, the 2006 Series N Bonds are subject to redemption at the option of the Agency as a whole or in part on any date on or after January 1, 2016 from any amounts available to the Agency for that purpose, and at a redemption price equal to par plus accrued interest, if any, without premium.

Mandatory Tender of Certain 2006 Series LMN Bonds Upon Certain Events

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Program Loans may be dissuaded from applying to the Agency for such Program Loans, and the likelihood of a special redemption as described under "Special Redemption—*Non-Origination*" would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of 2006 Series LMN Bonds selected by the Agency for purchase at par plus accrued interest (except that any Series M PAC Term Bonds so selected would be purchased at a price of par, plus accrued interest, plus the unamortized premium thereon as determined by the Agency by a straight line amortization of the original issue premium set forth on the inside cover of this Official Statement between the date of issue and July 1, 2015 (as of which date the premium would reduce to zero)), or at the option of the registered owner, exchange for a 2006 Series LMN Bond of the same maturity and bearing interest as described below.

Mandatory Tender of Certain 2006 Series LMN Bonds. Pursuant to the Series Resolution, a principal amount of 2006 Series LMN Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of such 2006 Series LMN Bonds on deposit in the 2006 Series L-M-N Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund) may be subject to mandatory tender for purchase on any date (the "Purchase Date"). On the Purchase Date, the 2006 Series LMN Bonds subject to mandatory tender shall either be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the registered owner so elects, exchanged for an equal amount of 2006 Series LMN Bonds of the same maturity bearing interest at the adjusted rate or rates.

Determination of Preliminary Adjusted Interest Rate. Upon making certain determinations as to the inability to purchase Program Loans at the mortgage rates established with respect to the 2006 Series LMN Bonds, the Agency may appoint a remarketing agent (the "Series LMN Bonds Remarketing Agent") and provide the Series LMN Bonds Remarketing Agent with a schedule of 2006 Series LMN Bonds of one or more maturities determined by the Agency to be subject to purchase on mandatory tender (the "Tender Bonds") and request the Series LMN Bonds Remarketing Agent to determine, as of a stated date selected by the Agency not less than 5 days nor more than 10 days from the date of request, the interest rates (the "Preliminary Adjusted Rates") at which such Tender Bonds could be remarketed at par plus accrued interest. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds of the 2006 Series LMN Bonds held in the 2006 Series L-M-N Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least 0.50% per annum lower than the yield on the Tender Bonds when issued, and certain other conditions relating to compliance with applicable federal tax law are met, the Agency may elect by written notice to the Trustee to call Tender Bonds for mandatory purchase on a date not less than 45 days after the date of such notice. Within each maturity designated by the Agency, the Trustee shall select at random the 2006 Series LMN Bonds to be designated as Tender Bonds.

Notice of Mandatory Tender. Not less than 35 days prior to a Purchase Date, notice of the mandatory tender or exchange shall be given by the Trustee to the registered owners of Tender Bonds. (See "Appendix E—Book-Entry-Only System.") Such notice shall state, in substance: (i) the Purchase Date; (ii) the Preliminary Adjusted Rates for applicable Tender Bonds; (iii) that the registered owners of such Tender Bonds will no longer be entitled to receive interest on such Bonds after the Purchase Date, except in the case of Tender Bonds retained at the election of the registered owner (which Tender Bonds shall bear interest at the Final Adjusted Rates, as defined below, from and after the Purchase Date); (iv) that each Tender Bond shall be purchased or deemed purchased on the Purchase Date unless the registered owner properly directs the Agency and Trustee not to purchase such Bond on the Purchase Date; and (v) that notwithstanding a direction not to purchase, the Tender Bonds may be redeemed by the Agency on the Purchase Date under certain circumstances as set forth in the Series Resolution. Such notice is to set forth the procedures to be followed by a registered owner who wishes to retain all or a portion (in whole multiples of $5,000) of such registered owner's Tender Bonds. Any such election to retain all or a portion of the Tender Bonds shall be irrevocable. Failure to follow the specified procedures shall result in a purchase or deemed purchase of such registered owner's Tender Bonds.

Final Adjusted Interest Rates. Not more than 30 nor less than 15 days prior to the Purchase Date, the 2006 Series LMN Bonds Remarketing Agent shall determine and certify to the Trustee and the Agency the adjusted interest rate each maturity of Tender Bonds shall bear from and after the Purchase Date (the "Final Adjusted Rates"). Said Final Adjusted Rates shall be those rates which, in the judgment of the 2006 Series LMN Bonds Remarketing Agent, would permit the sale of the applicable Tender Bonds at par on the date of determination.

Mandatory Tender or Redemption. Any Tender Bond called for mandatory tender on the applicable Purchase Date and not delivered to the Trustee for purchase by 11:30 a.m., New York Time, on the applicable Purchase Date shall be deemed tendered and a Series Bond of the same series bearing interest at an adjusted rate may be issued in place thereof to the purchaser thereof. Any Tender Bond deemed purchased shall not bear interest from and after the Purchase Date and the holder thereof shall have no rights under the Resolutions other than the right to receive the purchase price thereof.

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some registered owners to retain all or a portion of their Tender Bonds. The purchase of Tender Bonds is contingent upon satisfaction of certain arbitrage requirements of federal tax law, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds outstanding under the Bond Resolution, and a determination that, given the final Adjusted Rates, Program

Loans can be effectively originated and purchased to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

General Provisions as to 2006 Series LMN Bonds

Except as otherwise provided in the Series Resolution, any 2006 Series LMN Bonds to be purchased or redeemed shall be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the Series of the 2006 Series LMN Bonds to be purchased or redeemed; (b) the maturities within such series from which 2006 Series LMN Bonds are to be purchased or redeemed; and (c) the principal amount and maximum price of Bonds within such maturities to be purchased or redeemed. If less than all 2006 Series LMN Bonds of a series and maturity are to be redeemed, the 2006 Series LMN Bonds of that series and maturity to be redeemed shall be selected by lot, unless a different order of priority is specified by the Series Resolution. The Agency shall not at any time cause 2006 Series LMN Bonds to be purchased or 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 purchase or redemption.

The Trustee is required to mail a copy of the notice, by first class mail, to the registered owner of any 2006 Series LMN Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the last business day of the month preceding the month in which such notice is mailed.

SECURITY FOR THE BONDS

The Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and grant of a security interest in (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds, notes or other obligations), (b) all Program Obligations and Investment Obligations made or purchased from such proceeds, (c) all Revenues (as defined in the Bond Resolution), (d) any other loans, funds, securities, Cash Equivalents or other property of the Agency otherwise pledged as security for Outstanding Bonds pursuant to a Series Resolution; and (e) all money, Investment Obligations, and other assets and income held in and receivables of Funds (other than the Alternative Loan Fund) established by or pursuant to the Bond Resolution. The Bonds, including the Series 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, or State or federal laws or restrictions that particular funds be applied 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 outstanding Bonds.

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

Cash Flow Certificate

The Bond Resolution requires that the Agency file a Cash Flow Certificate with the Trustee (i) at least once within a 12-month period and as otherwise required under the Bond Resolution or a Series Resolution, (ii) upon the proposed application of funds in the Revenue Fund to acquire Program Obligations or to pay Program Expenses, if not contemplated by a prior Cash Flow Certificate, or (iii) to release funds to the Agency from the Revenue Fund or to transfer funds to the Endowment Fund. The Bond Resolution also permits a revised Cash Flow Certificate to be filed at any time directed by the Agency. The Cash Flow Certificate is to give effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established under the Bond Resolution or any Series Resolution (excluding the Insurance Reserve Fund, the Alternative Loan Fund and, except to the extent otherwise provided in a Series Resolution, the Endowment Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate is to set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency’s reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, unless otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of this Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, in respect of Outstanding Bonds of such series. As set forth more fully in "Appendix C — Summary of Certain Provisions of the Bond Resolution — Revenue Fund," the Agency may withdraw from the Revenue Fund funds to be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund or withdraw from the Revenue Fund funds to be transferred to the Endowment Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

Revenues

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law, be used to make or purchase additional Program Obligations or to redeem Bonds. If Revenues are less than the amount necessary to pay maturing principal of the Bonds, then either the Agency will provide the amount necessary for such payment from (a) the General Reserve Account of the Agency, (b) the Alternative Loan Fund or (c) from any other lawful source other than funds and accounts pledged pursuant to the Bond Resolution, or the Trustee will withdraw the necessary amount from: (i) the Bond Redemption Fund, but only to the extent that amounts therein are in excess of amounts required for the redemption of Bonds for which the notice of redemption has been given, (ii) the Revenue Fund, (iii) the Debt Service Reserve Fund, (iv) the Insurance Reserve Fund, and (v) the Endowment Fund.

Debt Service Reserve Fund

The Bond Resolution creates and establishes a Debt Service Reserve Fund and provides that the Debt Service Reserve Requirement as of any date shall be the sum of amounts established for each series of Bonds by each Series Resolution. The aggregate Debt Service Reserve Requirement with respect to the 2006 Series LMN Bonds is equal, as of the date of calculation, to three percent (3%) of the aggregate principal amount of the then Outstanding 2006 Series LMN Bonds, initially, $1,800,000. The Debt Service Reserve Requirements with respect to the 2006 Series K Bonds, if any, will be established by resolution of the Agency adopted at such time all or a portion of such 2006 Series K Bonds are refunded on a long-term basis but shall not exceed an amount equal to the maximum principal and interest to become due in any future Fiscal Year with respect to the 2006 Series K Bonds refunded on a long-term basis. At such time as the Debt Service Reserve Fund may be required to be funded to the Debt Service Reserve Requirement for such Bonds upon a refunding of the 2006 Series K Bonds, the required funds may be transferred from the 2006 Series K Acquisition Account, may be contributed by the Agency from other available funds of the Agency or may come from a combination of such sources.

The balance in the Debt Service Reserve Fund on August 31, 2006, was $33,189,000, which was at least equal to the Debt Service Reserve Fund Requirement for the Series of Bonds then Outstanding.

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 State Legislature is legally authorized *but is not legally obligated* to appropriate such amounts.

Insurance Reserve Fund

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each series of Bonds by the Series Resolution. The Insurance Reserve Requirement with respect to the 2006 Series LMN Bonds is $0. The Insurance Reserve Requirements with respect to the 2006 Series K Bonds, if any, will be established by resolution of the Agency adopted at such time all or a portion of such 2006 Series K Bonds are refunded on a long-term basis. At such time as the Insurance Reserve Fund may be required to be funded to the Insurance Reserve Requirement for such Bonds upon a refunding of the 2006 Series K Bonds, the required funds may be transferred from the 2006 Series K Acquisition Account, may be contributed by the Agency from other available funds of the Agency or may come from a combination of such sources.

The balance in the Insurance Reserve Fund on August 31, 2006, was $330,000, which was at least equal to the Insurance Reserve Requirement for all series of Bonds then Outstanding.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, without limitation as to amount, to provide funds for the purpose of financing the making or purchase of Program Obligations and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional series of Bonds may be issued except upon verification by the Trustee (i) that an amount equal to the Debt Service Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Debt Service Reserve Fund and an amount equal to the Insurance Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Insurance Reserve Fund, (ii) that the estimated Revenues set forth in an Agency Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Agency Certificate and (iii) that the then existing ratings of the Bonds will not be impaired. A Cash Flow Certificate need not be filed in connection with the issuance of additional Bonds unless the series resolution authorizing Bonds of the series so provides.

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

State Pledge Against Impairment of Contracts

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 Bondholders, are fully met and discharged.

RESIDENTIAL HOUSING FINANCE PROGRAM

Under the Bond Resolution, the Agency may issue bonds to make or purchase Program Obligations in order to provide financing for housing for low and moderate income persons, including financing for single family loans, home improvement loans, multifamily loans and other housing-related loans, and to secure such loans in such manner as the Agency determines, which would include first mortgage loans, subordinate mortgage loans or loans which are unsecured. All series of Bonds issued under the Bond Resolution are secured on a parity. The proceeds of the Series Bonds will be used to purchase Program Loans consisting of single family mortgage loans. The Agency does not currently anticipate that future series of Bonds issued under the Bond Resolution will finance Program Obligations other than single family loans or home improvement loans.

All series resolutions adopted to date have provided for the issuance of Bonds under the Bond Resolution for the purpose of financing single family mortgage loans or home improvement loans. For a general description of the current home improvement program, which is subject to change from time to time, see "Home Improvement Program."

The description of the Program contained in this and the following sections is subject to change subject to applicable federal and state law.

PROGRAM LOANS TO BE MADE FROM SERIES BONDS

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program in respect of the Program Loans constituting single family mortgage loans to be financed with proceeds of Bonds, which is subject to change from time to time as provided in the Resolutions. *The Series Program Determinations governing the Program Loans to be financed with proceeds of the Series Bonds may be revised by the Agency from time to time as provided in the Bond Resolution and consequently the following general description is subject to change.*

Application

The Agency's Program provides funds for the purchase by the Agency of newly originated Program Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds and local mortgage market conditions. Except with respect to Home Improvement Program Loans described herein, Program Loans purchased by the Agency historically have had 30-year terms. However, the Agency has recently implemented a program to offer Program Loans with 40-year terms, and expects that approximately 20% of the Program Loans to be purchased with proceeds of the 2006 Series LMN Bonds will have 40-year terms. The Agency intends to purchase Program Loans on terms resulting in an effective rate sufficient to pay the principal of and interest on the Series Bonds, the costs of servicing the Program Loans and other Program Expenses. The Agency may make loan commitments in advance of issuing bonds. As of October 17, 2006, the Agency had loan commitments outstanding of $5,593,725 at an average interest rate of 5.95%. The Agency may require the payment of discount points to reduce the overall interest rate on the Program Loans, provide adequate compensation to Lenders and defray Agency operation costs and expenses.

In connection with the Program, the Agency has published the MHFA Mortgage Program Procedural Manual (the "Manual") which sets forth the guidelines and procedures for participation in the Program and the requirements for origination of Program Loans, including provisions for compliance with the requirements of applicable federal law. The Agency responds to inquiries by interested lenders by sending them information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Each Lender that meets Program requirements and participates in the Program either executes or has executed a lender commitment agreement (the "Agreement") which incorporates the Manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, Lenders may fax the Agency for an individual commitment of Program Loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Program Loan funds are then to be reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender headquartered in the HUD-identified Metropolitan Statistical Areas of Duluth-Superior, MN-WI, Fargo-Moorhead, ND-MN, Grand Forks, ND-MN, LaCrosse, WI-MN, Minneapolis-St. Paul, MN-WI, Rochester, MN and St. Cloud, MN must pay an initial fee of $5,000 to participate in the Program and an annual renewal fee of $2,500, Lenders headquartered in the balance of the State must pay an initial participation fee of $2,000 and an annual renewal fee of $1,000, unless payment of such fees is specifically modified or waived by the Agency. Lenders are not required to pay a reservation fee upon initial telecopied reservation of an individual commitment. If the Agency has not purchased a Program Loan pursuant to an individual commitment after 90 days where an existing home is to be financed or after 120 days for the Minnesota Mortgage Program and the Minnesota City Participation program and 150 days for the CASA Program if a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees are deposited into the Homeownership and Home Improvement Endowment Funds. Unrefunded extension fees, if charged, are deposited into the funds from which the loans are purchased, namely the Homeownership and Home Improvement Endowment Funds and the Residential Housing Finance bond fund.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Program is currently as follows (higher maximum incomes are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below):

Persons in Household

Location of Mortgaged Property	One to Four Member Household	Five Member Household	Six Member Household	Seven Member Household	Eight Member Household	Nine Member Household	Ten Member Household**
11-County Twin Cities Metropolitan Area*	$63,000	$68,500	$73,500	$78,500	$83,500	$88,500	$93,500
Olmsted County	$57,000	$62,000	$66,500	$71,000	$75,500	$80,000	$84,500
Balance Of State	$55,000	$59,500	$64,000	$68,500	$73,000	$77,000	$81,500

* For the purpose of this section, the "11-County Twin Cities Metropolitan Area" is defined as: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties.

** Maximum gross income for households of more than 10 persons may be obtained by contacting the Agency.

The Agency will apply the limitations set forth in Section 143(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to applicants for Program Loans from the proceeds of the Series Bonds. The Agency may revise said income limits for the Program and for Homeownership Assistance Fund Loans from time to time to conform with State and federal law and Agency policy objectives.

At the time the Program Loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with Federal Housing Administration (the "FHA"), the Veterans Administration (the "VA"), the USDA Rural Development (formerly the Rural Housing and Community Development Service) ("USDA Rural Development") and/or mortgage industry accepted underwriting standards. For loans which are not insured or guaranteed by FHA, VA or USDA Rural Development, the Agency requires Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") or private mortgage insurance standards as defined in the Manual.

Certain borrowers may be eligible for assistance for entry costs, monthly principal and interest payments, "entry cost assistance plus" loans or all three forms of subsidy, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" below.

Program Loans

Program Loans may be purchased from (1) Lenders including any bank, savings bank, mutual savings bank, savings and loan association, building and loan association organized under the laws of Minnesota or the United States or non-profit licensed by the State of Minnesota, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs, or (2) any agency or instrumentality of the United States or the State.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective to recover the balance due on a Defaulted Program Loan, including the curing of the default by the Mortgagor, foreclosure of the Mortgage, acceptance of a conveyance in lieu of foreclosure, sale of the Mortgage, renting or selling the Home, collection of any applicable mortgage insurance or guaranty, and preservation of the title to and value of the Home pending recovery of the balance of the Defaulted Program Loan. See "State Laws Affecting Foreclosures" in Appendix D.

Qualified Real Property

Pursuant to the Manual, Program Loans may be purchased for (1) residential property in Minnesota on which is located an owner-occupied one or two-family dwelling, or (2) an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Series Bonds maximum purchase prices for both one and two-family homes currently are as follows (higher purchase prices are currently permitted in connection with "Special Assistance Programs" and "Agency Bond Issuance on Behalf of Local Governments" described below):

	The Minnesota Mortgage Program
If the property to be mortgaged is located in:	
Twin Cities Metropolitan Area	$298,125
Balance of State	$237,031

The Agency may revise said maximum purchase prices from time to time to conform with applicable State and federal law and Agency policy objectives. The financing of new construction in the 11-county Twin Cities metropolitan area is limited by state law.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of the Series Bonds under the Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit or otherwise provide access to proceeds to such entities as Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property.

All Program Loans originated under special assistance program components shall be qualified Program Loans as described above.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development and/or mortgage industry accepted underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits provided herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal law.

Agency Bond Issuance on Behalf of Local Governments

State law provides the process and procedures by which applicable units of local government may request an allotment and subsequent allocation of qualified mortgage bond authority from a statewide housing pool established for this purpose. In 1990, the State Legislature passed a law which enables applicable units of local government to assign their qualified mortgage bond authority to the Agency which may then issue bonds on behalf of local governments up to the amount of allocation assigned to the Agency.

Under the terms by which the Agency has agreed to accept the assignment of bond allocation, the Agency is to set aside the amount of funds allocated for each unit of local government for the exclusive use of said local government in the geographic area designated by same for a six month period. During the set-aside period, Lenders designated by the unit of local government may reserve Program Loans for specific cases for a specific term in accordance with the Manual. Should any funds remain unreserved at the end of the six-month set-aside period, remaining funds are then to be available for Program Loans to be reserved by any other participating units of local government for an additional two-month period. At the end of the two-month period, any unreserved funds are available to the Agency for general program purposes.

