NOTICE

$120,325,000
Minnesota Housing Finance Agency
$740,000 Residential Housing Finance Bonds, 2004 Series I (Non-AMT)
$56,540,000 Residential Housing Finance Bonds, 2004 Series J (AMT)
$63,045,000 Residential Housing Finance Bonds, 2004 Series K (AMT)

Official Statement, dated December 9, 2004

The Official Statement, dated December 9, 2004, 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 5.0). 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 5.0 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.

$120,325,000
Minnesota Housing Finance Agency
$740,000 Residential Housing Finance Bonds, 2004 Series I (Non-AMT)
$56,540,000 Residential Housing Finance Bonds, 2004 Series J (AMT)
$63,045,000 Residential Housing Finance Bonds, 2004 Series K (AMT)

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

Tax Exemption	Interest on the above-captioned bonds (collectively, the "Series 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 19-21 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series Bonds.
Redemption	The Series Bonds are subject to mandatory tender at par (with no right to retain) or redemption at par on December 14, 2005.
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 8-11 herein.
Interest Payment Dates	Each January 1 and July 1, commencing July 1, 2005, and on any redemption date or mandatory tender date.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	December 21, 2004 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 B herein.

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 Financial Services Inc.

Piper Jaffray & Co. **RBC Dain Rauscher Inc.**

The date of this Official Statement is December 9, 2004

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

2004 SERIES I BONDS (NON-AMT)

$740,000 2.20% Series Bonds Due Not Later than July 1, 2013 (CUSIP 60415NTU6*)

2004 SERIES J BONDS (AMT)

$56,540,000 2.30% Series Bonds Due Not Later Than July 1, 2035 (CUSIP 60415NTV4*)

2004 SERIES K BONDS (AMT)

$63,045,000 2.30% Series Bonds Due Not Later Than July 1, 2036 (CUSIP 60415NTW2*)

Mandatory Tender Date for All Series Bonds on December 14, 2005

Price of all Bonds — 100%

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* 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
$120,325,000
Minnesota Housing Finance Agency
Residential Housing Finance Bonds,
2004 Series I, 2004 Series J and 2004 Series K

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 certain of its Residential Housing Finance Bonds, 2004 Series I (the "2004 Series I Bonds"), 2004 Series J (the "2004 Series J Bonds", collectively with the 2004 Series I Bonds, the "2004 Series IJ Bonds") and 2004 Series K (the "2004 Series K Bonds", collectively with the 2004 Series IJ Bonds, the "Series Bonds"), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial holders of the Series Bonds. The Series Bonds are being issued pursuant to the Act, the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented, (the "Bond Resolution") and a series resolution of the Agency adopted on December 3, 2004 (the "Series Resolution"). The Bond Resolution and the Series Resolution are herein sometimes called the "Resolutions". The Residential Housing Finance Bonds now outstanding under the Bond Resolution 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." Bonds outstanding as of October 31, 2004 aggregated $964,080,000 in principal amount.

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

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 2004 Series IJ 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 Insurance Reserve Fund and by paying certain costs of issuance of the Series Bonds. No proceeds of the Series Bonds will be disbursed to purchase Program Loans nor will any amounts be deposited into the Debt Service Reserve Fund and Insurance Reserve Fund until all or a portion of the Series Bonds are remarketed or refunded on a long-term basis. The Series Bonds to be remarketed or refunded from time to time shall be selected by the Agency in its sole and absolute discretion. The Agency may acquire certain Program Loans from its other funds and reimburse such funds from proceeds of the

Series Bonds upon any such remarketing or refunding. 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 and Revenues held and received by the Agency pursuant to the Bond Resolution including Program Obligations funded by the Agency from the Acquisition Account and revenues received by the Agency in connection therewith. *While the Program Obligations intended to be acquired with the proceeds of the Series Bonds upon the long term remarketing or refunding thereof will consist of first mortgage single family housing loans, 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 D — 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 2006, 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

Peter G. Bernier, Member — Term expires January 2005, Squaw Lake, Minnesota

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, Member — 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, 2004, included in this Official Statement as Appendix B have been audited by Deloitte & Touche 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 B 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.

In Appendix A to this Official Statement, the Agency has included unaudited financial statements of the General Reserve Account and the Residential Housing Finance Program Fund as of and for the three months ended September 30, 2004, which reflect, in the opinion of the Agency, all normal recurring adjustments necessary for a fair statement of the financial position and results of operation of those funds for the period. The information in Appendix A has been prepared by the Agency, and, in the opinion of the Agency, includes information necessary for a fair statement of the financial position and results of operations of those Funds for the period. The information in Appendix A is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant for the benefit of the Beneficial Owners of the Series 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, 2005, 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 C — Summary of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also 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 September 30, 2004. 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):

	Three Months Ended September 30,	Fiscal Year Ended June 30,	
	2004	2004	2003
Revenues and other additions to restricted net assets:			
Fees earned (1)	$1,802	$7,631	$7,362
Interest earned on investments	164	617	1,690
Unrealized gain (loss) on investment securities, net	8	(2,042)	424
Administrative reimbursement (2)(3)	4,398	14,349	14,372
	$6,372	$20,555	$23,848
Expenses and other reductions to restricted net assets:			
Transfer of assets between funds (4)	$1,135	$4,036	8,856
Salaries and benefits	3,336	13,131	13,124
Other general operating	1,119	5,782	5,915
	$5,590	$22,949	27,895
Net changes in net assets	782	(2,394)	(4,047)
Net assets beginning period	$30,115	32,509	36,556
Net assets end of period	$30,897	$30,115	$32,509

(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 and is generally available to pay any debt obligations of the Agency. Loan activity related to loans financed by the Housing Investment and Housing Affordability Funds is recorded as part of the Alternative Loan Fund in the 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 $269,119,000. 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 October 31, 2004:

	Number of Series*	Bonds Maturing*	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	18	2005-2045	$373,480	$214,515
Residential Housing Finance Bonds	27	2005-2033	1,042,070	964,080
Single Family Mortgage Bonds	71	2005-2033	1,640,540	574,860
Total Debt Outstanding	116		$3,056,090	$1,753,455

*Does not include the original principal amount of any series of bonds that have been, as of October 31, 2004, 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 Series Bonds are as follows:

Sources:	
Principal Amount of Series Bonds	$120,325,000.00
Agency Contribution	290,042.47
Total Sources of Funds	$120,615,042.47
Uses:	
Deposit to Acquisition Account	$120,325,000.00
Deposit to Costs of Issuance Account	290,042.47
Total Uses of Funds	$120,615,042.47

Proceeds of the Series Bonds are to be deposited in the Acquisition Fund and invested in Investment Obligations and will not be used to make or purchase Program Loans until such time as the Series Bonds are refunded or remarketed in whole or in part on a long-term basis. The Agency may acquire certain Program Loans from its other funds and reimburse such funds from proceeds of the Series Bonds upon any such remarketing or refunding.