All Program Loans originated pursuant to Agency bond issuance on behalf of units of local government shall be qualified Program Loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development and/or mortgage industry accepted underwriting standards. However, participating units of local government do have the authority to set aside funds to meet locally identified housing goals or address special program purposes within their geographic areas.

Homeownership Assistance Fund Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established a Homeownership Endowment Fund within the Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a second mortgage loan made by the Agency to the Mortgagor for one of two purposes: (i) to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home (up to a maximum of $3,000) and (ii) to assist in the payment of monthly principal and interest on the Program Loan in an amount of $1,800. Eligible Mortgagors under the Community Activity Set Aside Program may receive either entry cost assistance or payment assistance separately or together. At the time the Program Loan is made, the Agency agrees to provide assistance and the Mortgagor agrees to repay such loan upon sale, transfer, refinancing, when the first mortgage on the loan is paid in full or when the property is no longer occupied by the Mortgagor.

Mortgagors who meet program income requirements, program targeting criteria and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to $3,000. Mortgagors that wish to receive monthly payment assistance must attend qualified homebuyer classroom instruction for at least six hours before the Program Loan is closed. This requirement does not apply to Mortgagors that receive only entry cost assistance.

Assistance for monthly principal and interest payments is also available to Mortgagors under the Community Activity Set Aside Program at the program income limits previously noted. Monthly assistance payments are made in increments of $75 during year one; $50 during year two and $25 during year three. Monthly assistance payments cease after year three. In making a Program Loan, the monthly assistance payments will be taken into account in determining the ability of the Mortgagor to pay principal of and interest on the Program Loan over its term. Mortgagors whose housing debt ratio is greater than 30% of their total income may receive monthly payment assistance under the Agency's Community Activity Set Aside Program.

The total of the entry cost assistance and the monthly payment assistance is a deferred loan which is due on sale, transfer or refinancing or when the property is no longer occupied by the Mortgagor.

Program Loans made or purchased from the proceeds of a series of Bonds may or may not include Homeownership Assistance. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on the Bonds. Amounts on deposit in the Homeownership Endowment Fund are available for the payment of principal of or interest on the Bonds, subject to the programmatic uses of the Homeownership Endowment Fund under the Bond Resolution, but the Agency has not covenanted to maintain any minimum balance in the Homeownership Endowment Fund or otherwise to assure that funds will be available in the Homeownership Endowment Fund for purposes of payment or security of the Bonds.

The Agency may use a portion of the proceeds of the Series Bonds to make loans for the purpose of entry cost assistance and monthly assistance. Any such loans will also be Program Loans pledged to the payment of principal of and interest on the Bonds.

Target Areas

Pursuant to applicable federal law, target areas have been established for the Program. Target areas consist of certain census tracts in the State in which 70 percent of the families have an annual income of 80 percent or less of the statewide median income or areas determined by the State and approved by the Secretary of the Treasury of the United States and the Secretary of the United States Department of Housing and Urban Development to be areas of chronic economic distress (the “Target Areas”). The Agency will make available the required amount of the Series Bond proceeds for the purchase of Program Loans financing the purchase of residences located in Target Areas and will advertise the availability of Series Bond funds for Program Loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas with Series Bond proceeds. Absent any determination by the Agency that further availability of the Series Bond proceeds is required by federal law, any moneys remaining unused may be made available to finance the purchase of residences located anywhere within the State, or may be used to redeem Series Bonds.

Servicing

Under the Program, the Agency has set forth requirements for the servicing and accounting of Program Loans in a Servicing Manual. Servicing may be granted to Lenders that demonstrate adequate technical capability to the Agency’s satisfaction. Each Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best’s Insurance Reports of A/AAA or better. Servicers are required to ensure that mortgagors maintain on each home a hazard insurance policy providing fire and extended coverage equal to or greater than that customary in the geographic area in which the home is located. Servicers are required to advise the Agency if a home is exposed to a risk not otherwise covered by the hazard insurance policy and the Agency may require additional coverage.

The Agency requires its Servicers to supply reports and other data sufficient to reconcile the transactions within its loan portfolio. Servicers remit mortgage collections daily to the Trustee. The Agency has established specific requirements for Servicers regarding the procedures to be followed in cases involving delinquencies. In addition to a monthly report requirement, Servicers are required, by following the Agency’s procedures, to bring a delinquency current in the shortest possible time. The Agency may, at any time, terminate a servicing agreement and re-assign servicing. Under the Program, Servicers will receive as compensation a monthly servicing fee not to exceed 0.375%/12 of the outstanding principal amount of Program Loans.

Applicable Federal Law Mortgage Eligibility Requirements

Applicable federal law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue, such as the Series Bonds. (See “Tax Exemption and Related Considerations.”)

Mortgage Loan Portfolio

As of September 30, 2006, the Agency had outstanding loans receivable of $1,010,321,000 gross, from the proceeds of the Outstanding Bonds. As of September 30, 2006, there were no uncommitted proceeds from previous bond sales available for commitment. Not all loan commitments result in the purchase of a mortgage loan. The ability of the Agency to recommit funds depends on market conditions at the time a loan commitment expires without a loan closing.

The Agency's combined delinquency and foreclosure experience is currently below that for the United States as most recently published in the quarterly National Delinquency Survey by the Mortgage Bankers Association of America, as adjusted by the Agency to reflect the mix of mortgage guaranty and insurance types present in the Agency's portfolio.

HOME IMPROVEMENT PROGRAM

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program in respect of Program Loans to finance home improvements ("Home Improvement Program Loans"), which is subject to change from time to time as provided in the Bond Resolution and any applicable series resolution.

Under its Program, the Agency intends to reimburse itself for its purchase of, or to purchase, Home Improvement Program Loans at varying terms and interest rates. The interest rates are established from time to time and are estimated to cover anticipated costs of funding the Home Improvement Program Loans, servicing the Home Improvement Program Loans and defraying a portion of other Program expenses including compensation to Lenders and Agency operation costs and expenses. Under the Community Fix-up Fund Program, reduced interest rates on loans are available for individuals or families with gross annual household incomes equal to or less than the current home improvement loan program income limit. Subprime loans are available at higher interest rates.

Lender Application and Participation

The Home Improvement Program includes loans from the Fix-up Fund, which provides home improvement loans to low and moderate income homeowners, and the Community Fix-up Fund, which provides home improvement loans to assist a designated community in addressing its specific home improvement needs through partnerships with local lenders, nonprofit organizations, local governments and community organizations. Within the Community Fix-up Fund, sub-prime loans are available to serve households unable to qualify for conventional financing or refinancing.

The Agency may purchase Home Improvement Program Loans from participating banks, savings banks, mutual savings banks, savings and loan associations organized under the laws of Minnesota or the United States, non-profit organizations licensed by the State of Minnesota and agencies or instrumentalities of the United States or the State (the "Lenders").

In connection with the Home Improvement Program, the Agency has published the *Fix-up Fund Procedural Manual* (the "Fix-up Fund Manual") for the purchase of Home Improvement Program Loans which sets forth the guidelines and procedures for participation in the Home Improvement Program and the requirements for origination of Home Improvement Program Loans.

Lenders interested in participating in the Agency's Home Improvement Program may access information and application materials on the Agency's website. Each Lender that meets the Home Improvement Program requirements and participates in the Program either executes or has executed a Participation Agreement (the "Agreement") that incorporates the Fix-up Fund Manual by reference. Lenders that participate in the Home Improvement Program receive no advance commitment of funds from the Agency. Rather, as funds are available, Lenders may fax the Agency for an Individual Commitment of Program loan funds on a case-by-case basis as each application is taken and initially screened by the Lender. The Home Improvement Program loan funds are then reserved for each specific case for a specific term. Should a specific case ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. The amount of funds that may be used by an individual participating Lender is to be determined by the Home Improvement Program Loan demand experienced by the Lender.

Upon execution of the Agreement by the Agency, each Lender must pay an initial fee of $1,000 to participate in the Home Improvement Program and an annual renewal fee of $500, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to pay the $500 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the first July 1st that follows execution of an Agreement with the Agency.

Qualified Borrowers

Borrowers must be persons or households of low to moderate income. Low to moderate income is currently defined as gross annual household income that does not exceed 115% of the Minneapolis/St. Paul median income as published by HUD.

When the proceeds of a Home Improvement Program Loan will be made to a homeowner for improvements that will enable the homeowner or a resident of their household with a permanent physical or mental condition that substantially limits one or more major life activities to function in the subject home, Home Improvement Program Loans may be made to otherwise eligible homeowners and properties without limitations relating to the maximum income of the homeowner.

The Home Improvement Program Loan note contains certain promises and conditions including: the property to be improved must be the principal residence of the Borrower; the property to be improved must be a completed home and is a year-round permanent residence; the residence must be permanently attached to the land by way of a foundation and must be taxed as real property; the Borrower cannot use or intend to use more than 49% of the residence primarily for business purposes; and the Borrower must have at least a one-third interest in the residence, either as owner, as holder of a life estate, or as a buyer under a contract for deed.

Additionally, the Home Improvement Program requires that the Borrower will use loan proceeds only for eligible improvements as described on the Agency's credit application; loan funds will be used and improvements completed within nine months of the date of the Home Improvement Program Loan note; the Agency has the right to inspect the property to be improved at any time from the date of the Home Improvement Program Loan note; work must comply with applicable building or housing code regulations and ordinances; and all necessary permits and licenses shall be obtained. The Home Improvement Program Loan note also contains due-on-sale, non-assumption provisions.

Loan Origination

By terms of the Agreement, Lenders are responsible for receiving applications for loans; processing applications; gathering supporting documentation to establish applicant and property compliance with Home Improvement Program eligibility requirements, including documentation showing the applicant to be solvent with reasonable ability to pay the Home Improvement Program Loan; and closing and funding Home Improvement Program Loans.

The purchase price of each Home Improvement Program Loan is the original principal balance of the subject Program Loan plus a processing fee of $200.

Lenders may directly charge borrowers the following fees:

1. A Loan Origination Fee not to exceed 1% of the principal balance of the loan.
2. The actual cost of the title search and flood certification.
3. The actual cost of document preparation, not to exceed $50.
4. A credit investigation fee not to exceed $15.
5. Actual recording fees and mortgage registration tax costs for secured loans.*

* These fees must be collected directly from the applicant and may not be financed in the loan amount or deducted from loan proceeds.

Warranties by Lender

The Lender warrants that the following additional documentation has been retained by the Lender and shall be made available to the Agency upon request: (1) written evidence of verification of income sources relied upon for repayment of the Home Improvement Program Loan; (2) credit report and supplementary information as appropriate for normal, prudent underwriting; (3) documentation of the current ownership of property and prior encumbrances; (4) bids and estimates for all proposed improvements; and (5) any compliance documentation required by Lender's regulatory authority. For a Home Improvement Program Loan secured with a mortgage the

Lender warrants to the Agency that it has submitted the original mortgage and assignment of mortgage to the county for recording, and that the recorded documents will be forwarded directly to the Agency upon receipt by the Lender.

The Lender must repurchase a Home Improvement Program Loan in the event of breach of its warranties with regard to such Program Loan.

Special Assistance Programs

Notwithstanding the above, the Agency may set aside the proceeds of Bonds under the Home Improvement Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit proceeds to Lenders that, in turn, will provide home improvement financing opportunities that address a specified need. These needs may be geographic in nature or may pertain to a homeowner's credit history, and property ownership in the form of leased land or a personal property mobile home.

Lenders are approved for the special assistance programs by way of an addendum to the Agreement specifying one or more special needs that will be targeted. The Lender may originate Home Improvement Program Loans that (1) provide a higher income limit; (2) provide a lower interest rate for lower income borrowers; (3) provide a higher loan amount; or (4) expand credit underwriting criteria to include persons who show affordability for Home Improvement Program Loan repayment but have blemishes on their credit history.

The purchase price of these special assistance Home Improvement Program Loans is the original principal balance of the subject Home Improvement Program Loan plus a processing fee of $300. Lenders may also charge borrower fees in accordance with the fees listed above under the heading "Loan Origination." Currently, the Community Fix-up Fund is the special assistance program offered by the Agency.

Terms of Home Improvement Program Loans

Home Improvement Program Loans bear simple interest, and must be structured to provide for monthly payments. The term of a Home Improvement Program Loan in an amount less than or equal to $10,000 may not exceed 10 years, and the term of a Home Improvement Loan in an amount greater than $10,000 may not exceed 20 years. Home Improvement Program Loans are purchased in principal amounts of between $2,000 and $35,000, except where consolidated with existing Agency loans, or where used exclusively for accessibility improvements, in which cases the total loan amount may not exceed $35,000. Lenders may request prior approval from the Agency to make loans exclusively for accessibility improvements in an amount greater than $35,000.

Home Improvement Program Loans are secured by a mortgage against the property if: (i) the principal amount of the Home Improvement Program Loan exceeds $10,000, (ii) the new loan plus the outstanding balances of all previously received Fix-up Fund Loans, Home Energy Loans, Community Fix-up Fund Loans and Accessibility Loans exceeds $10,000, or (iii) the lender determines that prudent lending practices require that a mortgage be taken as security for the payment of the Home Improvement Program Loan.

Mortgages on Home Improvement Program Loans are not subject to mortgage insurance and may be subordinated to an outstanding first mortgage on the property.

Home Improvement Program Loans with an original term in excess of 36 months that are prepaid within the first 36 months of the loan term are subject to a prepayment penalty equal to the lesser of 60 days' interest or 2% of the outstanding principal balance at the time of payoff.

Servicing

Under the Home Improvement Program, the Agency has set forth requirements for the servicing of and accounting of Home Improvement Program Loans in a Servicing Manual. The Servicer must demonstrate adequate technical capability to the Agency's satisfaction. The Servicer must maintain at all times a fidelity bond and an errors and omissions policy issued by a company having a current rating in Best's Rating Guide of "B/IX" or better.

The Agency monitors the performance of the Servicer by reviewing the annual audited financial statements and the Servicer's systems of internal controls and reconciling monthly reports to the Agency's control accounts.

The Agency has established specific requirements for the Servicer regarding the procedures to be followed in cases involving delinquencies. Under the Home Improvement Program, the Servicer will receive a monthly servicing fee not to exceed 0.95%/12 of the outstanding principal amount on Program Loans. The Agency may assign servicing to other servicers at its discretion.

Under the Series Resolution, the Agency must take or require a Servicer to take all measures, actions and proceedings reasonably necessary and deemed by it to be most effective, in light of the circumstances and the nature of the security, if any, for the Home Improvement Loan, to recover the balance due on a Defaulted Program Loan.

Home Improvement Loan Portfolio

As of June 30, 2006, the Agency had outstanding loans receivable of $125,277,000 gross, from the proceeds of the Outstanding Bonds and the Home Improvement Endowment Fund.

The Agency's combined delinquency and loss experience for the home improvement loan portfolio is currently below that for all insured U.S.-chartered commercial banks as published quarterly by the Federal Financial Institutions Examination Council in the Consolidated Reports of Condition and Income.

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 or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix A.

For example, as of June 30, 2006, the Single Family Fund, which has a more extensive history than the Residential Housing Finance Fund, had outstanding loans receivable of $326,357,000 gross, from the proceeds of the Agency's outstanding single family mortgage bonds. As of June 30, 2006, no additional mortgage loans were being processed for purchase with moneys on deposit in the Single Family Fund. As of June 30, 2006, excluding the proceeds of short-term bonds and notes, there were approximately $945,000 of uncommitted proceeds from previous bond sales available for commitment. *None of the mortgage loans credited to the Single Family Fund secure or are available for the payment of principal of or interest on the Bonds.*

TAX EXEMPTION AND RELATED CONSIDERATIONS

The 2006 Series KLM Bonds

The 2006 Series KLM Bonds are subject to the requirements of Sections 143 and 148 and certain other sections of the Code.

The loan eligibility requirements of Section 143 applicable to Program Loans funded in whole or in part with proceeds of the 2006 Series KLM Bonds are that (1) the Home on which the Program Loan is made is a single family residence which, at the time the Program Loan is made, is or can reasonably be expected within a reasonable time to become the principal residence of the Mortgagor and is located in the State; (2) except in certain limited circumstances, no part of the proceeds is to be used to acquire or replace any existing mortgage; (3) the "acquisition cost" of the Home meets certain limits; (4) the family income of the Mortgagor meets certain limits; (5) with certain exceptions, the Mortgagor shall not have had a present ownership interest in his principal residence during the preceding three years; and (6) the Program Loan shall not be assumable unless the requirements of (1), (3), (4) and (5) above are met at the time of the assumption. An issue is treated as meeting the loan eligibility requirements of Section 143 if (1) the issuer in good faith attempted to meet all of the requirements before the loans were executed; (2) 95% or more of the proceeds of the issue used to finance loans were devoted to residences which met all such requirements at the time the loans were executed or assumed; and (3) any failure to comply with the loan eligibility requirements is corrected within a reasonable period after such failure is first discovered.

The Code also imposes additional requirements to maintain the exclusion from gross income for federal income tax purposes of interest on the 2006 Series KLM Bonds. For example, the Code limits the amount of the costs of issuance which may be paid from the proceeds of the 2006 Series KLM Bonds and limits the size of reserve funds established with the proceeds of the 2006 Series KLM Bonds. In addition, the Code imposes, on a continuing basis, limitations on investment of the proceeds of the 2006 Series KLM Bonds and requires earnings on non-mortgage investments in excess of the yield on the 2006 Series KLM Bonds to be rebated to the United States.

The Agency has included provisions in the Resolutions, the Manual and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Lenders, Mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the requirements of the Code which must be met subsequent to the date of original issuance of the 2006 Series KLM Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the 2006 Series KLM Bonds will be excludable from federal gross income and not to permit any proceeds of the 2006 Series KLM Bonds to be used in a manner which violates any of the restrictions contained in applicable federal law. In the opinion of Bond Counsel, the Manual and the Agency's covenants in the Resolutions establish procedures under which the requirements of applicable federal law can be met. Noncompliance with the requirements in the Manual and Resolutions may cause interest on the 2006 Series KLM Bonds to become includable in the federal gross income of the owners thereof retroactive to the date of issue.

Assuming compliance with certain covenants in the Manual and Resolutions intended to assure compliance with the Code and with the procedures established by the Agency, in the opinion of Dorsey & Whitney LLP, Bond Counsel, under existing laws, regulations, rulings and decisions, interest on the 2006 Series KLM Bonds is not includable in gross income of the owners thereof for federal income tax purposes.

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. *In the opinion of Bond Counsel, interest on the 2006 Series K Bonds and the 2006 Series M Bonds, but not the 2006 Series L Bonds, will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2006 Series L Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.*

In addition, in the opinion of Bond Counsel, interest on the 2006 Series KLM Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. *Interest on the 2006 Series K Bonds and the 2006 Series M Bonds, but not the 2006 Series L Bonds, is includable in income for purposes of calculating the Minnesota alternative minimum tax applicable to individuals, trusts and estates*. Interest on the 2006 Series KLM 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 2006 Series KLM Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the 2006 Series KLM 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 2006 Series KLM 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 2006 Series KLM Bonds for this purpose even though not directly traceable to the purchase of the 2006 Series KLM Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the 2006 Series KLM 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 2006 Series KLM 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 2006 Series KLM Bonds that is received or accrued during the taxable year. Interest on the 2006 Series KLM 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 2006 Series KLM Bonds may be adversely affected by future changes in federal or Minnesota tax treatment of interest on the 2006 Series KLM Bonds or by future reductions in income tax rates.

The Series M PAC Term Bonds are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire the Series M PAC Term Bonds must, from time to time, reduce their federal and Minnesota income tax bases for the Series M PAC Term Bonds for purposes of determining gain or loss on the sale or payment of such Series M PAC Term Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Bondholders who acquire Series M PAC Term Bonds at a premium might recognize taxable gain upon the sale of the Series M PAC Term Bonds, even if such Series M PAC Term Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Series M PAC Term Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Series M PAC Term Bonds acquired at a premium.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE 2006 SERIES KLM BONDS OR RECEIPT OF INTEREST ON THE 2006 SERIES KLM 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.

Certain State Tax Legislation

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes, if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. 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. In January 2006, the Kentucky Court of Appeals held, in *Davis v. Department of Revenue,* that the state's exemption of interest on its own bonds and those of its political subdivisions and its taxation of interest on the bonds of other states and their political subdivisions unlawfully discriminates against interstate commerce. The Kentucky Supreme Court declined to review this decision. Kentucky officials have stated that they plan to seek United States Supreme Court review of the *Davis* decision. In 1994, the Ohio Court of Appeals had reached the opposite conclusion on this legal issue, upholding a similar Ohio statute, in *Shaper v. Tracy*.

If the United States Supreme Court were to review and affirm the *Davis* decision, it is likely that Minnesota's tax treatment of state and local government bonds would also be held to be unconstitutional. A challenge of Minnesota's treatment of state and local government bonds is possible even in the absence of a decision by the United States Supreme Court. If Minnesota's treatment of state and local government bonds were held to unlawfully discriminate against interstate commerce, the court would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those and other years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

The 2006 Series N Bonds

The interest payable on the 2006 Series N Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. No other opinion has been obtained or is given regarding the federal, state or local tax consequences of the purchase, ownership, retirement or disposition of the 2006 Series N Bonds. Prospective bondholders should consult with their own tax advisers concerning such tax issues, including without limitation the treatment of interest in jurisdictions other than the State of Minnesota, the calculation and timing of inclusion of interest in income, the tax consequences of dispositions of 2006 Series N Bonds at a gain or loss and the determination of the amount thereof, rules applicable if 2006 Series N Bonds are acquired at a premium or discount from their face amount (such as the possible treatment of accrued market discount as ordinary income, deferral of certain interest deductions attributable to indebtedness incurred or continued to purchase or hold 2006 Series N Bonds, and the amortization of market premium). Interest payments and proceeds of the sale, exchange, redemption or retirement of 2006 Series N Bonds are expected to be reported to the Internal Revenue Service to the extent required by law. A backup withholding tax might apply to payments to bondholders under circumstances described in section 3406 of the Code, including failure of the bondholder to provide certain information, including without limitation the bondholder's tax identification number. Payments to bondholders who are not U.S. residents or who are foreign entities might also be subject to tax withholding in certain circumstances.

LEGAL MATTERS

The validity of the Series Bonds, and the tax exemption of interest on the 2006 Series KLM Bonds, are subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. The respective opinions of Bond Counsel will be provided in substantially the forms set forth in Appendix F attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

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 Bonds.

UNDERWRITERS

UBS Securities LLC, RBC Dain Rauscher Inc. and Wells Fargo Brokerage Services, LLC (collectively, the "Underwriters") will purchase the Series Bonds. RBC Capital Markets is the name under which RBC Dain Rauscher Inc. will be performing underwriting services in connection with the Series Bonds. The Underwriters are to be paid a fee of $141,102.17 with respect to the purchase of the 2006 Series K Bonds and a fee of $449,621.83 with respect to the 2006 Series LMN Bonds. The Underwriters may offer and sell such Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Timothy E. Marx
Commissioner

Dated: October 13, 2006.

APPENDIX A

FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2006

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In my 2005 report I reflected that the strength of an organization can, in part, be determined by its ability to anticipate challenges, understand them, and turn them into opportunities. I am pleased to report that in 2006 the Agency again demonstrated its strength as an organization. Our intensive efforts last year to complete the Risk Based Capital Study laid a foundation for the Agency's two-year Affordable Housing Plan or program budget and for our Mission Sustainability Project. The purpose of the Mission Sustainability Project is to respond both financially and programmatically to the findings of the Risk Based Capital Study, which indicates that being more efficient and strategic with Agency generated financial resources will provide both long-term program and financial sustainability. Substantial work has been completed on the homeownership and home improvement programs, and work continues on our multifamily programs and on a comprehensive review of our financial policies.

As this important work of Mission Sustainability was initiated, the Agency continued its strong record of financial performance, operational soundness, and policy and programmatic impact.

As with last year, net assets in the bond funds and General Reserve increased as net volume in our mortgage revenue bond program grew significantly resulting from continued robust homeownership lending and lower mortgage loan prepayments in the existing portfolio. Net assets of the State Appropriated fund decreased slightly as expected due to spending down appropriations accumulated from prior years.

Operationally, the Agency strengthened its management by establishing and filling the position of Director of Operations and filling key positions in finance, research, and communications. The Director of Operations will allow greater priority to be given to completing important technology projects. Together, these changes will allow greater management capacity to be focused on important financial and program analysis related to the ongoing Mission Sustainability Project. In addition, the Agency has a new brand and logo which was launched with a new ad campaign for its homeownership products.

From a program and policy perspective, the Agency continues to make progress on each of its strategic goals:

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

The 2005 State Legislature appropriated the largest amount of General Obligation bond proceeds ever appropriated to Minnesota Housing. This $17.5 million appropriation for permanent supportive housing was part of the State's plan to end long-term homelessness. An additional $2 million was appropriated for transitional housing.

The Agency's continued efforts to end long-term homelessness exceed established production benchmarks (665 housing opportunities against a goal of 600) and received an award from the National Council of State Housing Agencies (NCSHA). Agency efforts leveraged additional resources from state, federal, and private sources with capital, operating and services funding. Of particular note is the $5 million grant announced by the Frey Foundation to support the state's plan.

The Emerging Markets Homeownership Initiative moved from a conceptual stage to implementation with the hiring of an Executive Director and the work of creating pilot projects to implement initiative strategies has begun. Buoyed by the broad-based industry and community commitment to the goal of 40,000 new minority households by 2012, the initiative is now an independent non-profit 501(c)(3) corporation. Minnesota Housing and others continue to support this initiative.

Advancement of the other strategic goals is reflected and detailed in the program assessment completed by the Agency. During this program year (October 1, 2004 through September 30, 2005), the Agency fulfilled our mission of providing decent, safe and affordable housing for stronger communities and served nearly 58,000 households. To highlight a few areas: Of those households served, excluding those living in Section 8 project-based housing, 41% had annual incomes under $20,000. Among tenants of Section 8 housing, 89% had incomes below $20,000 in 2005.

Financially, the Agency provided more than $637 million in housing assistance, an increase of over $100 million from last year which reflects continued strong program demand. Homeownership programs within the Agency's Single Family Division were strong and experienced high volume, with the Agency providing $398.8 million in assistance to more than 16,400 homeowners and homebuyers. This accounts for the bulk of the increased assistance the Agency provided in this program year.

Our Multifamily programs provided $238.5 million in assistance during the 2005 program year, providing assistance to sponsors or tenants of more than 41,500 units of affordable rental housing.

As of the end of the 2006 fiscal year, the agency oversaw a portfolio of more than 41,000 mortgages and deferred loans for homeownership, and home improvement and 310 first mortgage loans for rental housing as well as administering the federal tax credit program. NCSHA presented their Annual Award for Program Excellence to Minnesota Housing for our Watchlist: An Electronic Property Loan Risk Analysis Tool — in the category of Rental Housing, Multifamily Management. This multifamily rental property portfolio tool provides an innovative solution to asset management — an electronic property loan risk analysis tool that allows Agency staff to assess each project objectively and compare properties.

Continued changes in the housing and financial markets and the funding and policy environment affecting affordable housing will affect the Agency and those we serve in the coming year. During this time, the Agency will begin the process of updating its strategic plan and preparing a new Affordable Housing Plan. I am confident that the plans we will prepare and execute will continue and enhance the Agency's financial, operational, and programmatic strengths to the benefit of all of our stakeholders.

Timothy E. Marx, Commissioner
Minnesota Housing
August 18, 2006

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, 2006, 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. The prior year comparative information has been derived from the Agency's 2005 financial statements and, in our report dated August 15, 2005, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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, 2006, 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.

As described in the notes to the financial statements, the Agency changed its method of disclosing interest rate risk on investments in debt securities.

The Management's Discussion and Analysis, as listed in the table of contents, is 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, Weishan Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Minneapolis, Minnesota
August 18, 2006

Management's Discussion and Analysis of Financial Condition and Results of Operations is not audited. However, it is supplementary information required by accounting principles generally accepted in the United States of America. This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing 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. Minnesota Housing 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. Minnesota Housing also receives funds appropriated by the federal government for similar purposes.

Minnesota Housing 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.

Minnesota Housing 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 Minnesota Housing's endowment funds and Alternative Loan Fund.

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

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 Minnesota Housing:

- The first two statements are Agency-wide financial statements that provide information about Minnesota Housing'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 Minnesota Housing's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.
- 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 Minnesota Housing, which have been established under the bond resolutions under which Minnesota Housing 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, 2005. Although not required, these comparative totals are intended to facilitate an enhanced understanding of Minnesota Housing's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Financial Statements (continued)

During fiscal year 2006 the Agency began reporting its unamortized bond issuance costs as an asset in the Statement of Net Assets, where previously the Agency had reported these costs as a reduction to bonds payable. Accounting literature supports both reporting methods but has resulted in somewhat inconsistent presentation of financial reports among similar entities. The Agency reclassified its unamortized bond issuance costs as an asset, presenting this information in a manner that is more consistent with the prevalent trend. The reclassification of this item has no impact on Agency revenues, expenses or net assets. Consequently the Agency does not believe that the reclassification of this item is material to the financial statement presentation.

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing 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 Minnesota Housing 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 Minnesota Housing.

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 Minnesota Housing, so this portfolio continues to receive a significant amount of Minnesota Housing staff attention.

All of Minnesota Housing's new bond-financed multifamily loans are financed in Rental Housing.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the bond resolution 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 loans and their related entry cost housing assistance loans, 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. Minnesota Housing 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 2006.

The Home Improvement Endowment Fund continues to be the principal source of financing for Minnesota Housing's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2006.

The Homeownership Endowment Fund is a source of funding for bond sale contributions, 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.

The Multifamily Endowment Fund is the principal source of funding for innovative multifamily programs that are not candidates for bond financing, such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

Discussion of Individual Funds (continued)

The Housing Investment Fund is currently invested in investment grade multifamily and single family housing loans, as defined by Minnesota Housing, 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 single family housing loans, as defined by Minnesota Housing, 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 Minnesota Housing's bond-financed homeownership programs. Since fiscal year 2002 Minnesota Housing has utilized 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 may be 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 Minnesota Housing 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 Minnesota Housing.

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 Minnesota Housing. 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.

Minnesota Housing 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 Minnesota Housing funds as required by accounting principles generally accepted in the United States of America. The

General Overview (continued)

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 Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing 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 Minnesota Housing 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.

Minnesota Housing 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 Minnesota Housing. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in Minnesota Housing 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 Minnesota Housing by the State of Minnesota or made available to Minnesota Housing 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 Minnesota Housing.

In addition to its audited annual financial statements, Minnesota Housing 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 Minnesota Housing's web site at www.mhfa.state.mn.us.

Condensed Financial Information

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

		Agency-wide Total			Combined General Reserve and Bond Funds	
		2006	2005	Change	2006	2005
Assets	Cash and Investments	$1,103,132	$1,389,770	$(286,638)	$ 990,408	$1,314,505
	Loans receivable, Net	1,805,094	1,542,662	262,432	1,776,736	1,514,094
	Interest Receivable	12,065	11,151	914	11,443	10,826
	Total Assets	2,942,903	2,963,918	(21,015)	2,800,117	2,859,014
Liabilities	Bonds Payable	1,946,091	2,029,828	(83,737)	1,946,091	2,029,828
	Interest Payable	38,086	35,959	2,127	38,086	35,959
	Funds Held for Others	82,368	80,457	1,911	80,555	79,628
	Total Liabilities	2,120,329	2,163,563	(43,234)	2,080,230	2,161,822
Net Assets	Restricted by Bond Resolution	406,548	400,831	5,717	406,548	400,831
	Restricted by Covenant	309,654	293,597	16,057	309,654	293,597
	Restricted by Law	102,687	103,163	(476)	—	—
	Total Net Assets	822,574	800,355	22,219	719,887	697,192

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

		Agency-wide Total			Combined General Reserve and Bond Funds	
		2006	2005	Change	2006	2005
Revenues	Interest Earned	$141,502	$127,327	$14,175	$137,954	$125,342
	Appropriations Received	205,553	195,611	9,942	—	—
	Fees and Reimbursements	11,956	10,930	1,026	27,109	26,624
	Total Revenues(1)	368,963	352,642	16,321	159,440	154,240
Expenses	Interest Expense	87,115	79,863	7,252	87,115	79,863
	Appropriations Disbursed	180,784	173,842	6,942	—	—
	Fees and Reimbursements	5,961	5,297	664	18,697	17,451
	Payroll, Gen. & Admin.	23,492	20,842	2,650	22,556	19,817
	Loan Loss/Value Adjust's	33,494	37,087	(3,593)	8,377	6,895
	Total Expenses(1)	346,744	333,375	13,369	136,745	124,026
	Revenues over Expenses	22,219	19,267	2,952	22,695	30,214
	Beginning Net Assets	800,355	781,088	19,267	697,192	666,978
	Ending Net Assets	822,574	800,355	22,219	719,887	697,192

(1) Agency-wide totals include interfund amounts.

	Combined State and Federal Appropriations Funds		
Change	2006	2005	Change
$(324,097)	$112,724	$ 75,265	$37,459
262,642	28,358	28,568	(210)
617	622	325	297
(58,897)	142,786	104,904	37,882
(83,737)	—	—	—
2,127	—	—	—
927	1,813	829	984
(81,592)	40,099	1,741	38,358
5,717	—	—	—
16,057	—	—	—
—	102,687	103,163	(476)
22,695	102,687	103,163	(476)

	Combined State and Federal Appropriations Funds		
Change	2006	2005	Change
$12,612	$ 3,548	$ 1,985	$ 1,563
—	205,553	195,611	9,942
485	745	750	(5)
5,200	209,523	198,402	11,121
7,252	—	—	—
—	180,784	173,842	6,942
1,246	3,162	4,290	(1,128)
2,739	936	1,025	(89)
1,482	25,117	30,192	(5,075)
12,719	209,999	209,349	650
(7,519)	(476)	(10,947)	10,471
30,214	103,163	114,110	(10,947)
22,695	102,687	103,163	(476)

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 2006 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. During fiscal year 2006 the Agency began reporting its unamortized bond issuance costs as an asset in the Statement of Net Assets, where previously the Agency had reported these costs as a reduction to bonds outstanding liabilities. Additional information regarding this reclassification is provided within the Management's Discussion and Analysis of this report in the "Discussion of Financial Statements" section. 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 17% to $1,777 million at June 30, 2006 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 decreased 25% to $990.408 million at June 30, 2006 primarily due to increases in loan assets and reductions of bond liabilities 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 6% to $11.443 million at June 30, 2006.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports Minnesota Housing's mission. Bonds payable decreased 4% to $1,946 million at June 30, 2006 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable increased 6% to $38.086 million at June 30, 2006 as a result of higher average cost of new bonds issued. During the fiscal year $291.940 million of short term debt (convertible option bonds and notes) at relatively low interest rates were redeemed and re-issued as longer term debt at higher interest rates.

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 increased 1% to $80.555 million at June 30, 2006 as multifamily escrow reserves increased slightly.

Accounts payable and other liabilities decreased 1% to $15.559 million at June 30, 2006 primarily as a result of arbitrage liability payments made net 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. Minnesota Housing 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

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

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 Minnesota Housing 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 Minnesota Housing enabling legislation, 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. 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 3% to $719.887 million at June 30, 2006 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 almost unchanged in fiscal year 2006, increasing slightly from fiscal year 2005 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 increased compared to the prior year. Offsetting some of the unfavorable effects of interest expense increases was the favorable effect of interest revenue increases.

The largest revenue component, interest earned, increased during the year as yields on loans and investments increased to higher levels. Combined interest revenues of General Reserve and bond funds from loans and investments increased 10% to $137.954 million compared to the prior year. Loan interest increased in fiscal year 2006 as new loan purchases and originations were made at higher rates compared to the prior year and net loans outstanding were higher throughout the year. Investment interest earned increased in fiscal year 2006 as investment yields increased even though the average balance of investments, cash, and cash equivalents was lower compared to fiscal year 2005.

Administrative reimbursements to General Reserve from bond funds were $12.776 million in fiscal year 2006 compared to $12.193 million during the prior fiscal year. General Reserve also received overhead reimbursements of $3.954 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred to administer state and federal housing programs during fiscal year 2006 compared to $5.026 million during the prior fiscal year. Overhead expenses of $.854 million to administer state appropriated housing programs during fiscal year 2006 were not reimbursed as the investment earnings available for this use within the State Appropriated fund were insufficient. General Reserve incurs overhead expenses to administer state appropriated housing programs.

Other fee income to General Reserve and bond funds increased 10% to $10.379 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, federal Housing Assistance Payments administration fees, and various loan related fees.

Minnesota Housing recorded $5.623 million of unrealized losses on investment securities during fiscal year 2006, compared to $2.274 million of unrealized gains during the prior year, for a net decrease of $7.897 million. As investment yields were generally rising during the year, investment securities acquired in prior periods at lower yield rates were adjusted to lower market values resulting in unrealized losses.

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

Interest expense of the bond funds increased 9% to $87.115 million compared to the prior year as a result of higher interest rates and increasing long-term debt.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 7% to $18.697 million compared to the prior year. It should be noted that $12.776 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 14% to $22.556 million compared to the prior year as operating expenses continue to increase. Much of the other general operating expense increase is attributable to increased housing program expenditures rather than Agency administrative expenses.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $.689 million to $6.427 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 69% to $1.950 million, consistent with strong growth in the homeownership loan portfolio.

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 decreased $7.519 million to $22.695 million compared to the prior year. After considering the non-operating effects of $7.897 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 3% to $719.887 million as a result of revenues over expenses for fiscal year 2006. 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 Minnesota Housing 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, 2006 combined balance increased 50% to $112.724 million as a result of combined disbursements for programs, loans and expenses being less than the combined appropriations received and revenues in the current year. The State Appropriated Fund received its fiscal year 2007 appropriation of $35.235 million on June 30, 2006 which was recorded as deferred revenue (liability) since this amount may not be disbursed prior to July 1, 2006. This is the main component of the year-to-year increase in cash and cash equivalents.

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

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2006 State Appropriated Fund loans receivable decreased 1% to $28.358 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, 2006 increased 91% to $.622 million primarily as a result of higher average investment yields and balances.