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 F—Book-Entry-Only System."

The Series Bonds of each series are issuable in the denominations of $5,000 or any integral multiple thereof. 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. Interest on the Series Bonds shall be calculated on the basis of a year of 360

days composed of twelve 30-day months and will be payable to the holder of record as of the 15th day prior to the date of payment, whether or not a business day.

The Series Bonds will be dated, as originally issued, as of their date of original delivery and will bear interest from that date to December 14, 2005 (the "Mandatory Tender Date"), at the interest rates set forth on the inside front cover hereof, payable semiannually on each January 1 and July 1, commencing July 1, 2005, and on such Mandatory Tender Date.

Mandatory Tender and Redemption of Series Bonds Prior to Conversion

The Series Bonds of a series are subject to mandatory tender *(without any right to retain)* on the respective Mandatory Tender Date. The Agency may also redeem any Series Bonds on a Mandatory Tender Date with respect to such Bonds, at a price of par, plus accrued interest, without premium.

On a Mandatory Tender Date, any Series Bonds subject to mandatory tender or redemption on such date are to be purchased or redeemed, as applicable, at a price of par plus interest accrued and unpaid to such date, without premium. Any Series Bonds required to be tendered may, at the option of the Agency, be converted to bear interest on a long term basis to their maturity.

The Series Resolution for the Series Bonds provides that certain of the Series Bonds, after conversion of such Series Bonds to bear interest on a long term basis, are subject to sinking fund redemption, optional redemption, special redemption and mandatory tender upon the occurrence of certain events. **This Official Statement is not intended to provide information to prospective owners subsequent to a conversion.**

General Provisions

Except as otherwise provided in the Series Resolution, any Series 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 Bonds to be purchased or redeemed; (b) the maturities within such Series from which 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 Bonds of a series and maturity are to be redeemed, the 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 Series 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 Series Bond called for redemption at least 15 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 D — 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 Debt Service Reserve Requirements with respect to the Series Bonds, if any, will be established by resolution of the Agency adopted at such time all or a portion of such Series Bonds are remarketed 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 Series Bonds remarketed on a long-term basis. At such time as the 2004 Series I-J-K Account in the Debt Service Reserve Fund may be required to be funded to the Debt Service Reserve Requirement for such Series Bonds upon a remarketing of all or a portion thereof, the required funds may be transferred from the 2004 Series I-J-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 October 31, 2004 was $14,895,150, 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 each series resolution. The Insurance Reserve Requirements with respect to the Series Bonds, if any, will be established by resolution of the Agency adopted at such time all or a portion of such Series Bonds are remarketed on a long-term basis. At such time as the 2004 Series I-J-K Account in the Insurance Reserve Fund may be required to be funded to the Insurance Reserve Requirement for such Series Bonds upon a remarketing of all or a portion thereof, the required funds may be transferred from the 2004 Series I-J-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 October 31, 2004 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 after their remarketing or refunding in whole or in part on a long-term basis. 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. From the proceeds of the Series Bonds, upon the long-term remarketing or refunding thereof, 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 November 24, 2004, the Agency had committed to purchase loans in the amount of $50,773,883 at a weighted average interest rate of 5.323%. Some or all of the purchases of these loans may be reimbursed with proceeds of the Series Bonds. 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
11-County Twin Cities Metropolitan Area	$61,100	$66,000	$70,900	$75,800	$80,700
Olmsted County	$56,800	$61,300	$65,900	$70,400	$75,000
Goodhue County	$52,800	$57,000	$61,200	$65,500	$69,700
Balance Of State	$52,800	$57,000	$61,200	$65,500	$69,700

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 E.

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:	
11-County Twin Cities Area	$275,625
Goodhue County	$202,388
Rochester Metro Area (Dodge, Olmsted and Wabasha Counties)	$214,312
Balance of State	$189,682

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.

The Agency intends to use a portion of the proceeds of the Series Bonds to fund the Agency program for bond issuance on behalf of local governments.

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 three 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); (ii) to assist in the payment of monthly principal and interest on the Program Loan in an amount of $1,440; or (iii) to provide an "entry cost assistance plus" loan in the amount necessary to reduce the Program Loan payments to an affordable level (up to a maximum of $10,000). Eligible Mortgagors may receive either entry cost assistance or payment assistance separately or together, but may receive the "entry cost assistance plus" loan only after application of the first two forms of assistance fail to qualify them for the Program Loan. 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 or an "entry cost assistance plus" 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 the Mortgagor at the program income limits previously noted. Monthly assistance payments are made in increments of $60 during year one; $40 during year two and $20 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 27% of their total income and who will receive monthly payment assistance may also be eligible for an "entry cost assistance plus" loan in an amount necessary to reduce their housing debt ratio to 27%, but not to exceed $10,000. The "entry cost assistance plus" loan is available to Mortgagors who qualify under the program income limits and obtain loans under the Agency's Community Activity Set Aside Program.

The total of the entry cost assistance, monthly payment assistance and "entry cost assistance plus" 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.

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 .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, 2004, the Agency had outstanding loans receivable of $432,461,000 gross, from the proceeds of the Outstanding Bonds. As of September 30, 2004, excluding the proceeds of short-term bonds and notes, there were approximately $3,160,000 of 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 which include 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.

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 Home Improvement Program. Each Lender that meets the Home Improvement Program requirements and participates in the Program either executes or has executed a Participation Application and Note Purchase 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 is a completed home and is a year-round permanent residence; the residence is permanently attached to the land by way of a foundation and is taxed as real property; the Borrower does not use or does not intend to use more than 55% of the residence primarily for business purposes; and the Borrower has 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 $450.

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 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 $550 or in the case of credit history issues, a $650 processing fee. 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 may not exceed 20 years. Home Improvement Program Loans are purchased in principal amounts of up to $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 may be prepaid at any time without penalty.