Deferred revenue was recorded in the State Appropriated Fund when it received its fiscal year 2007 appropriation of $35.235 million on June 30, 2006 since this amount may not be disbursed prior to July 1, 2006.

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, 2006 was $2.990 million compared to $1.512 million at June 30, 2005. The increase in accounts payable and other liabilities is largely attributable to increases in accrued 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 activities. Interfund payable occurs in the Federal Appropriated Fund as a result of overhead expense and indirect cost recoveries due to Minnesota Housing. At June 30, 2006 the combined net interfund payable was $.061 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, 2006 the balance of funds held for the federal government was $1.813 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 Minnesota Housing. The combined net assets of the Appropriated Funds declined to $102.687 million as of June 30, 2006 compared to the prior period, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2006.

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 Minnesota Housing 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 $195.611 million at June 30, 2005 to $205.553 at June 30, 2006. Federal appropriations received increased by $8.964 million while state appropriations received increased by $.978 million.

Interest income from investments increased throughout the year as investment yields in general were above the previous historically low levels while the average balance of investment assets was similar to the prior year. The combined interest income increased 84% to $3.528 million at June 30, 2006.

Loan interest income from State Appropriations loan assets continues to be minimal at $.020 million as relatively few loans are interest bearing.

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

Private donations to support state housing programs in the amount of $.745 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2006.

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 increased from a $.056 million unrealized gain at June 30, 2005 to an unrealized loss of $.323 million at June 30, 2006.

Administrative reimbursements to General Reserve of overhead expenses decreased 26% to $3.122 million compared to the prior year. The Agency incurs the overhead expense in its General Reserve of administering certain State Appropriated fund programs. The General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent that investment earnings are sufficient. However, during fiscal year 2006 investment earnings in the State Appropriated fund became insufficient to fully reimburse all the overhead expenses incurred by General Reserve.

Combined appropriations disbursed increased 4% to $180.784 million compared to prior year, reflecting reduced State Appropriations disbursed of $11.492 million and increased federal appropriations disbursed of $169.292 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 carrying value decreased 17% to $24.963 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 $.936 million at June 30, 2006.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $.476 million at June 30, 2006, 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

Minnesota Housing is a significant debt issuer, having outstanding at June 30, 2006 long-term debt totaling $1,578.226 million and short-term debt totaling $367.865 million. Minnesota Housing bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2006, 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, 2006, 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 Minnesota Housing is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is set in Minnesota law. Minnesota Housing'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.

Purchases of homeownership first mortgage loans have increased annually since 2003 when the Agency moved from a seasonal to a continual, year-round homeownership loan purchase program. To meet increased demand for mortgage financing and to supplement tax-exempt bonding authority, the Agency began issuing limited amounts of taxable debt. Variable-rate debt is also an increasing component of Minnesota Housing's financings enabling it to provide below-market,

Significant Long-term Debt Activity (continued)

fixed-rate financing. Interest-rate swaps have generally been used to hedge the potential mismatch between fixed-rate loan assets and variable-rate debt liabilities. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Taxable debt is also used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program requirements. Increased purchase volume also increased the ratio of long-term to short-term debt, which increased the cost of debt to the Agency despite the fact that total debt outstanding declined. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding debt to $3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm issuer ratings for Minnesota Housing of AA+ and Aa1 respectively. Minnesota Housing'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 Minnesota Housing 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 Minnesota Housing staff to make decisions about management of assets and debt.

Minnesota Housing 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, Minnesota Housing completed the issuance/remarketing of 18 series of bonds aggregating to $605 million. This is compared to the combined issuance and remarketing of 25 series totaling $799 million the previous year. In recent years, Minnesota Housing has retired high rate debt when it became optionally 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 $692 million in principal payments and $78 million of interest payments were made during the year. Of the total principal payments, $176 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Conduit Debt Issue

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota non-profit corporation. The proceeds of those bonds were used by that non-profit corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2006, $33.1 million of those bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The Agency's trustee is not the trustee for this series of bonds.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

Having adopted a biennial budget the previous year, the focus of the Minnesota Legislature during the 2006 session was a major capital investment bill. Seventeen and one-half million dollars ($17.5 million) was appropriated for permanent supportive housing as part of the State's plan to end long-term homelessness. An additional $2 million was appropriated for transitional housing. The appropriations were the largest amount of General Obligation bond proceeds ever appropriated to MHFA. These monies must be used to fund the capital costs of publicly owned housing. 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.

Significant Topics Which Affect Financial Condition and/or Operations (continued)

Pandemic Influenza

The Agency is participating with the State of Minnesota in preparing a business continuation plan to be implemented in the event of a pandemic influenza outbreak. A key objective of the business continuation plan will be to protect the health and safety of Agency employees while minimizing any negative impact to business partners and disruption of vital Agency functions.

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).

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MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2006 (with comparative totals for June 30, 2005)

		2006 Agency-wide Total	2005 Agency-wide Total
Assets	Cash and cash equivalents	$ 848,238	$1,067,625
	Investment securities	254,894	322,145
	Loans receivable, net	1,805,094	1,542,662
	Interest receivable on loans	8,295	7,523
	Interest receivable on investments	3,770	3,628
	Mortgage insurance claims receivable	738	922
	Real estate owned	1,414	905
	Unamortized bond issuance costs	13,794	13,742
	Capital assets, net	3,685	2,764
	Other assets	2,981	2,002
	Total assets	$2,942,903	$2,963,918
Liabilities	Bonds payable, net	$1,946,091	$2,029,828
	Interest payable	38,086	35,959
	Deferred revenue	35,235	—
	Accounts payable and other liabilities	18,549	17,319
	Funds held for others	82,368	80,457
	Total liabilities	2,120,329	2,163,563
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	406,548	400,831
	Restricted by covenant	309,654	293,597
	Restricted by law	102,687	103,163
	Invested in capital assets	3,685	2,764
	Total net assets	822,574	800,355
	Total liabilities and net assets	$2,942,903	$2,963,918

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

		2006 Agency-wide Total	2005 Agency-wide Total
Revenues	Interest earned on loans	$ 97,863	$ 90,344
	Interest earned on investments	43,639	36,983
	Appropriations received	205,553	195,611
	Administrative reimbursement	832	775
	Fees earned and other income	11,124	10,155
	Unrealized gains (losses) on securities	(5,946)	2,330
	Total revenues	353,065	336,198
Expenses	Interest	87,115	79,863
	Loan administration and trustee fees	5,961	5,297
	Salaries and benefits	14,054	13,693
	Other general operating	9,438	7,149
	Appropriations disbursed	180,784	173,842
	Reduction in carrying value of certain low interest rate deferred loans	31,390	35,815
	Provision for loan losses	2,104	1,272
	Total expenses	330,846	316,931
	Revenues over expenses	22,219	19,267
	Change in net assets	22,219	19,267
Net Assets	Total net assets, beginning of year	800,355	781,088
	Total net assets, end of year	$822,574	$800,355

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2006 (with comparative totals for June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 12,792	$ 59,958	$ 592,503	$131,537
	Investment securities	104,363	38,797	46,693	3,765
	Loans receivable, net	—	203,455	1,250,530	322,751
	Interest receivable on loans	—	1,191	5,354	1,750
	Interest receivable on investments	1,060	1,246	720	122
	Mortgage insurance claims receivable	—	—	260	478
	Real estate owned	—	—	954	460
	Unamortized bond issuance costs	—	2,613	7,552	3,629
	Capital assets, net	3,685	—	—	—
	Other assets	1,450	5	443	1
	Total assets	$123,350	$307,265	$1,905,009	$464,493
Liabilities	Bonds payable, net	$ —	$200,744	$1,381,392	$363,955
	Interest payable	—	3,776	24,654	9,656
	Deferred revenue	—	—	—	—
	Accounts payable and other liabilities	3,771	2,118	4,554	5,116
	Interfund payable (receivable)	(642)	20,751	(44,851)	24,681
	Funds held for others	80,555	—	—	—
	Total liabilities	83,684	227,389	1,365,749	403,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	79,876	265,587	61,085
	Restricted by covenant	35,981	—	273,673	—
	Restricted by law	—	—	—	—
	Invested in capital assets	3,685	—	—	—
	Total net assets	39,666	79,876	539,260	61,085
	Total liabilities and net assets	$123,350	$307,265	$1,905,009	$464,493

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 40,005	$11,443	$ 848,238	$1,067,625
59,781	1,495	254,894	322,145
28,358	—	1,805,094	1,542,662
—	—	8,295	7,523
570	52	3,770	3,628
—	—	738	922
—	—	1,414	905
—	—	13,794	13,742
—	—	3,685	2,764
245	837	2,981	2,002
$128,959	$13,827	$2,942,903	$2,963,918
$ —	$ —	$1,946,091	$2,029,828
—	—	38,086	35,959
35,235	—	35,235	—
2,136	854	18,549	17,319
(425)	486	—	—
—	1,813	82,368	80,457
36,946	3,153	2,120,329	2,163,563
—	—	406,548	400,831
—	—	309,654	293,597
92,013	10,674	102,687	103,163
—	—	3,685	2,764
92,013	10,674	822,574	800,355
$128,959	$13,827	$2,942,903	$2,963,918

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$13,341	$ 60,725	$23,777
	Interest earned on investments	1,231	4,013	27,406	7,461
	Appropriations received	—	—	—	—
	Administrative reimbursement	16,730	—	—	—
	Fees earned and other income	8,833	856	690	—
	Unrealized gains (losses) on securities	(101)	(2,046)	(2,127)	(1,349)
	Total revenues	26,693	16,164	86,694	29,889
Expenses	Interest	—	11,709	50,472	24,934
	Loan administration and trustee fees	—	178	4,477	1,266
	Administrative reimbursement	—	1,852	7,816	3,108
	Salaries and benefits	14,054	—	—	—
	Other general operating	6,725	—	1,777	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	6,427	—
	Provision for loan losses	—	(76)	1,951	75
	Total expenses	20,779	13,663	72,920	29,383
	Revenues over (under) expenses	5,914	2,501	13,774	506
Other changes	Non-operating transfer of assets between funds	205	299	7,596	(8,100)
	Change in net assets	6,119	2,800	21,370	(7,594)
Net Assets	Total net assets, beginning of year	33,547	77,076	517,890	68,679
	Total net assets, end of year	$39,666	$79,876	$539,260	$61,085

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 20	$ —	$ 97,863	$ 90,344
3,136	392	43,639	36,983
35,235	170,318	205,553	195,611
—	—	16,730	17,219
745	—	11,124	10,155
(282)	(41)	(5,946)	2,330
38,854	170,669	368,963	352,642
—	—	87,115	79,863
40	—	5,961	5,297
3,122	—	15,898	16,444
—	—	14,054	13,693
936	—	9,438	7,149
11,492	169,292	180,784	173,842
24,963	—	31,390	35,815
154	—	2,104	1,272
40,707	169,292	346,744	333,375
(1,853)	1,377	22,219	19,267
—	—	—	—
(1,853)	1,377	22,219	19,267
93,866	9,297	800,355	781,088
$92,013	$ 10,674	$822,574	$800,355

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 19,448	$ 104,531	$ 72,463
	Investment in loans	—	(10,173)	(464,346)	—
	Interest received on loans	—	14,624	60,478	22,669
	Deferred revenue	—	—	—	—
	Other operating	—	—	(1,777)	—
	Fees and other income received	8,628	856	698	—
	Salaries, benefits and vendor payments	(19,657)	(195)	(4,762)	(1,322)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	16,515	(1,839)	(7,816)	(3,108)
	Interest transferred to funds held for others	(3,098)	—	—	—
	Deposits into funds held for others	31,939	—	—	—
	Disbursements made from funds held for others	(29,933)	—	—	—
	Interfund transfers and other assets	(2,242)	—	(24,715)	23,849
	Net cash provided (used) by operating activities	2,152	22,721	(337,709)	114,551
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	12,935	595,680	—
	Principal repayment on bonds	—	(16,660)	(531,190)	(143,660)
	Interest paid on bonds and notes	—	(9,163)	(43,125)	(25,859)
	Financing costs paid related to bonds issued	—	(193)	(4,105)	—
	Interest paid/received between funds	—	(1,749)	2,203	(454)
	Principal paid/received between funds	—	(309)	589	(280)
	Premium paid on redemption of bonds	—	—	—	(236)
	Agency contribution to program funds	—	299	7,801	(8,100)
	Transfer of cash between funds	(3,438)	—	3,438	—
	Net cash provided (used) by noncapital financing activities	(3,438)	(14,840)	31,291	(178,589)
Cash flows from investing activities	Investment in real estate owned	—	—	(525)	(315)
	Interest received on investments	3,896	3,691	24,732	4,938
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	2,509	3,340
	Proceeds from maturity, sale or transfer of investment securities	41,197	14,590	78,594	12,176
	Purchase of investment securities	(35,856)	(7,689)	(42,614)	(1,761)
	Purchase of loans between funds	—		(8,386)	11,245
	Net cash provided (used) by investing activities	9,237	10,592	54,310	29,623
	Net increase (decrease) in cash and cash equivalents	7,951	18,473	(252,108)	(34,415)
Cash and cash equivalents	Beginning of year	4,841	41,485	844,611	165,952
	End of year	$ 12,792	$ 59,958	$ 592,503	$ 131,537

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ 7,609	$ —	$ 204,051	$ 237,211
(28,064)	—	(502,583)	(408,440)
20	—	97,791	89,900
35,235	—	35,235	—
(944)	—	(2,721)	(1,932)
500	—	10,682	10,400
(40)	—	(25,976)	(23,054)
35,235	170,227	205,462	196,088
(11,395)	(169,226)	(180,621)	(174,826)
(2,915)	—	837	772
—	(63)	(3,161)	(2,505)
—	1,541	33,480	32,079
—	(557)	(30,490)	(39,510)
184	—	(2,924)	(570)
35,425	1,922	(160,938)	(84,387)
—	—	608,615	799,018
—	—	(691,510)	(624,885)
—	—	(78,147)	(74,921)
—	—	(4,298)	(5,951)
—	—	—	—
—	—	—	—
—	—	(236)	(142)
—	—	—	—
—	—	—	—
—	—	(165,576)	93,119
—	—	(840)	(628)
1,962	533	39,752	35,852
—	—	5,849	6,993
68,134	4,900	219,591	304,196
(69,305)	—	(157,225)	(237,949)
(2,859)	—	—	—
(2,068)	5,433	107,127	108,464
33,357	7,355	(219,387)	117,196
6,648	4,088	1,067,625	950,429
$ 40,005	$ 11,443	$ 848,238	$1,067,625

(continued)

Statement of Cash Flows (in thousands)

Reconciliation of revenue over (under) 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 (under) expenses	$ 5,914	$ 2,501	$ 13,774	$ 506
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(98)	1,316	(1,524)
Depreciation	816	—	—	—
Realized losses (gains) on sale of securities, net	1	10	113	(818)
Unrealized losses (gains) on securities, net	101	2,046	2,127	1,349
Provision for loan losses	—	(76)	1,951	75
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	6,427	—
Capitalized interest on loans and real estate owned	—	(78)	(165)	(227)
Interest earned on investments	(1,232)	(4,079)	(30,249)	(7,237)
Interest expense on bonds and notes	—	11,709	50,472	24,934
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	9,275	(359,815)	72,463
Decrease (increase) in interest receivable on loans	—	98	(1,398)	528
Increase in arbitrage rebate liability	—	1,417	2,730	709
Increase in deferred revenue	—	—	—	—
Interest transferred to funds held for others	(3,098)	—	—	—
Increase (decrease) in accounts payable	585	(16)	(279)	(55)
Increase (decrease) in interfund payable, affecting operating activities only	(588)	14	(24,310)	23,849
Increase (decrease) in funds held for others	2,006	—	—	—
Other	(2,353)	(2)	(403)	(1)
Total	(3,762)	20,220	(351,483)	114,045
Net cash provided (used) by operating activities	$ 2,152	$22,721	$(337,709)	$114,551

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2006 Total	2005 Total
$ (1,853)	$1,377	$ 22,219	$ 19,267
—	—	(306)	(589)
—	—	816	555
31	—	(663)	(1,184)
282	41	5,946	(2,330)
154	—	2,104	1,271
24,963	—	31,390	35,815
—	—	(470)	(466)
(3,167)	(392)	(46,356)	(37,345)
—	—	87,115	79,863
(20,455)	—	(298,532)	(171,229)
—	—	(772)	(128)
—	—	4,856	2,285
35,235	—	35,235	—
—	(63)	(3,161)	(2,505)
89	(204)	120	17
391	270	(374)	374
—	984	2,990	(7,431)
(245)	(91)	(3,095)	(627)
37,278	545	(183,157)	(103,654)
$ 35,425	$1,922	$(160,938)	$ (84,387)

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) 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 their related entry cost housing assistance 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 bond sale contributions, entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing 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 non-profit capacity building and deferred, subordinated loans to support first mortgages.

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.

Summary of Significant Accounting Policies (continued)

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

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. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006 and did not affect 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 (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. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006 which resulted in disclosure of the amount of net assets restricted by enabling legislation in the notes to the 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. This GASB statement was adopted by the Agency for the fiscal year ending June 30, 2006.

Summary of Significant Accounting Policies (continued)

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.

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, 2006.

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.

Summary of Significant Accounting Policies (continued)

Unamortized Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Rental Housing fund, bond issuance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Bonds Payable, Net

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

Deferred Revenue

State appropriations revenues are approved by the State of Minnesota on a biennial basis, and are typically designated by the State for use by the Agency in specific fiscal years. Accordingly, deferred revenue was recorded in the State Appropriated Fund when it received its fiscal year 2007 appropriation of $35,235,000 on June 30, 2006 since this amount may not be disbursed prior to July 1, 2006.

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.

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 Minnesota Housing 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.

Summary of Significant Accounting Policies (continued)

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 2005 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 minus deferred bond issuance costs.

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 $832,000 are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of $15,898,000 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, fees from the Low Income Rental Class program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program, and fees for issuing and monitoring conduit bonds. Fees earned and other income is recorded as it is earned.

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.

Summary of Significant Accounting Policies (continued)

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 2006 were $2.67 million and $2.79 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. In addition to the Rental Housing advance, in fiscal year 2006 an advance was made to optionally redeem bonds in Single Family. 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 schedules. The advances are recorded in Interfund Payable (Receivable).

Reclassifications

Certain amounts in the comparative totals columns of the financial statements have been reclassified to conform with the current year presentation.

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.

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, Cash Equivalents and Investment Securities (continued)

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2006 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ (173)	$ —	$12,965	$ —	$ 12,792
Rental Housing	—	24,954	—	35,004	59,958
Residential Housing Finance	9,673	87,840	—	494,990	592,503
Single Family	3,860	13,415	—	114,262	131,537
State Appropriated	35,125	—	4,880	—	40,005
Federal Appropriated	1,944	9,499	—	—	11,443
Agency-wide Totals	$50,429	$135,708	$17,845	$644,256	$848,238

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 large balance of deposits in State Appropriated is due to the receipt of fiscal year 2007's appropriation on the last day of the current fiscal year. 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.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities with the collateral held by a third party custodial bank. Generally, repurchase agreements mature in one week or less.