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 .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 September 30, 2004, the Agency had outstanding loans receivable of $96,844,000 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 B.

For example, as of September 30, 2004, the Single Family Fund, which has a more extensive history than the Residential Housing Finance Fund, had outstanding loans receivable of $493,879,000 gross, from the proceeds of the Agency's outstanding single family mortgage bonds. As of September 30, 2004, no additional mortgage loans were being processed for purchase with moneys on deposit in the Single Family Fund. As of September 30, 2004, 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

General

The Series 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 Series 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 Series Bonds. For example, the Code limits the amount of the costs of issuance which may be paid from the proceeds of the Series Bonds and limits the size of reserve funds established with the proceeds of the Series Bonds. In addition, the Code imposes, on a continuing basis, limitations on investment of the proceeds of the Series Bonds and requires earnings on non-mortgage investments in excess of the yield on the Series 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 Series Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest on the Series Bonds will be excludable from federal gross income and not to permit any proceeds of the Series 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 Series 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 Series 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 2004 Series J Bonds and the 2004 Series K Bonds but not the 2004 Series I 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 2004 Series I 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 Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. *Interest on the 2004 Series J Bonds and the 2004 Series K Bonds but not the 2004 Series I Bonds, is includable in income for purposes of calculating the Minnesota alternative minimum tax applicable to individuals, trusts and estates*. Interest on the Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

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

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

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

The 1995 State Legislature enacted a statement of intent, codified as Minnesota Statutes, Section 289A.50, subdivision 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, trusts and estates for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest unlawfully discriminates against interstate commerce because interest on obligations of governmental issuers in other states is so included. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued. No similar legislation was proposed or approved during recent legislative sessions. The Agency is not aware of any judicial decision holding that a state's exemption of interest on its own bonds or those of its political subdivisions or Indian tribes, but not of interest on the bonds of other states or their political subdivisions or Indian

tribes, unlawfully discriminates against interstate commerce or otherwise contravenes the United States Constitution. Nevertheless, the Agency cannot predict the likelihood that interest on the Series Bonds would become taxable (for Minnesota income tax purposes) under this Minnesota statutory provision.

LEGAL MATTERS

The validity of and the tax exemption of interest on the Series 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 G 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

The Series Bonds are being underwritten by the Underwriters, for which UBS Financial Services Inc., Piper Jaffray & Co. and RBC Dain Rauscher Inc. are acting as Managers. The Underwriters are to be paid a fee of $210,042.47 with respect to the purchase of the Series Bonds.

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 Marx
Commissioner

Dated: December 9, 2004.

APPENDIX A

CERTAIN FINANCIAL STATEMENTS REGARDING THE RESIDENTIAL HOUSING FINANCE FUND AND THE GENERAL RESERVE

(Unaudited)

For the three months ended September 30, 2004

As prepared by the Agency's Accounting Department

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	September 30, 2004 (unaudited)	
	General Reserve	Residential Housing Finance
ASSETS		
Cash and cash equivalents	$ 5,811	$ 578,083
Investment securities	116,389	143,876
Loans receivable, net	-	712,992
Interest receivable on loans	-	3,216
Interest receivable on investments	958	4,420
Mortgage insurance claims receivable	-	135
Real estate owned	-	115
Capital assets, net	1,792	-
Other assets	1,320	93
Total Assets	$ 126,270	$ 1,442,930
LIABILITIES AND NET ASSETS		
Liabilities:		
Bonds payable, net	$ -	$ 962,346
Interest payable	-	8,398
Accounts payable and other liabilities	3,138	1,298
Interfund payable (receivable)	4,875	(25,735)
Funds held for others	87,360	40
Total liabilities	95,373	946,347
Net Assets:		
Restricted by bond resolution	-	243,704
Restricted by covenant	29,105	252,879
Invested in capital assets	1,792	-
Total net assets	30,897	496,583
Total liabilities and net assets	$ 126,270	$ 1,442,930

MINNESOTA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(for specified funds)
(unaudited)
(in thousands)

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2004 (unaudited)	
	General Reserve	Residential Housing Finance
Revenues:		
Interest earned on loans	$ -	$ 9,963
Interest earned on investments	164	4,745
Administrative reimbursement	4,398	-
Fees earned	1,802	101
Unrealized gains on securities	8	1,067
Total revenues	6,372	15,876
Expenses:		
Interest	-	7,920
Loan administration and trustee fees	-	652
Administrative reimbursement	-	1,346
Salaries and benefits	3,336	-
Other general operating	1,119	176
Reduction in carrying value of certain low interest rate deferred loans	-	1,292
Provision for loan losses	-	610
Total expenses	4,455	11,996
Revenues over (under) expenses	1,917	3,880
Other changes:		
Non-operating transfer of assets between funds	(1,135)	5,666
Change in net assets	782	9,546
Total net assets, beginning of period	30,115	487,037
Total net assets, end of period	$ 30,897	$ 496,583

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2004 (unaudited)	
	General Reserve	Residential Housing Finance
Cash flows from operating activities:		
Principal repayments on loans	$ -	$ 24,177
Investment in loans	-	(106,292)
Interest received on loans	-	9,935
Other operating	-	(176)
Fees received	1,617	120
Salaries, benefits and vendor payments	(4,633)	(1,763)
Administrative reimbursement from funds	4,430	(1,346)
Interest transferred to funds held for others	(566)	-
Deposits into funds held for others	9,271	40
Disbursements made from funds held for others	(8,421)	-
Interfund transfers and other assets	(368)	217
Net cash provided (used) by operating activities	1,330	(75,088)
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds	-	182,465
Principal repayment on bonds	-	(153,595)
Interest paid on bonds and notes	-	(11,243)
Financing costs paid related to bonds issued	-	(858)
Interest paid/received between funds	-	766
Principal paid/received between funds	-	70
Agency contribution to program funds	-	5,341
Transfer of cash between funds	-	(810)
Net cash provided by noncapital financing activities	-	22,136
Cash flows from investing activities:		
Investment in real estate owned	-	(9)
Interest received on investments	993	841
Procceeds from sale of mortgage insurance claims/real estate owned	-	287
Proceeds from maturity, sale, or transfer of investment securities	22,946	2,613
Purchase of investment securities	(24,265)	(2,614)
Purchase of loans between funds	-	-
Net cash provided (used) by investing activities	(326)	1,118
Net increase (decrease) in cash and cash equivalents	1,004	(51,834)
Cash and cash equivalents, net:		
Beginning of period	4,807	629,917
End of period	$ 5,811	$ 578,083

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

	For Three Months Ended September 30, 2004 (unaudited)	
	General Reserve	Residential Housing Finance
Revenues over (under) expenses……	$ 1,917	$ 3,880
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums and fees on loans……..	-	320
Depreciation……..	163	-
Realized losses on sale of securities, net…….	-	18
Unrealized gains on securities, net…….	(8)	(1,067)
Provision for loan losses……..	-	610
Reduction in carrying value of certain low interest rate deferred loans…….	-	1,292
Capitalized interest on loans and real estate owned……..	-	(19)
Interest earned on investments……..	(164)	(4,866)
Interest expense on bonds and notes……..	-	7,920
Changes in asseets and liabilities:		
Increase in loans receivable, excluding loans transferred between funds…….	-	(82,115)
Increase in interest receivable on loans……	-	(329)
Increase in arbitrage rebate liability…….	-	103
Interest transferred to funds held for others……..	(566)	-
Decrease in accounts payable……	(344)	(1,090)
Increase (decrease) in interfund payable, affecting operating activities only……..	32	(202)
Increase in funds held for others……..	850	40
Other……..	(550)	417
Total ……..	(587)	(78,968)
Net cash provided (used) by operating activities……	$ 1,330	$ (75,088)

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at September 30, 2004:

Funds	Deposits	Repurchase Agreements	Investment Agreements	Cash Equivalent Investment Securities	Combined Totals
General Reserve……	$ 450	$ 5,361	$ -	$ -	$ 5,811
Residential Housing Finance……..	572	23,581	540,455	13,475	578,083

Investment Securities

Investment securities are recorded at fair market value and are composed of the following at September 30, 2004:

	Fair Market Value		
Funds	US Treasuries, US Agencies and Municipals, at Amortized Cost	Unrealized Appreciation/ (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve……	$ 116,285	$ 104	$ 116,389
Residential Housing Finance……..	141,724	2,152	143,876

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Loans receivable, net at September 30, 2004 consist of:

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve……	$ -	$ -	$ -	$ -
Residential Housing Finance…….	762,118	(45,331)	(3,795)	712,992

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Bonds payable, net at September 30, 2004 are as follows:

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Bonds Payable, Net
General Reserve……	$ -	$ -	$ -	$ -
Residential Housing Finance……..	964,080	(5,245)	3,511	962,346

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Residential Housing Finance

Outstanding Principal of bonds payble at September 30, 2004 are as follows:

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
1995 Series A	5.05% to 5.85%	2005-2017	$ 53,645	$ 18,305
2002 Series A	4.75% to 5.30%	2012-2019	14,035	6,210
2002 Series B	3.85% to 5.65%	2005-2033	59,650	29,055
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.80% to 5.35%	2005-2033	25,760	24,590
2002 Series C	1.20%	2005	24,285	24,285
2002 Series D	1.25%	2005	11,230	11,230
2002 Series E	4.30% to 5.00%	2013-2020	12,805	12,725
2002 Series F	2.85% to 5.40%	2005-2032	52,195	49,345
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	39,880
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series H	1.62%	2005	38,610	38,610
2003 Series I	1.85% to 5.25%	2005-2035	25,000	24,990
2003 Series J	Variable	2033	25,000	25,000
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-2	2.35%	2006	111,515	111,515
2003 Series M-1	1.20%	2004	43,545	43,545
2003 Series M-2	1.20%	2004	10,000	10,000
2004 Series A	3.20% to 4.25%	2011-2018	22,480	22,480
2004 Series B	1.40% to 4.70%	2005-2033	94,620	94,620
2004 Series C	4.70%	2035	14,970	14,970
2004 Series E-1	4.10% to 4.60%	2012-2016	5,110	5,110
2004 Series E-2	4.40% to 4.60%	2014-2016	6,475	6,475
2004 Series F-1	2.45% to 4.50%	2006-2012	4,600	4,600
2004 Series F-2	3.20% to 5.25%	2007-2034	36,160	36,160
2004 Series G	Variable	2032	50,000	50,000
2004 Series H	1.62%	2005	41,510	41,510
			$ 1,042,070	$ 964,080

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, this presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Residential Housing Finance

Using rates as of September 30, 2004, 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. As rates vary, variable rate bond interest payments and net swap payments will vary.

	Variable Rate Bonds			
Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2005	$ -	$ 713	$ 1,340	$ 2,053
2006	-	1,720	2,411	4,131
2007	-	1,720	2,312	4,032
2008	-	1,720	2,168	3,888
2009	-	1,720	2,015	3,735
2010-2014	-	8,600	8,100	16,700
2015-2019	-	8,586	5,701	14,287
2020-2024	18,050	8,252	3,841	30,143
2025-2029	43,620	5,424	1,018	50,062
2030-2034	38,330	1,423	(176)	39,577

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Swap Disclosure

Objective of Swaps. During 2003 and 2004 the Agency entered into interest rate swap agreements in connection with issuing variable rate 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.

Terms of Swaps. The terms, including the fair values and credit ratings of the outstanding swaps as of September 30, 2004, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 20 year anniversary dates of the swaps.

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis, which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

Associated Bond Series	Current Notional Amounts	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 1 month LIBOR* plus 0.23% per annum	$ 432,492	January 1, 2033	Aa2**/AA+***
RHFB 2003J	$ 25,000,000	October 15, 2003	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	($1,660,126)	July 1, 2033	Aa2**/AA+***
RHFB 2004G	$ 50,000,000	July 22, 2004	4.165%	65% of 1 month LIBOR* plus 0.23% per annum	($3,126,304)	January 1, 2032	Aa2**/AA-***
Total	$100,000,000				($4,353,938)		

* - London Inter-Bank Offered Rate
** - Moody's Investor Service, Inc.
*** - Standard & Poor's Inc.

Swap Valuation. The Fair Values presented above were estimated by the Agency's counterparty 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 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 September 30, 2004. 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.

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

The following information with respect to the General Reserve and Residential Housing Finance Fund for the period ended September 30, 2004 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended September 30, 2004. However, the presentation excludes all other funds of the Agency as well as management's discussion and analysis, which are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix A should be read in connection with the audited financial statements included in Appendix B, including the notes to the financial statements.

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

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 counterparty with which the swaps were executed. As of September 30, 2004, the Agency did not have a net credit risk exposure to its counterparty because the swaps had a negative net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of September 30, 2004.