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, 2006, 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, 2006 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries, US Agencies, Certificates of Deposit and Corporate Notes, at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve	$105,973	$(1,610)	$104,363
Rental Housing	39,166	(369)	38,797
Residential Housing Finance	47,558	(865)	46,693
Single Family	3,626	139	3,765
State Appropriated	60,272	(491)	59,781
Federal Appropriated	1,503	(8)	1,495
Agency-wide Totals	$258,098	$(3,204)	$254,894

US treasury, US agency, corporate notes, and certificates of deposit in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State

Cash, Cash Equivalents and Investment Securities (continued)

of Minnesota. US treasury and US agency securities in the remainder of the funds are held by the Agency's trustee in the Agency's name. US agency investments (Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, and Resolution Funding Corporation) have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. Corporate notes with a market value of $.981 million have a Standard & Poor's rating of AAA and a Moody's rating of Aaa. Corporate Notes of $2.998 million have a Standard & Poor's rating of A and a Moody's rating of A2. The certificates of deposit have an issuer rating of AA– from Standard & Poor's and Aa2 from Moody's.

Examining the weighted average maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of $3.204 million), along with the weighted average maturities as of June 30, 2006, consist of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

		Weighted Average Maturity, in Years					
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated
Deposits	$ 48,558	—	—	—	—	—	—
Commercial paper	1,871	—	—	—	—	—	—
Money market fund	135,708	—	—	—	—	—	—
Repurchase agreements	17,845	—	—	—	—	—	—
Investment agreements	644,256	—	—	—	—	—	—
US Agencies	236,456	1.3	2.6	4.7	13.1	0.7	1.0
US Treasuries	18,385	—	14.6	13.2	—	—	11.4
Certificates of deposit	2,000	—	—	—	—	0.2	—
Corporate notes	4,000	1.5	—	—	—	1.2	—
Agency-wide Totals	$1,109,079						
Weighted Average Maturity		1.2	2.4	0.5	0.3	0.4	0.4

The form of the above table was changed from prior fiscal year to reveal more information about interest rate risk by fund.

Investments in any one issuer that represent 5 percent or more of total investments as of June 30, 2006 are as follows (in thousands):

Investment Issuer	Amount
Bayerische Landesbank, investment agreements	$239,954
AIG Matched Funding Corp., investment agreements	139,652
MBIA, investment agreements	115,098
Federal Home Loan Bank, bonds	85,679
FSA Capital Management Services, investment agreements	58,460
Federal Home Loan Mortgage Corporation, notes	54,425

Cash, Cash Equivalents and Investment Securities (continued)

The Agency maintains certain deposits and investments throughout the year that are subject to custodial credit risk. As of June 30, 2006, those amounts subject to this risk consists of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $135,708 in a money market fund and $17,845 in repurchase agreements)	$202,111
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	89,255
Agency-wide Total	$291,366

Net realized gain on sale of investment securities of $.663 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, 2006 are as follows (in thousands):

Funds	Amount
Rental Housing	$20,830
Residential Housing Finance	29,976
Single Family	19,493
Totals	$70,299

Loans Receivable, Net

Loans receivable, net at June 30, 2006 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	212,059	(7,274)	(1,330)	203,455
Residential Housing Finance	1,260,644	(11,641)	1,527	1,250,530
Single Family	326,357	(70)	(3,536)	322,751
State Appropriated	29,386	(1,028)	—	28,358
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,828,446	$(20,013)	$(3,339)	$1,805,094

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 the fiscal year ended June 30, 2006, the amount of these loans originated was $3.052 million in the Housing Affordability Fund, $3.287 million in the Homeownership Endowment Fund, $2.892 million in the Multifamily Endowment Fund and $29.329 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans Receivable, Net (continued)

Loans receivable, net in Residential Housing Finance at June 30, 2006 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	$ 123,531
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	12,866
Other homeownership loans, generally secured by a second mortgage	18,267
Multifamily Endowment Fund:	
Multifamily, subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	905,339
Other homeownership loans, generally secured by a second mortgage	2,382
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	12,257
Multifamily, first mortgage loans	23,454
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	123,752
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	28,682
Residential Housing Finance Totals	$1,250,530

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, 2006 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,374	$ 76	$1,450
Rental Housing	—	5	5
Residential Housing Finance	—	443	443
Single Family	—	1	1
State Appropriated	—	245	245
Federal Appropriated	837	—	837
Agency-wide Totals	$2,211	$770	$2,981

Bonds Payable, Net

Bonds payable, net at June 30, 2006 are as follows (in thousands):

Funds	Outstanding Principal	Net Unamortized Premium	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 204,455	$ —	$(3,711)	$ 200,744
Residential Housing Finance	1,376,075	5,317	—	1,381,392
Single Family	363,955	—	—	363,955
Totals	$1,944,485	$5,317	$(3,711)	$1,946,091

Bonds Payable, Net (continued)

Summary of bond activity from June 30, 2005 to June 30, 2006 (in thousands):

Funds	June 30, 2005 Par Bonds Outstanding	Par Issued	Par Repaid	June 30, 2006 Par Bonds Outstanding
Rental Housing	$ 208,180	$ 12,935	$ 16,660	$ 204,455
Single Family	507,615	—	143,660	363,955
Residential Housing Finance	1,314,705	592,560	531,190	1,376,075
Totals	$2,030,500	$605,495	$691,510	$1,944,485

Outstanding principal of bonds payable at June 30, 2006 are as follows (in thousands):

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
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	13,665
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	71,705
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% to 5.10%	2016-2047	6,615	6,615
2006 Series A-2	3.80%	2008	1,300	1,300
2006 Series B	4.89%	2037	5,020	5,020
			471,605	204,455
Residential Housing Finance Bonds				
1995 Series A	5.10% to 5.85%	2006-2017	53,645	6,015
2002 Series A	4.75% to 5.30%	2012-2019	14,035	5,115
2002 Series B	4.10% to 5.65%	2006-2033	59,650	22,285
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	3.15% to 5.35%	2006-2033	25,760	21,985
2002 Series E	4.30% to 5.00%	2013-2020	12,805	10,660
2002 Series F	3.25% to 5.40%	2006-2032	52,195	37,120
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.75% to 4.30%	2006-2034	40,000	34,785
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	2.35% to 5.25%	2006-2035	25,000	20,660
2003 Series J	Variable	2033	25,000	24,385

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
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	20,185
2004 Series B	2.05% to 5.00%	2006-2033	94,620	78,310
2004 Series C	4.70%	2035	14,970	13,435
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,030
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,370
2004 Series F-1	2.65% to 4.50%	2006-2012	4,600	3,620
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	35,555
2004 Series G	Variable	2032	50,000	49,210
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	20,330
2005 Series C	Variable	2035	25,000	24,865
2005 Series G	4.25% to 4.30%	2017-2018	8,950	8,950
2005 Series H	3.00% to 5.00%	2007-2036	51,050	50,990
2005 Series I	Variable	2036	40,000	39,910
2005 Series J	3.625% to 4.00%	2012-2015	11,890	11,890
2005 Series K	3.00% to 4.40%	2007-2028	41,950	41,950
2005 Series L	4.75% to 5.00%	2036	48,165	48,165
2005 Series M	Variable	2036	60,000	60,000
2005 Series N	3.30%	2006	109,715	109,715
2005 Series O	3.90% to 4.20%	2012-2015	4,510	4,510
2005 Series P	3.35% to 5.00%	2007-2036	65,490	65,490
2006 Series A	3.30% to 4.00%	2008-2016	13,150	13,150
2006 Series B	4.60% to 5.00%	2021-2037	43,515	43,515
2006 Series C	Variable	2037	28,335	28,335
2006 Series D	3.70%	2007	35,285	35,285
2006 Series E	3.75%	2007	45,555	45,555
2006 Series F	3.45% to 4.25%	2007-2016	11,015	11,015
2006 Series G	4.85% to 5.50%	2021-2037	58,985	58,985
2006 Series H	5.85%	2036	15,000	15,000
			1,524,235	1,376,075
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.60% to 5.95%	2006-2017	26,740	7,565
1993 Series D	6.40%	2027	17,685	2,165
1993 Series F	6.25%	2020	9,500	1,010
1994 Series E	4.90% to 5.90%	2006-2025	31,820	13,175
1994 Series T	5.50% to 6.125%	2006-2017	16,420	1,530
1995 Series G	8.05%	2012	8,310	495
1995 Series H	6.40%	2027	19,240	2,355
1995 Series I	6.35%	2017-2018	7,450	915
1995 Series M	5.10% to 5.875%	2006-2017	32,025	6,615
1996 Series A	6.375%	2028	34,480	4,085
1996 Series B	6.35%	2018-2019	7,990	2,085
1996 Series C	5.50% to 6.10%	2006-2015	12,345	1,755

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1996 Series D	5.45% to 6.00%	2006-2017	$ 23,580	$ 2,325
1996 Series E	6.25%	2022-2023	14,495	2,275
1996 Series F	6.30%	2026-2028	18,275	2,870
1996 Series G	6.25%	2026-2028	41,810	5,470
1996 Series H	6.00%	2021	13,865	1,815
1996 Series I	7.32% to 8.00%	2006-2017	14,325	1,410
1996 Series J	5.60%	2021	915	190
1996 Series K	4.60% to 5.40%	2006-2017	9,280	2,305
1997 Series A	5.30% to 5.95%	2006-2017	22,630	3,670
1997 Series B	6.20%	2021	9,180	2,260
1997 Series C	6.25%	2029	27,740	2,595
1997 Series D	5.80% to 5.85%	2019-2021	15,885	4,335
1997 Series E	5.90%	2029	23,495	3,705
1997 Series F	7.20% to 7.25%	2006-2007	11,620	285
1997 Series G	5.30% to 6.00%	2006-2018	40,260	610
1997 Series I	5.50%	2017	9,730	3,405
1997 Series K	5.75%	2026-2029	22,700	7,935
1997 Series L	6.70% to 6.80%	2006-2007	9,550	385
1998 Series A	4.65% to 5.20%	2008-2017	5,710	1,595
1998 Series B	4.75% to 5.50%	2006-2029	17,030	3,330
1998 Series C	4.50% to 5.25%	2006-2017	21,775	5,770
1998 Series E	5.40%	2025-2030	30,500	11,605
1998 Series F-1	4.65% to 5.45%	2006-2017	10,650	2,655
1998 Series G-1	5.60%	2022	6,150	2,145
1998 Series H-1	5.65%	2031	14,885	5,185
1998 Series F-2	4.85% to 5.70%	2006-2017	11,385	4,465
1998 Series G-2	6.00%	2022	6,605	3,525
1998 Series H-2	6.05%	2031	15,965	8,525
1999 Series B	5.00% to 5.25%	2013-2020	18,865	9,280
1999 Series C	4.50% to 4.90%	2006-2024	21,960	3,420
1999 Series D	5.45%	2026-2031	23,975	11,330
1999 Series H	5.30% to 5.80%	2011-2021	16,350	6,085
1999 Series I	4.90% to 6.05%	2006-2031	34,700	9,305
1999 Series J	5.00%	2017	4,745	3,065
1999 Series K	3.65% to 5.35%	2006-2033	44,515	27,325
2000 Series A	5.25% to 5.85%	2009-2020	18,650	8,550
2000 Series B	5.55%	2024	16,580	4,330
2000 Series C	6.10%	2030-2032	30,320	12,600
2000 Series F	Variable	2031	20,000	18,115
2000 Series G	4.25% to 5.40%	2008-2025	39,990	23,465
2000 Series H	4.25% to 5.50%	2006-2023	32,475	14,475
2000 Series I	5.00% to 5.80%	2006-2019	20,185	9,610
2000 Series J	5.40% to 5.90%	2023-2030	29,720	14,945
2001 Series A	5.35% to 5.45%	2017-2022	14,570	8,710
2001 Series B	4.40% to 5.675%	2006-2030	34,855	15,535
2001 Series E	2.00% to 4.90%	2006-2035	23,000	21,180
			1,151,635	363,955
Combined Totals			$3,147,475	$1,944,485

Bonds Payable, Net (continued)

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.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2006, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2007	$11,125	$ 9,082	$379,000	$ 52,798
2008	12,500	8,790	20,770	44,602
2009	11,790	8,330	17,220	43,937
2010	12,405	7,866	22,960	43,187
2011	13,030	7,353	18,705	42,377
2012-2016	55,035	28,634	122,090	197,635
2017-2021	38,135	17,966	137,350	169,739
2022-2026	17,510	10,878	176,280	134,867
2027-2031	14,965	6,462	221,965	90,072
2032-2036	9,055	3,349	237,190	34,375
2037-2041	4,240	1,728	22,545	758
2042-2046	4,135	660	—	—
2047-2051	530	25	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2007	$ 7,905	$20,021	$398,030	$ 81,901
2008	7,595	19,642	40,865	73,034
2009	8,050	19,265	37,060	71,532
2010	9,005	18,845	44,370	69,898
2011	10,525	18,375	42,260	68,105
2012-2016	63,480	82,529	240,605	308,798
2017-2021	71,365	63,454	246,850	251,159
2022-2026	83,095	42,337	276,885	188,082
2027-2031	87,625	16,815	324,555	113,349
2032-2036	15,310	1,294	261,555	39,018
2037-2041	—	—	26,785	2,486
2042-2046	—	—	4,135	660
2047-2051	—	—	530	25

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. 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, 2005 Series C, I and M, and 2006 Series C 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, 2006. As

Bonds Payable, Net (continued)

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, 2006. As rates vary, variable rate bond interest payments will vary.

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, 2006, 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, 2006, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

Since 2003 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, 2006, 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
2007	$ 2,375	$ 9,074	$ 541	$11,990
2008	—	10,033	49	10,082
2009	—	10,033	(397)	9,636
2010	—	10,033	(822)	9,211
2011	—	10,034	(1,243)	8,791
2012-2016	930	50,168	(11,807)	39,291
2017-2021	22,300	48,385	(21,503)	49,182
2022-2026	66,105	39,771	(24,239)	81,637
2027-2031	87,985	24,613	(18,612)	93,986
2032-2036	69,735	7,151	(7,008)	69,878
2040-2041	2,275	66	(62)	2,279

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2006, 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

Interest Rate Swaps (continued)

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 or after the 10-year anniversary dates of the swaps. The Agency has the right to terminate swaps at fair value at any time.

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	$1,856,284	January 1, 2033	Aa2**/AA+***
RHFB 2003J	24,385,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.23% per annum	(103,931)	July 1, 2033	Aa2**/AA+***
RHFB 2004G	49,210,000	July 22, 2004	4.165%	64% of one-month LIBOR* plus 0.26% per annum	(202,124)	January 1, 2032	Aa2**/AA–***
RHFB 2005C	24,865,000	March 2, 2005	3.587%	64% of one-month LIBOR* plus 0.28% per annum	732,579	January 1, 2035	Aa2**/AA+***
RHFB 2005I	39,910,000	June 2, 2005	3.570%	64% of one-month LIBOR* plus 0.28% per annum	1,355,212	January 1, 2036	Aa1**/AA***
RHFB 2005M	60,000,000	August 4, 2005	3.373%	64% of one-month LIBOR* plus 0.29% per annum	2,149,831	January 1, 2036	Aa1**/AA***
RHFB 2006C	28,335,000	March 21, 2006	3.788%	64% of one-month LIBOR* plus 0.29% per annum	531,765	January 1, 2037	Aa2**/AA+***
Total	$251,705,000				$6,319,616		

*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, 2006. 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 certain 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

Interest Rate Swaps (continued)

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.

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, 2006, the Agency did have a net credit risk exposure to its counterparties because the combined swap positions had a positive net fair value. The swap agreements contain varying collateral requirements based upon counterparties' credit ratings and the fair values of the swaps. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2006.

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, 2006, the interest rate on the Agency's variable rate debt ranged from 4.00% to 4.03% per annum while the variable interest rates on the swaps ranged from 3.53% to 3.56% 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.

Conduit Debt Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota non-profit corporation. The proceeds of those bonds were used by that non-profit corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2006, $33.1 million of those bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. The Agency's trustee is not the trustee for this series of bonds.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2006 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absencesc and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$2,377	$1,394	$ 3,771
Rental Housing	2,065	—	53	2,118
Residential Housing Finance	2,486	—	2,068	4,554
Single Family	5,050	—	66	5,116
State Appropriated	—	—	2,136	2,136
Federal Appropriated	—	—	854	854
Agency-wide Totals	$9,601	$2,377	$6,571	$18,549

The amount of arbitrage rebate and yield compliance payable that is not due within one year in Rental Housing is $2.065 million, in Residential Housing Finance is $2.486 million and in Single Family is $3.849 million, for a total of $8.400 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2006 consist of the following (in thousands):

		Due from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Due to	General Reserve	$—	$ 18	$205	$ —	$209	$210	$ 642
Due to	Rental Housing	—	—	—	—	—	—	—
Due to	Residential Housing Finance	—	20,733	—	24,481	—	—	45,214
Due to	Single Family	—	—	—	—	—	—	—
Due to	State Appropriated	—	—	158	200	—	276	634
Due to	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$ 0	$20,751	$363	$24,681	$209	$486	$46,490

The $20.733 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 $19.513 million.

The $24.481 million due Residential Housing Finance reflects advances made to Single Family in fiscal 2006 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Single Family. Repayment of the advances is made according to the original debt repayment schedule. The portion that will not be repaid within one year is $23.115 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, 2006 consist of the following (in thousands):

	Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,839	$ 7,816	$3,108	$2,915	$ 838	$16,516
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	2,058	—	930	2,859	—	5,847
	Single Family	—	—	35,441	—	—	—	35,441
	State Appropriated	—	—	309	151	—	1,031	1,491
	Federal Appropriated	—	538	—	—	1,306	—	1,844
	Agency-wide Totals	$—	$4,435	$43,566	$4,189	$7,080	$1,869	$61,139

Interfund transfers recorded in Interfund Payable (Receivable) are used to make a $24.000 million advance to Single Family from Residential Housing Finance to optionally redeem bonds, 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, to move funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to move payments from Rental Housing and Single Family 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, 2006, consist of the following (in thousands):

	Funds	Transfer from: General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	299	—	—	—	299
	Residential Housing Finance	3,438	—	—	8,100	—	—	11,538
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$3,438	$—	$299	$8,100	$—	$—	$11,837

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

Net Assets (continued)

Minnesota Housing enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the 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, 2006 (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 and Pool 2 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) must be invested in short term, investment grade paper at market interest rates	$35,981	$ —	$ —	$35,981
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(256)	256	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	35,981	(256)	256	35,981
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) is 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	61,270	—	—	61,270
Unrealized depreciation in fair market value of investments		(27)	27	—
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	61,270	(27)	27	61,270

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 and Pool 2 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	$212,541	$ —	$ —	$212,541
Unrealized appreciation in fair market value of investments	—	145	(283)	(138)
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	212,541	145	(283)	212,403
Agency-wide Total	$309,792	$(138)	$ —	$309,654

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.

The $309.654 million of net assets restricted by covenant are restricted by Minnesota Housing's enabling legislation.

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, 2006.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as net assets restricted by law. The $92.013 million of net assets restricted by law in the State Appropriated fund are restricted by Minnesota Housing's enabling legislation.