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 September 30, 2004, the interest rate on the Agency's variable rate debt ranged from 1.74% to 1.75% per annum while the interest rate on the swaps was 1.316% 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.

APPENDIX B

FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2004

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

As the 2003 Financial Report was prepared I had just assumed the duties of Commissioner. In my report I stated that "as a result of the work and commitment of my predecessors, the Agency's board, the senior leadership and staff of the Agency, and the state of Minnesota's continued commitment to housing issues, I am confident that the Agency will thrive in this new Administration and continue to deliver on its mission for the state of Minnesota." My confidence was well founded.

The Agency experienced another year of solid financial performance, we continued to deliver housing programs to meet the needs of low- and moderate-income Minnesotans, and we have adopted and are implementing an ambitious strategic plan that will allow Minnesota to continue to be a national leader in meeting the housing needs of its low- and moderate-income citizens.

Financially, the Agency continued to increase the net assets of its bond funds and General Reserve, in spite of the challenges of an historically low interest rate environment and accelerated loan prepayments. Net assets of both the State and Federal Appropriated funds decreased as expected due to spending down appropriations accumulated from prior years.

There was continued strong demand for the Agency's programs. In the last program year (October 1, 2002 to September 30, 2003), the Agency continued its efforts to provide decent, safe, and affordable housing by serving over 57,000 households; 51% of the households served, excluding those living in Section 8 project-based housing, had annual incomes under $20,000. The Agency provided more than $465 million of housing assistance in three main areas: $162 million for homeownership programs, primarily in the form of first mortgages and entry cost assistance, $45 million for home improvement programs, and $258 million for rental housing programs, including financing of new construction, rehabilitation, preservation of federal assistance, and rental assistance. The increase over the previous year of assistance provided for rental housing programs is largely due to two factors: a doubling of the amount of first mortgage financing provided by the Agency and an increase in the amount of the housing assistance payments made for properties in the Agency's portfolio as well as the HUD-financed portfolio. The decrease in housing assistance for homeownership programs over the previous year is attributable primarily to an extremely low interest rate environment and low purchase price limits, which were subsequently raised.

As of the end of the last fiscal year, the Agency oversaw a portfolio of more than 22,000 first mortgage and deferred loans for homeownership, 15,000 second mortgage loans for home improvement and 1,200 first mortgage and deferred loans for rental housing as well as administering the federal tax credit program.

In February 2004 the Agency finalized a strategic plan that is intended to guide our work through 2007. The plan was the result of input from Agency stakeholders throughout the state, Governor Pawlenty, the Agency Board, senior leadership and staff. The plan was also informed by analyses of various housing and community development data and trends, including the "Next Decade of Housing in Minnesota" prepared by BBC Research & Consulting. Grounded in the values of stewardship and the relentless pursuit of results, the plan sets fourth five strategic goals:

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

We are developing more specific business or implementation plans for each goal. A business plan to end long-term homelessness was completed in March 2004, and a business plan to increase homeownership in Minnesota's emerging markets will be forthcoming in March 2005. In addition, specific initiatives, such as implementation of the Agency's information technology plan, are being pursued to maintain and enhance the Agency's organizational infrastructure and core housing programs. In short, we have our plan, are working the plan, and will be accountable for results.

As we work our plan, we are mindful of the continued challenges to produce and preserve affordable housing including federal actions on the Section 8 Housing Choice Voucher Program, the long-term viability of the mortgage revenue bond program under the current tax code, and continued federal and state fiscal uncertainty.

The Agency will continue to provide leadership at the state and national level to confront these and similar challenges.

We begin the next fiscal year with a compelling mission, a sound plan, and with the financial and organizational capacity to execute. I look forward to reporting to you on another successful year in August of 2005.

Timothy E. Marx, Commissioner
Minnesota Housing Finance Agency
August 23, 2004

Independent Auditors' Report

To the Members of the
Minnesota Housing Finance Agency

We have audited the accompanying basic 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 the Minnesota Housing Finance Agency (the "Agency"), a component of the State of Minnesota, as of and for the year ended June 30, 2004, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2004, and the respective changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information, such as management's discussion and analysis on pages 6 through 17, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Agency's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required 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 accompanying supplementary information, such as the introductory section and the supplemental information section, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Agency's management. The accompanying supplementary information, such as the introductory section and the supplemental information section, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte + Touche LLP

Minneapolis, Minnesota
August 23, 2004

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

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

Introduction

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

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

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

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

Discussion of Financial Statements

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

- The first two statements are Agency-wide financial statements that provide information about MHFA's overall financial position and results of operations. These statements, which are presented on the accrual basis, consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used in any aggregate manner.
- The remaining statements are fund financial statements of MHFA's six proprietary funds, which are also presented on the accrual basis because of the similarity of their operations to that of business activities.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.
- Additional supplementary information is presented following the Notes to Financial Statements for certain funds of MHFA, which have been established under the bond resolutions under which MHFA borrows funds for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, and Single Family.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2003. Although not required, these comparative totals are intended to facilitate an enhanced understanding of MHFA's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

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

Rental Housing

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

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

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

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the resolution, the Bond Restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the Restricted by Covenant Alternative Loan Fund consisting of the Housing Investment Fund (also referred to as Pool 2) and Housing Affordability Fund (also referred to as Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage and home improvement subordinated mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. This bond resolution is the principal source of financing for bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund although no bonds were issued to support home improvement lending during fiscal year 2004.

The Home Improvement Endowment Fund continues to be the principal source of financing for MHFA's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2004.