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

Defined Benefit Pension Plan (continued)

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 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, 2006 was $460 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
07/01/05	$8,081,736	$8,455,336	$373,600	95.58%	$1,952,323	19.14%
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

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
2005	9.33%	$1,952,323	$83,101	$ 99,051	$80,312	81.08%
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

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

The information presented is as of July 1, 2005, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2005, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System web site at www.msrs.state.mn.us. The information contained in that web site is also available in alternative formats to individuals with disabilities. Please call 1-800-657-5757 or use the MN Relay Service at 1-800-627-3529.

Risk Management

Minnesota Housing 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. Minnesota Housing 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.

Risk Management (continued)

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

Real and Personal Property	Coverage Limit
Business interruption/loss of use/extra expense	$40,000,000
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

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

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

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

Commitments

As of June 30, 2006, 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	2,375
Residential Housing Finance	181,926
Single Family	—
State Appropriated	65,421
Federal Appropriated	22,225
Agency-wide Totals	$271,947

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, 2006 was $1.030 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year			
	2007	2008	2009	Total
Amount:	$983	$913	$858	$2,754

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2006 and may be renewed for an additional one-year period 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, 2006 there was no balance outstanding. The line of credit activity for the year ended June 30, 2006, 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.

Commitments (continued)

Effective March 15, 2006 HUD rescinded its prior approval of contracts for deed as an acceptable alternative form of homeownership in the Federal-HOME program. The Agency is engaged in a continuing dialog with HUD regarding the use of contracts for deed to convey HOME-assisted single-family homes to families that would not qualify for market rate mortgage financing. The Agency believes it has been and remains in compliance with the HOME program's regulations and requirements but has notified its grantees to not sell any properties approved by the Agency after March 15, 2006 via contracts for deed until further notice.

Subsequent Events

On June 8, 2006 the Board of the Agency approved series resolutions authorizing the issuance of $140,000,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2006 Series I and 2006 Series J were delivered on July 27, 2006.

On July 27, 2006 the Board of the Agency approved series resolutions authorizing the issuance of $4,060,000 bonds to finance the acquisition and rehabilitation of a multifamily development in Cloquet, Minnesota. The Rental Housing Bonds, 2006 Series C-1 and 2006 Series C-2 were delivered on August 15, 2006.

The Agency called for early redemption subsequent to June 30, 2006 the following bonds:

Program Funds	Retirement Date	Par Value
Residential Housing Finance	July 1, 2006	$16,145,000
Single Family	July 1, 2006	28,140,000
Rental Housing	August 1, 2006	2,420,000
Rental Housing	September 7, 2006	1,430,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2002 – 2006

		2002	2003	2004	2005	2006
Loans Receivable, net	Multifamily programs	$ 337,087	$ 348,196	$ 362,870	$ 350,881	$ 350,661
	Homeownership programs	1,212,436	1,009,937	932,777	1,061,556	1,302,544
	Home improvement programs	104,537	92,345	89,157	101,657	123,531
	Total	$1,654,060	$1,450,478	$1,384,804	$1,514,094	$1,776,736
Bonds Payable, net(1)	Multifamily programs	$ 267,739	$ 246,701	$ 216,928	$ 201,200	$ 200,744
	Homeownership programs	1,668,449	1,579,978	1,607,661	1,794,886	1,725,347
	Home improvement programs	—	20,000	20,000	20,000	20,000
	Total	$1,936,188	$1,846,679	$1,844,589	$2,016,086	$1,946,091
Loans purchased or originated during year	Multifamily programs	$ 18,341	$ 58,607	$ 50,509	$ 20,056	$ 29,534
	Homeownership programs	229,603	145,748	216,109	305,899	393,866
	Home improvement programs	37,281	35,391	34,981	44,279	51,119
	Total	$ 285,225	$ 239,746	$ 301,599	$ 370,234	$ 474,519
Net Assets	Total net assets	$ 612,361	$ 648,459	$ 666,978	$ 697,192	$ 719,887
	Percent of total assets	22.6%	24.6%	25.2%	24.5%	25.7%
Revenues over Expenses	Revenues over expenses for the year	$ 29,687	$ 36,098	$ 18,519	$ 30,214	$ 22,695

Notes:

(1) Amounts are net of unamortized bond issuance costs in 2002 through 2005.

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2006 (with comparative totals for June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 12,792	$ 59,958	$ 592,503	$131,537
	Investment securities	104,363	38,797	46,693	3,765
	Loans receivable, net	—	203,455	1,250,530	322,751
	Interest receivable on loans	—	1,191	5,354	1,750
	Interest receivable on investments	1,060	1,246	720	122
	Mortgage insurance claims receivable	—	—	260	478
	Real estate owned	—	—	954	460
	Unamortized bond issuance costs	—	2,613	7,552	3,629
	Capital assets, net	3,685	—	—	—
	Other assets	1,450	5	443	1
	Total assets	$123,350	$307,265	$1,905,009	$464,493
Liabilities	Bonds payable, net	$ —	$200,744	$1,381,392	$363,955
	Interest payable	—	3,776	24,654	9,656
	Accounts payable and other liabilities	3,771	2,118	4,554	5,116
	Interfund payable (receivable)	(642)	20,751	(44,851)	24,681
	Funds held for others	80,555	—	—	—
	Total liabilities	83,684	227,389	1,365,749	403,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	79,876	265,587	61,085
	Restricted by covenant	35,981	—	273,673	—
	Invested in capital assets	3,685	—	—	—
	Total net assets	39,666	79,876	539,260	61,085
	Total liabilities and net assets	$123,350	$307,265	$1,905,009	$464,493

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 796,790	$1,056,889
193,618	257,616
1,776,736	1,514,094
8,295	7,523
3,148	3,303
738	922
1,414	905
13,794	13,742
3,685	2,764
1,899	1,256
$2,800,117	$2,859,014
$1,946,091	$2,029,828
38,086	35,959
15,559	15,807
(61)	600
80,555	79,628
2,080,230	2,161,822
406,548	400,831
309,654	293,597
3,685	2,764
719,887	697,192
$2,800,117	$2,859,014

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, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$13,341	$ 60,725	$23,777
	Interest earned on investments	1,231	4,013	27,406	7,461
	Administrative reimbursement	16,730	—	—	—
	Fees earned and other income	8,833	856	690	—
	Unrealized gains (losses) on securities	(101)	(2,046)	(2,127)	(1,349)
	Total revenues	26,693	16,164	86,694	29,889
Expenses	Interest	—	11,709	50,472	24,934
	Loan administration and trustee fees	—	178	4,477	1,266
	Administrative reimbursement	—	1,852	7,816	3,108
	Salaries and benefits	14,054	—	—	—
	Other general operating	6,725	—	1,777	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	6,427	—
	Provision for loan losses	—	(76)	1,951	75
	Total expenses	20,779	13,663	72,920	29,383
	Revenues over (under) expenses	5,914	2,501	13,774	506
Other changes	Non-operating transfer of assets between funds	205	299	7,596	(8,100)
	Change in net assets	6,119	2,800	21,370	(7,594)
Net Assets	Total net assets, beginning of year	33,547	77,076	517,890	68,679
	Total net assets, end of year	$39,666	$79,876	$539,260	$61,085

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 97,843	$ 90,273
40,111	35,069
16,730	17,219
10,379	9,405
(5,623)	2,274
159,440	154,240
87,115	79,863
5,921	5,258
12,776	12,193
14,054	13,693
8,502	6,124
6,427	5,738
1,950	1,157
136,745	124,026
22,695	30,214
—	—
22,695	30,214
697,192	666,978
$719,887	$697,192

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2006 (with comparative totals for the year ended June 30, 2005)

			Bond Funds		
		General Reserve Account	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 19,448	$ 104,531	$ 72,463
	Investment in loans	—	(10,173)	(464,346)	—
	Interest received on loans	—	14,624	60,478	22,669
	Other operating	—	—	(1,777)	—
	Fees and other income received	8,628	856	698	—
	Salaries, benefits and vendor payments	(19,657)	(195)	(4,762)	(1,322)
	Administrative reimbursement from funds	16,515	(1,839)	(7,816)	(3,108)
	Interest transferred to funds held for others	(3,098)	—	—	—
	Deposits into funds held for others	31,939	—	—	—
	Disbursements made from funds held for others	(29,933)	—	—	—
	Interfund transfers and other assets	(2,242)	—	(24,715)	23,849
	Net cash provided (used) by operating activities	2,152	22,721	(337,709)	114,551
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	12,935	595,680	—
	Principal repayment on bonds	—	(16,660)	(531,190)	(143,660)
	Interest paid on bonds and notes	—	(9,163)	(43,125)	(25,859)
	Financing costs paid related to bonds issued	—	(193)	(4,105)	—
	Interest paid/received between funds	—	(1,749)	2,203	(454)
	Principal paid/received between funds	—	(309)	589	(280)
	Premium paid on redemption of bonds	—	—	—	(236)
	Agency contribution to program funds	—	299	7,801	(8,100)
	Transfer of cash between funds	(3,438)	—	3,438	—
	Net cash provided (used) by noncapital financing activities	(3,438)	(14,840)	31,291	(178,589)
Cash flows from investing activities	Investment in real estate owned	—	—	(525)	(315)
	Interest received on investments	3,896	3,691	24,732	4,938
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	2,509	3,340
	Proceeds from maturity, sale or transfer of investment securities	41,197	14,590	78,594	12,176
	Purchase of investment securities	(35,856)	(7,689)	(42,614)	(1,761)
	Purchase of loans between funds	—		(8,386)	11,245
	Net cash provided by investing activities	9,237	10,592	54,310	29,623
	Net increase (decrease) in cash and cash equivalents	7,951	18,473	(252,108)	(34,415)
Cash and cash equivalents	Beginning of year	4,841	41,485	844,611	165,952
	End of year	$ 12,792	$ 59,958	$ 592,503	$ 131,537

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 196,442	$ 228,883
(474,519)	(370,234)
97,771	89,829
(1,777)	(897)
10,182	9,400
(25,936)	(23,015)
3,752	5,131
(3,098)	(2,484)
31,939	30,445
(29,933)	(37,052)
(3,108)	(1,309)
(198,285)	(71,303)
608,615	799,018
(691,510)	(624,885)
(78,147)	(74,921)
(4,298)	(5,951)
—	—
—	—
(236)	(142)
—	—
—	—
(165,576)	93,119
(840)	(628)
37,257	33,975
5,849	6,993
146,557	217,996
(87,920)	(163,252)
2,859	—
103,762	95,084
(260,099)	116,900
1,056,889	939,989
$ 796,790	$1,056,889

(continued)

Statement of Cash Flows (in thousands)

Reconciliation of revenue over (under) 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 (under) expenses	$ 5,914	$ 2,501	$ 13,774	$ 506
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities				
Amortization of premiums (discounts) and fees on loans	—	(98)	1,316	(1,524)
Depreciation	816	—	—	—
Realized losses (gains) on sale of securities, net	1	10	113	(818)
Unrealized losses (gains) on securities, net	101	2,046	2,127	1,349
Provision for loan losses	—	(76)	1,951	75
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	6,427	—
Capitalized interest on loans and real estate owned	—	(78)	(165)	(227)
Interest earned on investments	(1,232)	(4,079)	(30,249)	(7,237)
Interest expense on bonds and notes	—	11,709	50,472	24,934
Changes in assets and liabilities				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	9,275	(359,815)	72,463
Decrease (increase) in interest receivable on loans	—	98	(1,398)	528
Increase in arbitrage rebate liability	—	1,417	2,730	709
Interest transferred to funds held for others	(3,098)	—	—	—
Increase (decrease) in accounts payable	585	(16)	(279)	(55)
Increase (decrease) in interfund payable, affecting operating activities only	(588)	14	(24,310)	23,849
Increase (decrease) in funds held for others	2,006	—	—	—
Other	(2,353)	(2)	(403)	(1)
Total	(3,762)	20,220	(351,483)	114,045
Net cash provided (used) by operating activities	$ 2,152	$22,721	$(337,709)	$114,551

2006 Total General Reserve and Bond Funds	2005 Total General Reserve and Bond Funds
$ 22,695	$ 30,214
(306)	(589)
816	555
(694)	(1,184)
5,623	(2,274)
1,950	1,157
6,427	5,738
(470)	(466)
(42,797)	(35,431)
87,115	79,863
(278,077)	(141,351)
(772)	(128)
4,856	2,285
(3,098)	(2,484)
235	1,013
(1,035)	(260)
2,006	(6,607)
(2,759)	(1,354)
(220,980)	(101,517)
$(198,285)	$ (71,303)

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 Investment Bank (UBS Securities LLC)

RBC Capital Markets (RBC Dain Rauscher Inc.)

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

Location

The Minnesota Housing 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.

Minnesota Housing 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 B

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

The following statements are extracted provisions of the Continuing Disclosure Agreement between the Agency and the Trustee to be executed in connection with the Series Bonds.

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 Series 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 Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series 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 of a Series 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, no later than nine months after the close of each fiscal year, commencing with the fiscal year ending 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 statements of net assets of the Agency's Residential Housing Finance Program Fund and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses, changes in net assets and statement 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.

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

The accounting principles used by the Agency in the preparation of its financial statements are 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 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 supercedes the Trustee duties under the Resolution with respect to notices of redemption or notices in connection with defeasance of 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 Bonds in accordance with the Resolution.

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

Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Agency and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Agency), and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws, acceptable to each of the Agency and the Trustee, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule taking into account any subsequent change in or official interpretation of the Rule.

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

Default.

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

(b) Notwithstanding the foregoing, no Beneficial Owner shall have the right to challenge the content or adequacy of the information provided pursuant to this Disclosure Agreement by mandamus, specific performance or other 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 to any Repository under the 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 C

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Defined terms used in the following summaries are identical in all material respects with those used in the Bond Resolution.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth or (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Bond Resolution or (iii) requesting or directing the Trustee or other party to take action pursuant to the Bond Resolution.

Agency Swap Payment: a payment due to a Swap Counterparty from the Agency pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Cash Flow Certificate: A certificate from an Authorized Officer giving effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established hereunder or under any Series Resolution (excluding the Insurance Reserve Fund, the Alternative Loan Fund and, except to the extent otherwise provided in a Series Resolution, the Endowment Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed. The Agency may assume in a Cash Flow Certificate that, if Bonds of a series are issued for purposes other than the Financing of Program Loans for the acquisition of owner-occupied housing, amounts to be deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, unless otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of the Bond Resolution will be available in amounts and at times sufficient to pay the Debt Service on Outstanding Bonds of such series when due and to maintain the Debt Service Reserve Requirement and Insurance Reserve Requirement, if any, with respect to Outstanding Bonds of such series.

Code: The Internal Revenue Code of 1986, as amended and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Counterparty Swap Payment: a payment due to or received by the Agency from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by the Agency under any related Swap Counterparty Guarantee.

Debt Service Reserve Requirement: As of any particular date of computation, the sum of amounts established for each Series of Bonds by each Series Resolution.

Finance or *finance:* When used with reference to a Program Obligation, shall be construed to include (i) the making or purchase of such Program Obligation, (ii) the participation by the Agency, either with itself or with others, in the making or purchase thereof, or (iii) the permanent financing of a Program Obligation which has been temporarily financed by the Agency through the issuance of notes or other obligations or otherwise.

Fiscal Year: The period of twelve (12) calendar months commencing on July 1 in any calendar year and ending on June 30 in the following year, or such other twelve (12) month period as may be designated by the Agency by Agency Certificate delivered to the Trustee.

Insurance Reserve Requirement: As of any particular date of computation, the sum of amounts, if any, established for each Series of Bonds by the Series Resolution.

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency's moneys:

(a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America;

(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;

(c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least $75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such Depository will not adversely affect the Rating of the Bonds;

(d) 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 (a) and (b) of this definition;

(e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a) or (b) above, or (ii) 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 $75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a) or (b) above;

(f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and

(g) Any other investment that will not adversely affect the Rating of the Bonds.

Lender: To the extent permitted in the Act, any bank or trust company, savings and loan association, savings bank, credit union, insurance company or other financial intermediary (whether or not organized for profit) approved by the Agency or mortgage banker or mortgage broker authorized to deal in mortgage loans insured or guaranteed by an agency of the United States government. Such Lender shall be authorized to do business in the State, and shall have such qualifications as may be established from time to time by rules and regulations of the Agency. For purposes of the Bond Resolution, Lender shall also be deemed to include any federal or state agency, including the Agency, or any political subdivision of the State or agency thereof.

Parity Certificate: An Agency Certificate, giving effect to the action proposed to be taken in connection with the filing thereof, showing that (A) the sum of (i) the moneys, Investment Obligations and Cash Equivalents then credited to the Acquisition Accounts, the Revenue Fund, the Bond Fund Principal Account, the Bond Fund Interest Account, and the Debt Service Reserve Fund, (ii) the unpaid principal amount of all Program Obligations credited to the Acquisition Accounts (other than any Acquisition Account funded with moneys transferred from the Alternative Loan Fund or Endowment Fund), and (iii) any other moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of all Program Obligations otherwise specifically pledged to the payment of Outstanding Bonds by a Series Resolution, exceeds (B) an amount equal to 103% of the principal amount of Outstanding Bonds of all Series.

Principal Requirement: As of any particular date of calculation with respect to Bonds Outstanding on that date, the amount of money equal to any unpaid Principal Installment then due plus the Principal Installment to become due on each Series of Bonds on the next respective Principal Installment Date within the next succeeding six months.

Program: The program for the financing of Program Obligations for Housing established by the Agency pursuant to the Act, as the same may be amended from time to time, and the Bond Resolution and for financing Other Obligations.

Program Loan: A loan for Housing secured in such manner as the Agency may specify in the applicable Series Resolution for Program Loans to be made from the proceeds of a Series of Bonds.

Program Obligation: Any Program Loan or Program Security acquired by the Agency by the expenditure of amounts in an Acquisition Account.

Program Security: An obligation representing an undivided interest in a pool of Program Loans, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

Rating: with respect to any Series of Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Bond Resolution, and an action which does not "impair" the Rating with respect to any Series of Bonds shall be an action which will not cause the Rating Agency to lower or withdraw the rating it has assigned to the Series of Bonds.

Rating Agency: any nationally recognized entity which, upon the request of the Agency, has issued a credit rating on any Series of Bonds issued pursuant to the Bond Resolution.

Revenues: With respect to the Outstanding Bonds, all payments, proceeds, rents, premiums, penalties, charges and other cash income received by the Agency from or on account of any Program Obligation (including scheduled, delinquent and advance payments of, and any net insurance or guaranty proceeds with respect to, principal and interest on any Program Obligation or the net operating income or net proceeds of sale of any property acquired thereunder) (exclusive, however, of Program Obligations, if any, credited to the Endowment Fund), any Counterparty Swap Payments received from any Swap Counterparty pursuant to a Swap Agreement, any amounts deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, except as otherwise provided in a Series Resolution, the Endowment Fund) from sources not subject to the lien of the Bond Resolution, and all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund or Account established under the Bond Resolution (other than the Alternative Loan Fund or, except as otherwise provided in a Series Resolution, the Endowment Fund), but excludes (i) any amount retained by a servicer (including the Agency) of any Program Obligation as compensation for services rendered in connection with such Program Obligation, (ii) any payments for the guaranty or insurance of any Program Obligation, (iii) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by or in connection with any Program Obligation, (iv) amounts payable with respect to a Program Obligation which represent a return on amounts financed by the Agency or by other persons pursuant to a participation, forbearance or other arrangement from sources other than proceeds of Bonds or other amounts held hereunder and (v) to the extent such items do not exceed the income derived therefrom, payments or charges constituting expenses of managing and maintaining property acquired pursuant to a Program Loan.

Swap Agreement: with respect to any Bonds, an interest rate exchange agreement between the Agency and a Swap Counterparty, as amended or supplemented, or other interest rate hedge agreement between the Agency and a Swap Counterparty, as amended or supplemented, for the purpose of converting, in whole or in part, (i) the Agency's fixed interest rate liability on all or a portion of any Bonds to a variable rate liability, (ii) the Agency's variable rate liability on all or a portion of any Bonds to a fixed rate liability or (iii) the Agency's variable rate liability on all or a portion of any Bonds to a different variable rate liability.

Swap Counterparty: any Person with whom the Agency shall from time to time enter into a Swap Agreement, as specified in a Series Resolution.

Swap Counterparty Guarantee: a guarantee in favor of the Agency given in connection with the execution and delivery of a Swap Agreement, as specified in a Series Resolution.

Series Accounts

Unless otherwise provided in a Series Resolution, the Trustee shall establish within each Fund under the Bond Resolution (other than the Endowment Fund and the Alternative Loan Fund), a separate Series Account for each Series of Bonds. The proceeds of a particular Series of Bonds, other amounts made available by the Agency in the Series Resolution or otherwise relating to a particular Series of Bonds and the Revenues relating to a particular Series of Bonds (including the payments on Program Obligations acquired with the proceeds of a particular Series of Bonds or the payments on any other collateral pledged to a particular Series of Bonds and the earnings on investments of any of said proceeds, funds and amounts) shall be deposited or credited to the separate Series Accounts established for that particular Series of Bonds. Where required to assure compliance with the covenants of the Bond Resolution and any Series Resolution, withdrawals from Series Accounts established in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for any other Series of Bonds. For purposes of investment, the Trustee, may, or shall at the direction of the Agency, consolidate the Series Accounts required to be established in a particular Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds. In addition to the Funds and Accounts established under the Bond Resolution, the Trustee may from time to time, establish, maintain, close and reestablish such accounts and subaccounts as may be requested by the Agency for convenience of administration of the Program and as shall not be inconsistent with the provisions of the Bond Resolution.

Cost of Issuance Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds may, but is not required to, provide for a separate Cost of Issuance Account to be held by the Trustee. Moneys in each such Cost of Issuance Account shall be expended for Costs of Issuance of such Series of Bonds and for no other purpose upon receipt by the Trustee of a requisition signed by an Authorized Officer stating the amount and purpose of any such payment. Any amounts in a Cost of Issuance Account remaining therein upon payment of all Costs of Issuance for such Series of Bonds shall (i) if not proceeds of Bonds, be transferred to the Revenue Fund and (ii) if sale proceeds, investment proceeds or transferred proceeds of Bonds, be transferred to any one or more of the Acquisition Accounts or the Bond Redemption Fund, upon receipt by the Trustee of a Certificate of the Agency stating that such moneys are no longer needed for the payment of Costs of Issuance whereupon such Account shall be closed. Interest and other income derived from the investment or deposit of each such Cost of Issuance Account shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Acquisition Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds shall, unless such Bonds are Refunding Bonds for which no such account is necessary, establish a separate Acquisition Account to be held by the Trustee. There shall be deposited from time to time in each Acquisition Account (i) any proceeds of Bonds or other amounts required to be deposited therein pursuant to the Bond Resolution or the applicable Series Resolution and (ii) any other amounts determined by the Agency to be deposited therein from time to time.

Except as otherwise permitted or required to be transferred to other Funds and Accounts, amounts in an Acquisition Account shall be expended only to Finance Program Obligations. All Program Obligations Financed by application of amounts in an Acquisition Account shall be credited to such Acquisition Account or, if a Series Resolution so provides, to any one or more subfunds in the Endowment Fund. No Program Loan shall be Financed unless the requirements of the applicable Series Resolution have been met, and no Program Security shall be Financed unless the Program Security is registered in the name of the Trustee or is registered in the name of the Agency and delivered to the Trustee with a written assignment thereof to the Trustee pursuant to the Bond Resolution from and after the date such Program Security is Financed hereunder. In addition, no Program Security shall be Financed unless such Program Security represents a pass through or participation interest in a pool of Program Loans and provides for a guaranty of all payments to be made to the Agency thereunder by a Federal Mortgage Agency.

The Trustee shall pay out and permit the withdrawal of amounts on deposit in any Acquisition Account at any time for the purpose of making payments pursuant to the Bond Resolution, but only upon receipt of the following documents prior to any proposed withdrawal:

(1) an Agency Certificate setting forth the amount to be paid, the person persons to whom such payment is to be made (which may be or include the Agency) and, in reasonable detail, the purpose or purposes of such withdrawal; and

(2) an Agency Certificate stating that the amount to be withdrawn from such Acquisition Account pursuant to such requisition is a proper charge thereon and, if such requisition is made to Finance the acquisition of Program Obligations, that (i) the terms of such Program Obligations conform to the description of the Program Obligations to be Financed from such amount as provided to the Trustee pursuant to the terms of the Bond Resolution, and (ii) such Program Obligations otherwise comply with the provisions of the Bond Resolution.

At any time the Agency, by Agency Certificate, may direct the Trustee to transfer amounts in an Acquisition Account into the Bond Fund Principal Account or Bond Fund Interest Account, as appropriate, to pay principal or sinking fund installments of and interest on the related Series of Bonds, or into the appropriate account in the Debt Service Reserve Fund or Insurance Reserve Fund, which Request shall state that such transfer is appropriate to meet the requirements of said Fund.

The interest earned and other income derived from the investment or deposit of each Acquisition Account may be transferred to the appropriate account in the Revenue Fund for the related Series of Bonds by the Trustee upon receipt thereof to the extent that such amounts exceed any losses realized by investment of deposits in such Acquisition Account or may be retained in the Acquisition Account for the Financing of additional Program Obligations, as directed by Agency Certificate.

All amounts deposited into an Acquisition Account shall be disbursed in the manner provided in the Bond Resolution or the Agency may, by Agency Certificate, direct the Trustee to transfer any amounts from the Acquisition Account to the Bond Redemption Fund to be used for the redemption of Bonds of the related Series; provided, however, that (i) the Agency Certificate shall specify the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, the Agency shall file an updated Cash Flow Certificate with the Trustee.

The Agency may establish temporary subaccounts within an Acquisition Account for the collection and custody of fees paid by Lenders or other persons in connection with the reservation of funds in the Acquisition Account for use in Financing Program Obligations to be originated by such Lenders or other persons. To the extent that the Agency’s agreements with such Lenders or other persons provide for the refund of any such fees (or portions thereof), amounts may be withdrawn from any such subaccount or the Acquisition Account in accordance with such agreements, and any amounts not required to be so applied may, pursuant to an Agency Certificate, be applied to any other purpose of the Acquisition Account as provided in the Bond Resolution.

Revenue Fund

The Agency shall cause all Revenues to be deposited promptly with a Depository and to be transmitted regularly to the Trustee. Unless otherwise provided in the Bond Resolution, all such amounts shall be deposited in the Revenue Fund. There shall also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Resolution or the Series Resolution or other resolution of the Agency.

The Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds and Accounts, or pay to the Person specified, the amount indicated in the following tabulation, at the times indicated in the following tabulation:

(1) on or before the applicable Interest Payment Date, to the Bond Fund Interest Account the amount needed, taking into account any balance then on deposit therein, to increase the balance therein to the Interest Requirement;

(2) on or before the applicable Principal Installment Date, to the Bond Fund Principal Account the amount, needed, taking into account any balance then on deposit therein, to increase the amount therein to the Principal Requirement;

(3) on any date, assuming any prior transfers required pursuant to subsections (1) and (2) above have been made, to the Debt Service Reserve Fund, the amount, if any, needed to increase the amount therein to the Debt Service Reserve Requirement;

(4) on any date, assuming any prior transfers required pursuant to subsections (1), (2) and (3) above have been made, to the Insurance Reserve Fund, the amount, if any, needed to increase the amount therein to the Insurance Reserve Requirement;

(5) unless otherwise expressly provided in the Series Resolution in respect of a Series of Bonds to which the Swap Agreement relates in whole or in part, on or before the applicable due dates, assuming any prior transfers required pursuant to subsections (1), (2), (3) and (4) above have been made, to any Swap Counterparty, the Agency Swap Payments due from time to time pursuant to a Swap Agreement; and

(6) to the extent not transferred pursuant to the preceding subsections, the balance shall be held in the Revenue Fund until and unless directed by Agency Certificate to be transferred and utilized as set forth elsewhere in this section.

At such periodic intervals as the Agency, by Agency Certificate, shall direct, the Trustee shall withdraw from the Revenue Fund and transfer to the United States of America such amounts as are necessary to comply with the Code, including particularly the arbitrage rebate requirements of Section 148 thereof.

Amounts credited to the Revenue Fund shall be transferred to the Bond Redemption Fund on or before the designated Redemption Date to be used for the purchase or redemption of Bonds pursuant to the Bond Resolution and the terms of any related Series Resolution upon the filing with the Trustee of (i) an Agency Certificate specifying the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against sinking fund installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, a Cash Flow Certificate.

Amounts credited to the Revenue Fund may be transferred to an existing Acquisition Account or a new Acquisition Account to be established to be used to acquire Program Obligations upon filing with the Trustee of (i) an Agency Certificate specifying the amount to be so transferred and either specifying the existing Acquisition Account to which the funds are to be deposited or directing the establishment of a new Acquisition Account for the deposit of the funds and providing the information relating to the new Acquisition Account required by the Bond Resolution and (ii) a Cash Flow Certificate.

Amounts credited to the Revenue Fund, as directed by an Agency Certificate, shall be released to the Agency for the payment of Program Expenses or the establishment of reserves therefor in an amount needed or required to pay reasonable and necessary Program Expenses; provided that if the amount to be released exceeds the amount assumed in the most recently filed Cash Flow Certificate, the Agency shall file a new Cash Flow Certificate with the Trustee.

Amounts credited to the Revenue Fund, except Program Expenses, may be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, or transferred to the Endowment Fund, upon the filing with the Trustee of (i) an Agency Certificate directing the same, (ii) a Cash Flow Certificate and (iii) a Parity Certificate.

Any investment earnings on moneys held in the Revenue Fund shall be retained therein.

Bond Fund Interest Account and Bond Fund Principal Account

The Trustee shall withdraw from the Bond Fund Interest Account, on or immediately prior to each Interest Payment Date of the Bonds, an amount equal to the unpaid interest due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

If the withdrawals required with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Bond Fund Principal Account, on or immediately prior to each Principal Installment Date, an amount equal to the principal amount of the Outstanding Bonds, if any, maturing on or before said Principal Installment Date and shall cause the same to be applied to the payment of the principal amount of said Bonds when due and is authorized to transmit the same to any Paying Agents who shall apply the same to such payment.

Any amount at any time held in the Bond Fund Interest Account or Bond Fund Principal Account in excess of the Interest Requirement or Principal Requirement may be transferred by the Trustee to the Revenue Fund, if so directed by Agency Certificate, and otherwise shall be retained in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be.

The interest earned or other income derived from the investment of moneys in the Bond Fund Interest Account and Bond Fund Principal Account shall be transferred by the Trustee to the Revenue Fund (unless the Trustee is directed by Agency Certificate to retain such amounts in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be).

Bond Redemption Fund

Subject to the provisions of the respective Series of Bonds and to the provisions of the Series Resolution authorizing the issuance thereof, all amounts deposited in the Bond Redemption Fund shall be applied to the purchase or redemption of Bonds, including payment of any redemption premium, on the applicable Redemption Date; provided, however, that in the event the Agency has issued refunding obligations for the purpose of redeeming Bonds of a series in accordance with the Bond Resolution, upon receipt of an Agency Certificate directing such transfer and confirmation by the Trustee that provisions have been made for wiring proceeds of such refunding obligations to the Trustee, the Trustee, immediately on the date of such confirmation, shall transfer moneys in the Bond Redemption Fund in an amount equal to the amount of refunding proceeds received by the Trustee to the funds or accounts specified in the refunding resolution as specified in the Agency Certificate. The Redemption Price of Bonds subject to redemption by operation of the Bond Redemption Fund in the Bond Fund shall be the price set forth in the applicable Series Resolution. Upon receipt of an Agency Certificate directing the same, the Trustee shall transfer at the time of purchase or no more than forty-five (45) calendar days prior to such redemption to the Bond Redemption Fund in the Bond Fund from the Debt Service Reserve Fund or Insurance Reserve Fund the amount stated in such Request, which amount shall be no greater than the amount by which the Debt Service Reserve Requirement or Insurance Reserve Requirement will decrease due to the purchase or redemption of Bonds. Subject to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds, requiring the application thereof to the purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Bond Redemption Fund to the purchase or redemption of Bonds at the times and in the manner provided in the Bond Resolution. Amounts on deposit in the Bond Redemption Fund for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Series Resolution authorizing the issuance of Refunding Bonds shall be segregated and shall be identified as such on the records of the Trustee.

Any earnings derived from the investment of amounts deposited in the Bond Redemption Fund pursuant to the issuance and delivery of Refunding Bonds, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in the Resolution, be deposited in the Bond Redemption Fund. All other interest earned or other income derived from the investment or deposit or moneys in each Bond Redemption Fund in the Bond Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Endowment Fund

The Trustee shall establish and maintain three subfunds within the Endowment Fund entitled the "Home Improvement Endowment Fund," the "Homeownership Endowment Fund" and the "Multifamily Housing Endowment Fund." Each such subfund may be used to make or purchase loans, make grants, and provide other subsidies and assistance, upon such terms as the Agency may determine, with respect to the type of housing and housing improvements appropriate to each subfund. Upon receipt of an Agency Certificate, the Trustee shall (i) deposit in a designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property provided by the Agency and not otherwise pledged under the Bond Resolution or (ii) withdraw from a designated subfund and deposit in another designated subfund of the Endowment Fund any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate, or (iii) withdraw from a designated subfund or subfunds of the Endowment Fund for release to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, any funds, securities, Cash Equivalents, loans or other property specified in such Agency Certificate; subject, however, to any covenants or agreements made by the Agency in a Series Resolution.

Any moneys held in a subfund of the Endowment Fund may be invested or reinvested in such securities, loans or other investment as may be directed by an Authorized Officer, which may include Investment Obligations, Program Obligations or Other Obligations but is not restricted thereto. Any interest or income earned with respect to any said securities, loans or other property shall likewise be retained in the appropriate subfund of the Endowment Fund.

Subject to programmatic uses permitted by the Bond Resolution, funds, securities, Cash Equivalents, loans and other property held from time to time in the Endowment Fund are available for the payment of the principal of, Redemption Price and interest on Bonds when due. Amounts on deposit in the Endowment Fund shall be used to make up deficiencies in the Bond Fund Interest Account, Bond Fund Principal Account, Bond Redemption Fund, Debt Service Reserve Fund and Insurance Reserve Fund as specified in the Bond Resolution. The Agency has not covenanted in the Bond Resolution to maintain any minimum balance in the Endowment Fund and there is no assurance any funds will be available therein in the event of a deficiency in any other Funds or Accounts.

Debt Service Reserve Fund

There shall be deposited in the Debt Service Reserve Fund all amounts required to be deposited therein by the Bond Resolution or any Series Resolution and any other amounts available therefor and determined by the Agency to be deposited therein.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Debt Service Reserve Fund shall be in excess of the Debt Service Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Debt Service Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Debt Service Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Debt Service Reserve Fund shall, to the extent the balance therein is less than the Debt Service Reserve Requirement, be retained in the Debt Service Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

In order better to 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 3 of the Act, the Agency shall cause the Chair annually, on or before December 1 of each year, to make and deliver to the Governor of the State the Chair's certificate stating the sum, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. All money received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 3 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.

Notwithstanding the provisions of the foregoing paragraph, prior to causing the Chair to execute and deliver the certificate specified therein, the Agency shall first transfer to the Debt Service Reserve Fund from the Endowment Fund such amount as may be available therein to reduce or eliminate, if possible, the deficiency in the Debt Service Reserve Fund.

Insurance Reserve Fund

The Insurance Reserve Requirement, if any, received by the Trustee upon the issuance of a Series of Bonds shall be held in the Insurance Reserve Fund and used for the purpose of paying that portion of the claim for loss with respect to any Program Loan in default, made or purchased from an Acquisition Account, which is not paid by any public or private insuring agency. The Agency shall promptly furnish to the Trustee an Agency Certificate stating the amount of the loss, when determinable, and the Trustee shall forthwith transfer this amount to the extent available from the Insurance Reserve Fund to the Revenue Fund.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Insurance Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Insurance Reserve Fund shall be in excess of the Insurance Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Insurance Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Insurance Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Insurance Reserve Fund shall, to the extent the balance therein is less than the Insurance Reserve Requirement, be retained in the Insurance Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

If at any time the amount in the Insurance Reserve Fund is less than the Insurance Reserve Requirement, and is not restored from available Revenues in accordance with the Bond Resolution, or available funds in the General Reserve Account or Alternative Loan Fund supplied by the Agency upon notice of the deficiency from the Trustee, the deficiency shall be supplied by the Trustee by the transfer of funds available from the Endowment Fund.

Alternative Loan Fund

The Trustee shall maintain the Alternative Loan Fund created within the Bond Resolution and shall deposit therein any amounts authorized by an Agency Certificate to be withdrawn from the Revenue Fund in accordance with the Resolution and any other amounts provided by the Agency for deposit therein. Amounts on deposit in the Alternative Loan Fund shall be free and clear of any lien or pledge created by the Bond Resolution, and free and clear of any restrictions on the investment of funds set forth in the Bond Resolution. Amounts deposited into the Alternative Loan Fund may be used for any lawful purpose for which the Agency may from time to time use funds on deposit in its General Reserve Account and, pending such use, may be invested in any securities or investments permissible generally for the investment of funds of the Agency as specified by Agency Certificate. By Agency Certificate furnished to the Trustee, the Agency may at any time appropriate any funds and investments on deposit in the Alternative Loan Fund to any Account or Fund created pursuant to the Bond Resolution (in which case such funds and investments shall become subject to the lien and pledge thereof) or may direct that such funds and investments be transferred to the Agency's General Reserve Account or to any other fund or account established pursuant to resolution of the Agency.

The Agency, by Agency Certificate, may request the Trustee to establish one or more subaccounts in the Alternative Loan Fund to be restricted to such uses, and used in accordance with such terms, as are specified in the Agency Certificate.

Any earnings derived from the investment of amounts deposited in the Alternative Loan Fund shall be retained therein unless otherwise directed by Agency Certificate.

Investment of Moneys Held by the Trustee

Moneys held by the Trustee for the credit of any Account or Fund established under the Bond Resolution shall be invested by the Trustee as directed by the Agency to the fullest extent practicable and reasonable in Investment Obligations which shall mature or be redeemable at the option of the Owner prior to the respective dates when the moneys held for the credit of such Fund or Account will be required for the purposes intended. Unless otherwise confirmed in writing, an account statement delivered by the Trustee to the Agency shall be deemed written confirmation by the Agency that investment transactions identified therein accurately reflect the investment directions given to the Trustee pursuant to the terms of the Bond Resolution, unless the Agency notifies the Trustee in writing to the contrary within forty five (45) days of the date of such settlement.