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

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

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

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

Discussion of Individual Funds (continued)

Single Family

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

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

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

State and Federal Appropriated Funds

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

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

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

General Overview

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

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

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

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

General Overview (continued)

bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

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

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

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

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

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

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Assets	Cash and Investments	1,335,512	1,297,550	37,962	1,249,343	1,173,305
	Loans receivable, Net	1,413,897	1,478,002	(64,105)	1,384,804	1,450,478
	Interest Receivable	11,334	13,543	(2,209)	10,820	12,285
	Total Assets	2,767,995	2,793,810	(25,815)	2,650,746	2,640,039
Liabilities	Bonds Payable	1,844,589	1,846,679	(2,090)	1,844,589	1,846,679
	Interest Payable	36,283	43,464	(7,181)	36,283	43,464
	Funds Held for Others	88,163	88,116	47	86,510	86,344
	Total Liabilities	1,986,907	1,993,630	(6,723)	1,983,768	1,991,580
Net Assets	Restricted by Bond Resolution	387,747	382,253	5,494	387,747	382,253
	Restricted by Covenant	277,457	265,473	11,984	277,457	265,473
	Restricted by Law	114,110	151,721	(37,611)	—	—
	Total Net Assets	781,088	800,180	(19,092)	666,978	648,459

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

		Agency-wide Total[1]		Change	Combined General Reserve and Bond Funds	
		2004	2003	$	2004	2003
Revenues	Interest Earned	134,431	150,367	(15,936)	132,544	145,010
	Appropriations Received	189,913	198,516	(8,603)	—	—
	Fees and Reimbursements	10,344	10,420	(76)	23,232	23,281
	Total Revenues	338,726	376,348	(37,622)	146,754	173,685
Expenses	Interest Expense	89,514	101,023	(11,509)	89,514	101,023
	Appropriations Disbursed	180,098	170,693	9,405	—	—
	Fees and Reimbursements	5,339	5,981	(642)	14,834	15,122
	Payroll, Gen. & Admin.	20,310	21,471	(1,161)	19,165	19,667
	Loan Loss/Value Adjust's	48,894	52,984	(4,090)	4,722	1,775
	Total Expenses	357,818	365,823	(8,005)	128,235	137,587
	Revenues over Expenses	(19,092)	10,525	(29,617)	18,519	36,098
	Beginning Net Assets	800,180	789,655	10,525	648,459	612,361
	Ending Net Assets	781,088	800,180	(19,092)	666,978	648,459

(1) Agency-wide totals include interfund amounts.

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
76,038	86,169	124,245	(38,076)
(65,674)	29,093	27,524	1,569
(1,465)	514	1,258	(744)
10,707	117,249	153,771	(36,522)
(2,090)	—	—	—
(7,181)	—	—	—
166	1,653	1,772	(119)
(7,812)	3,139	2,050	1,089
5,494	—	—	—
11,984	—	—	—
—	114,110	151,721	(37,611)
18,519	114,110	151,721	(37,611)

Change $	Combined State and Federal Appropriations Funds 2004	2003	Change $
(12,466)	1,887	5,357	(3,470)
—	189,913	198,516	(8,603)
(49)	775	810	(35)
(26,931)	191,972	202,663	(10,691)
(11,509)	—	—	—
—	180,098	170,693	9,405
(288)	4,168	4,530	(362)
(502)	1,145	1,804	(659)
2,947	44,172	51,209	(7,037)
(9,352)	229,583	228,236	1,347
(17,579)	(37,611)	(25,573)	(12,038)
36,098	151,721	177,294	(25,573)
18,519	114,110	151,721	(37,611)

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 2004 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

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

Loans receivable, net is the largest single category of bond fund assets; they are limited to housing-related lending that supports a public mission objective. Loans receivable, net decreased 5% to $1,385 million at June 30, 2004 as a result of prepayments and repayments of loans exceeding new loan purchases and originations. There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 6% to $1,249 million at June 30, 2004 due to proceeds of loan prepayments on hand and higher levels of short-term debt outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 12% to $10.820 million at June 30, 2004 generally as a result of historically low interest rates and declining loans outstanding.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports MHFA's mission. Bonds payable decreased negligibly to $1,845 million at June 30, 2004 resulting from early redemptions made possible by accelerated loan prepayments, optional redemptions from Agency resources, scheduled redemptions and bond maturities, which marginally exceeded new debt issuance.

The companion category of interest payable decreased 17% to $36.283 million at June 30, 2004 as a result of reduced interest rates and fewer average bonds outstanding.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve increased negligibly to $86.510 million at June 30, 2004 since deposits were approximately equal to payments made from escrows.

Accounts payable and other liabilities increased 10% to $15.152 million at June 30, 2004 primarily as a result of higher levels of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury. The MHFA obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

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

Net assets of General Reserve and bond funds are divided into two primary categories. Net assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize MHFA to withdraw funds in excess of the amounts required

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

to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including the creation of reserves for the 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 $666.978 million at June 30, 2004 as a result of consistent financial performance of the bond funds.

Capital assets, net (equipment, fixtures, furniture, software costs) continue to be insignificant in relation to General Reserve and bond fund assets, representing less than 1% of total net assets. Capital assets are recorded in General Reserve.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds remained adequate in fiscal year 2004, modestly lower than fiscal year 2003 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable effects of interest revenue declines was the favorable effect of interest expense declines.

The largest revenue component, interest earned, was down throughout the year as yields on loans and investments remained at historically low levels. Combined interest revenues of General Reserve and bond funds from loans and investments declined 9% to $132.544 million compared to the prior year, consistent with historically low interest rates. Loan interest was lower in fiscal year 2004 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations which were also at lower interest rates. Investment interest was lower in fiscal year 2004 due to continued low interest rates.

Administrative reimbursements to General Reserve from bond funds decreased negligibly to $14.349 million compared to prior year as administrative expense requirements remained similar to fiscal year 2003 in General Reserve.

Other fee income to General Reserve and bond funds decreased negligibly to $8.883 million compared to the prior year. The primary components of other fee income continue to be federal housing tax credit program fees, Section 8 contract administration fees and federal Housing Assistance Payments administration fees.

MHFA recorded $9.022 million of unrealized losses on investment securities during fiscal year 2004, compared to $5.394 million of unrealized gains during the prior year, for a net decrease of $14.416 million. Unrealized losses occurred when the cumulative unrealized gains from prior periods were reversed as the investment securities neared maturity and when interest rates began rising in 2004.

Interest expense of the bond funds decreased 11% to $89.514 million compared to the prior year as a result of reduced interest rates on recently issued bonds and fewer average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds declined slightly by 2% to $14.834 million compared to the prior year. The majority of the decrease is a result of the reduction of loan administration fees as loans outstanding has declined. Note that $13.663 million of the total administrative fee reimbursement revenue of $14.349 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

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

Salaries, benefits, and other general operating expenses in General Reserve and bond funds decreased 2% to $19.165 million compared to the prior year due to capitalized expenses for information systems development projects.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased by $2.823 million to $2.492 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 6% to $2.230 million, consistent with management's assessment of increasing loan portfolio risk despite declining loan volume. 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 for General Reserve and the bond funds decreased 49% to $18.519 million compared to prior year. After considering the non-operating effects of unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses are down primarily as a result of historically low interest rates and declining loan assets. Although down from the previous year, this level of net revenue over expenses remains comparable at the lower 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 $666.978 million as a result of revenues over expenses for fiscal year 2004. The net assets of Rental Housing and Residential Housing Finance bond funds have increased while net assets of General Reserve and Single Family bond fund have decreased, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

State and Federal Appropriated Funds — Statement of Net Assets

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

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2004 combined balance decreased 31% to $86.169 million as a result of higher levels of disbursements and lower levels of receipts in the current year. Appropriations received in the prior year were higher mainly due to one-time appropriations.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2004 State Appropriated Fund loans receivable increased 6% to $29.093 million reflecting higher volume of state 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, 2004 decreased 59% to $.514 million as a result of declining investment yields and lower average investment balances.

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

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, 2004 was $2.720 million.

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 MHFA. At June 30, 2004 the combined net interfund receivable was $1.234 million.

Funds held for others represent excess federal housing assistance payments received for the administration of the Section 8 program, and the interest income earned on those unexpended funds. At June 30, 2004 the balance of funds held for the federal government was $1.653 million.

All of the net assets of the Appropriated Funds are restricted by law for use with housing programs only and are not pledged to support the bondholders or creditors of MHFA. The combined net assets of the Appropriated Funds declined to $114.110 million as of June 30, 2004 compared to the prior period, reflecting reduced levels of new appropriations received and increased appropriations disbursed during fiscal year 2004.

State and Federal Appropriated Funds — Revenues Over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from $198.516 million at June 30, 2003 to $189.913 at June 30, 2004. Federal appropriations increased while state appropriations decreased.

Interest income from investments was down throughout the year as interest rates in general continued their decline to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 65% to $1.845 million at June 30, 2004.

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

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. Unrealized losses decreased significantly by 70% to $.603 million compared to the prior year as previous losses were reversed as investment asset balances were spent in program disbursements.

Administrative reimbursements of expenses to General Reserve decreased 8% to $4.131 million compared to the prior year, primarily as a result of reduced expense to administer state appropriated programs.

Combined appropriations disbursed increased 6% to $180.098 million compared to prior year, reflecting continued efforts 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 14% to $43.975 million compared to prior year, as a result of making fewer fully reserved deferred loans for low- and moderate-income housing.

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

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense decreased 37% to $1.145 million at June 30, 2004.

Combined expenditures exceeded combined revenues of the Appropriated Funds by $37.611 at June 30, 2004, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated Funds' net assets will be expended for housing.

Significant Long-term Debt Activity

MHFA is a significant debt issuer, having outstanding at June 30, 2004 long-term debt totaling $1,337 million and short-term debt totaling $507 million, net of deferred finance and issuance costs. MHFA bond funds are held by a trustee, who ensures that bond resolution requirements are met, including payments of debt service. At June 30, 2004, 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, 2004, amounts held by the trustee in such reserve and revenue accounts represented full funding of those requirements to that date.

Most of the debt issued by MHFA is tax-exempt and is issued under the Internal Revenue Code and Treasury regulations governing either mortgage revenue bonds or residential rental projects. MHFA's ability to issue tax-exempt debt is limited by MHFA's share of the state's allocation of the private activity volume cap, which is set in Minnesota law. MHFA's ability to issue tax-exempt debt is also limited by the federal rule (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans. When economic conditions favor it, MHFA issues limited amounts of taxable debt in order to supplement its tax-exempt authority and for lending under programs where federal restrictions are inconsistent with the program requirements. Board policy governs the process MHFA follows to issue and manage debt and state statute limits MHFA's outstanding debt to $3.0 billion.

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

MHFA continually investigates and utilizes available debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing its bonding authority.

During the year, MHFA completed the issuance/remarketing of 26 series of bonds aggregating to $761 million. This is compared to the combined issuance and remarketing of 16 series totaling $447 million the previous year. In recent years, MHFA has retired high rate debt when it becomes 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 $766 million in principal payments were made during the year. Of this amount, $378 million was retired prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Significant Topics Which Affect Financial Condition and/or Operations

Legislative Actions

The 2003 Minnesota Legislature adopted a FY 2004 — 2005 biennial budget that appropriates less money to MHFA than the previous biennium's base appropriations as part of an effort to balance the budget of the State of Minnesota for the current biennium. The $9.3 million reduction represents 12% of the total base appropriation to MHFA. In May 2004, the governor directed state agencies to reduce budgets for FY 2005 in order to eliminate a projected $160 million deficit. MHFA was directed to reduce its state appropriated budget by $628,000 or about 1.8% of the funds appropriated for FY 2005. State appropriations are used for specific programs, and are not available to pay for MHFA operations or debt service. Changes in state and federal laws, governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to MHFA's attainment of mission and financial objectives.

Additional Information

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

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
June 30, 2004 (with comparative totals for June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Assets	Cash and cash equivalents	$ 950,429	$ 857,905
	Investment securities	385,083	439,645
	Loans receivable, net	1,413,897	1,478,002
	Interest receivable on loans	7,395	8,032
	Interest receivable on investments	3,939	5,511
	Mortgage insurance claims receivable	763	584
	Real estate owned	1,593	899
	Capital assets, net	1,774	733
	Other assets	3,122	2,499
	Total assets	$2,767,995	$2,793,810
Liabilities	Bonds payable, net	$1,844,589	$1,846,679
	Interest payable	36,283	43,464
	Accounts payable and other liabilities	17,872	15,371
	Funds held for others	88,163	88,116
	Total liabilities	1,986,907	1,993,630
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	387,747	382,253
	Restricted by covenant	277,457	265,473
	Restricted by law	114,110	151,721
	Invested in capital assets	1,774	733
	Total net assets	781,088	800,180
	Total liabilities and net assets	$2,767,995	$2,793,810

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

		2004 Agency-wide Total	2003 Agency-wide Total
Revenues	Interest earned on loans	$ 95,338	$109,109
	Interest earned on investments	39,093	41,258
	Appropriations received	189,913	198,516
	Administrative reimbursement	686	701
	Fees earned and other income	9,658	9,719
	Unrealized gains on securities	(9,625)	3,374
	Total revenues	325,063	362,677
Expenses	Interest	89,514	101,023
	Loan administration and trustee fees	5,339	5,981
	Salaries and benefits	13,131	13,124
	Other general operating	7,179	8,347
	Appropriations disbursed	180,098	170,693
	Reduction in carrying value of certain low interest rate deferred loans	46,467	50,878
	Provision for loan losses	2,427	2,106
	Total expenses	344,155	352,152
	Revenues over expenses	(19,092)	10,525
	Change in net assets	(19,092)	10,525
Net Assets	Total net assets, beginning of year	800,180	789,655
	Total net assets, end of year	$781,088	$800,180