The Investment Obligations purchased shall be held by the Trustee and shall be deemed at all times to be part of such Fund or Account or combination thereof, and the Trustee shall inform the Agency of the detail of all such investments. The Trustee shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from a Fund or Account. The Trustee shall not be liable for any depreciation of the value of any investment on the redemption, sale and maturity thereof, and in the absence of any direction from the Agency, the Trustee shall not be required to invest such funds.

The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, any Investment Obligations. The Trustee shall advise the Agency in writing monthly, unless otherwise directed by Agency Certificate, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Bond Resolution as of the end of the preceding month.

In computing the amount in any Fund or Account, Investment Obligations shall be valued at par or, if purchased at a price other than par, at their Amortized Value, in either event exclusive of accrued interest purchased.

Except as otherwise specifically provided in the Bond Resolution or in a Series Resolution, the income or interest earned, or gain, shall be transferred by the Trustee upon receipt thereof to the appropriate Revenue Account.

The Trustee shall not be liable or responsible for the making of any investment authorized by the Bond Resolution in the manner provided in the Bond Resolution or for any loss resulting from any such investment so made, except for its own negligence.

Cash Flow Certificates

The Agency is required to file a Cash Flow Certificate (i) at least once within any 12 month period and (ii) at such other times as may be required pursuant to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds of a Series then Outstanding.

Creation of Liens

The Agency shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Agency or by any Fiduciary under the Bond Resolution and shall not create or cause to be created any lien or charge on any pledged Revenues or such moneys, securities, rights or interests: provided, however, that nothing in the Bond Resolution shall prevent the Agency from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after any pledge of Revenues provided in the Bond Resolution shall be discharged and satisfied as provided in the Bond Resolution, or (ii) notes or bonds of the Agency not secured under the Bond Resolution; and provided, further, that, to secure its obligation to make Agency Swap Payments to a Swap Counterparty pursuant to a Swap Agreement, the Agency may grant to the Swap Counterparty a subordinate and junior pledge and security interest (subordinate and junior to the pledge and security interest granted to the Bondholders) in all or any of the collateral pledged to the payment of the Bonds under the Bond Resolution.

Defeasance of Bonds

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or any one or more of the alternate Paying Agents (through deposit by the Agency of moneys for such payment or redemption or otherwise) at the maturity or Redemption Date thereof shall be deemed to have been paid within the meaning and with the effect expressed in the Bond Resolution. All Outstanding Bonds of any Series shall be deemed prior to the maturity or Redemption Date thereof to have been paid within the meaning and with the effect expressed in the Bond Resolution if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be. Neither Government Obligations nor moneys deposited with the Trustee pursuant to this section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, of and interest on said Bonds.

Events of Default

Each of the following events shall constitute an event of default under the Bond Resolution: (1) the Agency shall fail to pay any Principal Installment or the Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise, or shall fail to pay the purchase price of any Bond tendered or deemed tendered for purchase on the date established therefor; or (2) the Agency shall fail to pay any installment of interest on any Bond when and as the same shall become due and payable; or (3) the Agency shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Bond Resolution or in the Bonds, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than a majority in principal amount of the Bonds Outstanding; or (4) the Agency shall file a petition seeking a composition of indebtedness under the Federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; or (5) the State limits or alters the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Bond Resolution, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Acceleration; Annulment of Acceleration

Upon the occurrence of an Event of Default, the Trustee may and, upon the written request of the Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, give 30 days' notice in writing to the Agency of its intention to declare all Bonds Outstanding immediately due and payable; provided, however, that the Trustee may not make any such declaration with respect to an Event of Default under item (3) above unless (1) the Trustee has received a written request to do so from 100% of the Owners of all Outstanding Bonds or (2) there are sufficient moneys available in the Funds and Accounts to pay the principal and interest on the Bonds upon such declaration. At the end of such 30-day period the Trustee may, and upon such written request of Bondowners of not less than 25% in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Agency, declare all Bonds Outstanding immediately due and payable and such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Bond Resolution to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, the Trustee may annul such declaration and its consequences with respect to any Bonds not then due by their terms if (1) moneys shall have been deposited in the Bond Fund sufficient to pay all matured installments of interest and principal or Redemption Price or purchase price (other than principal then due only because of such declaration) of all Outstanding Bonds; (2) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agents; (3) all other amounts then payable by the Agency under the Bond Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Default or impair any right consequent thereon.

If the Agency shall fail to pay any Principal Installment, the Redemption Price, the purchase price or any installment of interest on any Bond when and as the same shall become due and payable, the Trustee shall, within 30 days, give written notice thereof by first-class mail to the Bondowners, shown by the registry of Bondowners required to be maintained at the office of the Trustee.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to: (1) suit upon all or any part of the Bonds; (2) suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners; (3) suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners; (4) enforcement of any other right of the Bondowners conferred by law or by the Bond Resolution; and (5) in the event that all Bonds are declared due and payable, by selling Program Obligations.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Bond Resolution by any acts which may be unlawful or in violation of the Bond Resolution, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Bond Resolution.

Amendments

Amendments of the Resolutions may be made by a Supplemental Resolution.

Supplemental Resolutions may become effective upon filing with the Trustee if they add limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution or Series Resolution, add covenants and agreements of the Agency in the Bond Resolution or Series Resolution that are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution in effect at the time, add limitations and restrictions to be observed by the Agency, surrender any right, power or privilege reserved to or conferred upon the Agency or are reasonably necessary to preserve the tax exemption of Outstanding Bonds or permit the issuance of additional tax exempt Bonds.

Supplemental Resolutions become effective upon consent of the Trustee for the following purposes:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution or any Series Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Bond Resolution or any Series Resolution as are necessary or desirable and are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution theretofore in effect;

(3) To waive any right reserved to the Agency, provided that the loss of such right shall not adversely impair any Revenues available to pay the Outstanding Bonds of any Series; and

(4) To make any other change as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

Other Supplemental Resolutions may become effective only with consent (i) of the Bondowners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bondowners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given.

However, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price or purchase price thereof or in the rate of interest thereon (except as otherwise provided in a Series Resolution) without the consent of the Bondowners of all such Bonds, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Bondowners of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

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

APPENDIX D

MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

Federal Housing Administration Single-Family Mortgage Insurance Programs

The National Housing Act of 1934, as amended, authorizes various Federal Housing Administration (the "FHA") mortgage insurance programs, which differ in some respects depending primarily upon whether the mortgaged premises contain five or more dwelling units or less than five such units.

The regulations governing all of the FHA programs under which the mortgage loans may be insured provide that insurance benefits are payable upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged premises to the Department of Housing and Urban Development ("HUD").

Under some of the FHA insurance programs, insurance claims are paid by HUD in cash, unless the mortgage holder specifically requests in debentures issued by HUD. Under others, HUD has the option, at its discretion, to pay insurance claims in cash or in such debentures. The current HUD policy, subject to change at any time, is to make insurance payments on single-family mortgage loans in cash, with respect to all programs covering such units as to which it has discretion to determine the form of insurance payment.

HUD debentures issued in satisfaction of FHA insurance claims bear interest at the HUD debenture interest rate in effect under HUD regulations on the date of the mortgage insurance commitment or of the initial insurance endorsement of the mortgage, whichever rate is higher. The HUD debenture interest rates applicable to the FHA insured mortgages which the Agency has acquired or committed to acquire are in most cases lower than the interest rates of such mortgages.

When entitlement to insurance benefits results from foreclosure (or other acquisition of possession) and conveyance, the insurance payment is computed as of the date of institution of foreclosure proceedings or acquisition of the property. The mortgage holder generally is not compensated for mortgage interest accrued and unpaid prior to that date. Under such circumstances, the amount of insurance benefits generally paid by FHA is equal to the unpaid principal amount of the mortgage loan, adjusted to reimburse the mortgagee for certain tax, insurance and similar payments made by it and to deduct certain amounts received or retained by the mortgagee after default, plus reimbursement not to exceed 2/3 of the mortgagee's foreclosure costs. The regulations under all insurance programs described above provide that the insurance payment itself shall bear interest from the date of default, to the date of payment of the claim at the same interest rate as the applicable HUD debenture interest rate determined in the manner set forth above.

When any property to be conveyed to HUD has been damaged by fire, earthquake, flood or tornado, or, if the property has suffered damage because of failure of the mortgage holder to take action to inspect and preserve the property, it is generally required, as a condition to payment of an insurance claim, that such property be repaired by the mortgage holder prior to such conveyance or assignment. For mortgages insured on or after April 19, 1992, if the property has been damaged during the mortgage holder's possession by events other than fire, flood, earthquake or tornado notwithstanding reasonable action by the mortgage holder, HUD may require the mortgage holder to repair the property prior to conveyance to HUD as a condition to payment of an insurance claim.

Veterans Administration Guaranty Program

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the Veterans Administration (the "VA") covering mortgage financing of the purchase of a one-to-four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of $45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of $45,000 and not more than $56,250, the guaranty will not exceed $22,500); (b) for home and condominium loans of more than $56,250 but less than or equal to $144,000, 40% of the loan is guaranteed subject to a maximum guaranty of $36,000; (c) for home and condominium loans of more than $144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee of $50,750; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of $20,000). The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

Rural Development (RD) Insured Program

Loans insured by Rural Development ("RD") may be made to purchase new or existing homes in designated rural areas. Eligible rural areas have a population not in excess of 10,000 persons or if located outside a Metropolitan Statistical Area, not in excess of 25,000. Loans may be made up to 100% of the market value of the property or 100% of the acquisition cost, whichever is less. The maximum loan amount is the applicable FHA maximum loan amount. The interest rate of these 30 year mortgages may not exceed the higher of the current VA rate or the Federal National Mortgage Association's ("FNMA") required net yield for 90 day commitments on a 30 year fixed-rate mortgage with actual/actual remittance plus 60 basis points. RD covers all losses on foreclosed loans up to 35% of the original principal. Any loss in excess of this amount carries an 85% guarantee. It is the present administrative policy of the Agency to tender a claim to RD by the earlier of (a) six months after the date of acquisition of the property through foreclosure or (b) 30 days after the sale of the property. The Agency retains title to the property and may apply the insurance proceeds and any sale proceeds to the outstanding debt.

Private Mortgage Insurance Programs

In accordance with the Bond Resolution, all Program Loans insured by a private mortgage insurance company shall be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 80% of such Market Value. Each private mortgage insurer insuring such Program Loans must be (a) licensed to do business in Minnesota and (b) maintain a rating of A2 from Moody's Investors Services and AA from Standard and Poors Corporation, or must be approved to insure mortgages purchased by FNMA and the Federal Home Loan Mortgage Corporation ("FHLMC"). Both FNMA and FHLMC require approval of private mortgage insurance companies before mortgages insured by those companies are eligible for purchase by them.

Among the considerations taken into account by FNMA in determining whether to approve a private mortgage insurer are the following: (a) experienced mortgage insurers are expected to have policyholders' surplus of not less than $5 million; (b) it is preferred that an insurer's principal insurance activity relate to loss resulting from nonpayment of mortgages and deeds of trust on residential structures, with total liability not in excess of 25 times its policyholders' surplus; (c) a private mortgage insurer must demonstrate that it possesses the technical expertise necessary to properly evaluate property and credit; and (d) an insurer must expressly consent to and comply with FNMA's requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

FHLMC eligibility requirements for approving private mortgage insurers presently provide that (a) not more than 10% of an insurer's mortgage insurance risk may be represented by mortgage insurance covering property other than real property improved by a building or buildings designed for occupancy by one to four families and (b) an insurer shall not insure mortgages secured by properties in a single housing tract or contiguous tracts where the insurance risk applicable thereto is in excess of 10% of its policyholders' surplus (net of reinsurance); (c) no insurer shall have more than 20% of its total insurance in force in any one Standard Metropolitan Statistical Area nor may any combination of insurance in force in any one state exceed 60% of its total insurance in force; and (d) an insurer shall limit its insurance risk with respect to each insured to the maximum permitted under state law.

FHLMC also requires the private mortgage insurer to meet the following financial requirements: (a) policyholders' surplus must be maintained at not less than $5 million; (b) an insurer shall maintain an unearned premium reserve computed on a monthly pro rata basis; if a greater unearned premium reserve is required by the state where the insurer is licensed, then such greater requirement shall be met; (c) an insurer shall establish and maintain a contingency reserve in an amount equal to 50% of earned premiums; (d) an insurer shall maintain a loss reserve for claims incurred but not reported, including estimated losses on insured mortgages which have resulted in the conveyance of property which remains unsold, mortgages in the process of foreclosure or mortgages in default for four or more months; (e) an insurer shall maintain no less than 85% of its total admitted assets in the form of marketable securities or other highly liquid investments which qualify as insurance company investments under the laws and regulations of the state of its domicile and the standards of the National Association of Insurance Commissioners; and (f) an insurer shall not at any time have total insurance risk outstanding in excess of 25 times its policyholders' surplus. Approved private mortgage insurers must file quarterly and annual reports with the FHLMC.

It is the present administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Program Loan to be purchased with the proceeds of the Series Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (either 20 or 25%, depending on the coverage purchased by the mortgage lender) and allowing the insured lender to retain title to the property.

The foregoing description of certain mortgage insurance programs is only a brief outline and does not purport to summarize or describe all of the provisions of these programs. For a more complete description of the terms of these programs, reference is made to the provisions of the insurance and guaranty contracts embodied in regulations of the FHA, RD and the VA, respectively, and of the regulations, master insurance contracts and other such information of the various private mortgage insurers. Program Loans purchased by the Agency are not limited by the Resolutions to the foregoing programs and it is possible that insurance benefits under other Federal or private programs in which the Agency may participate could be more or less favorable.

Insurance Reserve Fund

For a description of the Insurance Reserve Fund, see "Summary of Certain Provisions of the Bond Resolution" in Appendix C.

State Laws Affecting Foreclosures

Mortgage foreclosures in Minnesota are governed by statute and permit two alternative methods, "by action" or "by advertisement." The latter is normally utilized since it is slightly faster, less expensive, and does not have the same tendency to invite contest as does foreclosure by action. The process is normally initiated by the publication, recordation and service of a notice of foreclosure. This notice must include all relevant information on the mortgage loan and the secured premises as well as a statement of the time and place of sale and the time allowed by law for redemption by the mortgagor. This notice must then be published in a legal newspaper each week for six consecutive weeks. Service of the notice on the mortgagor and any other affected party must be completed at least four weeks prior to the designated date of the foreclosure sale. Compliance with the above publication and service of notice requirements within the prescribed time limitations is essential to the validity of the mortgage foreclosure sale.

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the sheriffs office in the county in which the real estate being foreclosed is located. Although anyone can bid at a foreclosure sale, the normal result of the foreclosure sale is that the lender bids in the debt without competing bidders (and under the Bond Resolution, the Agency is required to do so), and purchases the mortgaged property from the defaulting borrower through the sheriff, subject to the rights of the borrower and subsequent creditors to redeem.

The holding of such foreclosure sale starts the period of redemption. The period of redemption will normally be six months but can be as long as twelve months. During the period of redemption the mortgagor normally retains the right to remain in possession of the mortgaged property without making mortgage payments or paying real estate taxes. During the period of redemption, the mortgagor has the right to pay off the entire indebtedness, including full principal, accrued interest, any amounts reasonably paid by the mortgagee to preserve the security, and attorneys' fees and disbursements to the extent allowed by statute.

After the period of redemption expires, the mortgagee is entitled to possession of the premises, but may have to bring an unlawful detainer proceeding to enforce its possessory rights, and a proceeding subsequent in the case of Torrens property to perfect its title to the mortgaged property.

It is not unusual, therefore, for a mortgagee to be delayed 10 months or more from the date of initiation of the mortgage foreclosure proceeding until it realizes its possessory rights.

APPENDIX E

BOOK-ENTRY-ONLY SYSTEM

Book-Entry-Only System

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each series 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 Bonds of a series, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 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 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 Bonds, except in the event that use of the Book-Entry System for Series Bonds of such Series is discontinued as described below.

To facilitate subsequent transfers, all Series 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 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 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 Bonds of a series and maturity are being redeemed, DTC's, practice is to determine by lot the amount of the interest of each Direct Participant in such Series 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 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 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 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 or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the Underwriters 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 Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriters 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 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 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 Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 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 or any series of the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, such series of Series Bonds are required to be delivered as described in the Series Resolution. The Beneficial Owner, upon registration of such Series 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 all or any series of the Series Bonds. In such event, the Series Bonds of such series are to be delivered as described in the Series Resolution.

APPENDIX F

OPINIONS OF BOND COUNSEL

[To be dated the date of issuance of the 2006 Series K Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series K

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series K, in the aggregate principal amount of $120,000,000 (the "2006 Series K Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series K Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted September 28, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series K Bonds in order that interest on the 2006 Series K Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series K 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 Resolution, and are further secured by the pledge of the full faith and credit of the Agency, 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, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series K 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 2006 Series K 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 2006 Series K 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.

Interest on the 2006 Series K 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 the ownership or disposition of the 2006 Series K Bonds. All owners of 2006 Series K 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 of the 2006 Series K Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series K Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

[To be dated the date of issuance of the Series 2006 Series L Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series L

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series L, in the aggregate principal amount of $6,740,000 (the "2006 Series L Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series L Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series L Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted September 28, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series L Bonds in order that interest on the 2006 Series L Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series L 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 Resolution, and are further secured by the pledge of the full faith and credit of the Agency, 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, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series L 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 2006 Series L 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 2006 Series L 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.

Interest on the 2006 Series L Bonds will not 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 but will be included in the calculation of adjusted current earnings for purposes of calculating federal and State of Minnesota alternative minimum taxes imposed on corporations. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2006 Series L Bonds. All owners of 2006 Series L 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 of the 2006 Series L Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series L Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

[To be dated the date of issuance of the 2006 Series M Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series M

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series M, in the aggregate principal amount of $35,260,000 (the "2006 Series M Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series M Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series M Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted September 28, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the delivery of the 2006 Series M Bonds in order that interest on the 2006 Series M Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond and Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series M 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 Resolution, and are further secured by the pledge of the full faith and credit of the Agency, 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, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series M 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 2006 Series M 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 2006 Series M 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.

Interest on the 2006 Series M 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 the ownership or disposition of the 2006 Series M Bonds. All owners of 2006 Series M 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 of the 2006 Series M Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series M Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: ______________, 2006.

Respectfully yours,

[To be dated the date of issuance of the 2006 Series N Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2006 Series N (Taxable)

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2006 Series N (Taxable), in the aggregate principal amount of $18,000,000 (the "2006 Series N Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2006 Series N Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2006 Series N Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, and the Series Resolution adopted September 28, 2006. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond and Series Resolution; (3) the 2006 Series N 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 Resolution, and are further secured by the pledge of the full faith and credit of the Agency, 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, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2006 Series N 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 2006 Series N 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 2006 Series N Bonds is includable in gross income of owners thereof for federal income tax purposes, in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, and in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2006 Series N Bonds. All owners of 2006 Series N 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 of the 2006 Series N Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2006 Series N Bonds and the Bond and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: _______________, 2006.

Respectfully yours,