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Restricted by law	—	—	—	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 6,256	$ 4,184	$ 950,429	$ 857,905
69,220	6,509	385,083	439,645
29,093	—	1,413,897	1,478,002
—	—	7,395	8,032
432	82	3,939	5,511
—	—	763	584
—	—	1,593	899
—	—	1,774	733
250	1,223	3,122	2,499
$105,251	$11,998	$2,767,995	$2,793,810
$ —	$ —	$1,844,589	$1,846,679
—	—	36,283	43,464
754	1,966	17,872	15,371
(1,448)	214	—	—
—	1,653	88,163	88,116
(694)	3,833	1,986,907	1,993,630
—	—	387,747	382,253
—	—	277,457	265,473
105,945	8,165	114,110	151,721
—	—	1,774	733
105,945	8,165	781,088	800,180
$105,251	$11,998	$2,767,995	$2,793,810

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Appropriations received	—	—	—	—
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 42	$ —	$ 95,338	$109,109
1,646	199	39,093	41,258
35,069	154,844	189,913	198,516
—	—	14,349	14,372
775	—	9,658	9,719
(474)	(129)	(9,625)	3,374
37,058	154,914	338,726	376,348
—	—	89,514	101,023
37	—	5,339	5,981
4,131	—	13,663	13,671
—	—	13,131	13,124
1,145	—	7,179	8,347
23,714	156,384	180,098	170,693
43,975	—	46,467	50,878
197	—	2,427	2,106
73,199	156,384	357,818	365,823
(36,141)	(1,470)	(19,092)	10,525
—	—	—	—
(36,141)	(1,470)	(19,092)	10,525
142,086	9,635	800,180	789,655
$105,945	$ 8,165	$781,088	$800,180

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$ 9,050	$ —	$ 368,968	$ 452,221
(54,632)	—	(356,231)	(303,852)
42	—	92,078	108,812
(866)	—	(1,118)	(1,939)
525	—	9,513	8,731
(298)	—	(23,619)	(25,175)
35,069	154,365	189,434	198,417
(23,630)	(155,506)	(179,136)	(169,780)
(4,188)	—	664	965
—	(11)	(2,660)	(3,481)
—	698	36,615	35,983
—	(817)	(36,568)	(42,846)
126	—	(337)	(506)
(38,802)	(1,271)	97,603	257,550
—	—	764,426	446,823
—	—	(765,673)	(538,270)
—	—	(89,538)	(99,038)
—	—	(4,726)	(2,066)
—	—	—	—
—	—	—	—
—	—	(1,418)	(1,103)
—	—	—	—
—	—	—	—
—	—	(96,929)	(193,654)
—	—	(741)	(429)
2,782	328	40,734	46,143
—	—	6,593	4,034
142,782	8,316	386,841	407,859
(109,478)	(6,788)	(341,577)	(429,471)
—	—	—	—
36,086	1,856	91,850	28,136
(2,716)	585	92,524	92,032
8,972	3,599	857,905	765,873
$ 6,256	$ 4,184	$ 950,429	$ 857,905

(continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

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

		Bond Funds		
	General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2004 Total	2003 Total
$(36,141)	$(1,470)	$ (19,092)	$ 10,525
—	—	(3,464)	(1,369)
—	—	481	539
—	—	—	571
(2)	(1)	(2,026)	(1,206)
474	129	9,625	(3,374)
197	—	2,427	2,106
43,975	—	46,467	50,878
—	—	(537)	(348)
(1,644)	(198)	(38,320)	(41,497)
—	—	89,514	101,023
(45,582)	—	12,737	148,369
—	—	637	1,320
—	—	1,358	1,545
—	(11)	(2,660)	(3,481)
102	856	1,476	(386)
69	22	—	—
—	(119)	47	(6,863)
(250)	(479)	(1,067)	(802)
(2,661)	199	116,695	247,025
$(38,802)	$(1,271)	$ 97,603	$257,550

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or MHFA) was created in 1971 by an Act of the Minnesota legislature. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low-and moderate-income by providing for mortgage loans, development loans, and technical assistance to qualified housing sponsors to be used for construction and rehabilitation of housing. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $3.0 billion. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

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

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance and Single Family.

Rental Housing

Bond proceeds for the multifamily housing programs were maintained under the Rental Housing bond resolution. Loans are secured by first mortgages on real property.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance Bonds resolution, the bond resolution restricted Home Improvement, Homeownership and Multifamily Endowment Funds, and the Alternative Loan Fund, which is restricted by a covenant with bondholders.

Bonds

The series bonds outstanding were issued to fund purchases of single family first mortgage loans and home improvement subordinated loans. Assets of the series bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bondholders.

Home Improvement Endowment Fund

This fund is a principal source of funding for home improvement loans. Home improvement loans in excess of $10,000 are generally secured by a second mortgage.

Homeownership Endowment Fund

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

Nature of Business and Fund Structure (continued)

Multifamily Endowment Fund

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

Alternative Loan Fund

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

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

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

Single Family

Bonds issued for homeownership programs have been issued under Single Family and, since 2001, under Residential Housing Finance. The Agency generally expects to issue future bonds for homeownership programs under Residential Housing Finance. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family. Loans are secured by first mortgages on real property.

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

State Appropriated

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

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. The Agency has elected to apply 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 May 2002, the Governmental Accounting Standards Board (GASB) issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14,* which is effective for the year ended June 30, 2004. Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, Statement No. 39 requires reporting, as a component, an organization that raises and holds economic resources for the direct benefit of a governmental unit. Statement No. 39 did not have an impact on the Agency's financial statements.

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

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

GASB Statement No. 40 is effective for the fiscal year ending June 30, 2005. The adoption of GASB Statement No. 40 will not affect the Agency's net assets.

On June 25, 2003, the GASB issued Technical Bulletin 2003-1, *Disclosure Requirements for Derivatives Not Presented at Fair Value on the Statement of Net Assets,* which requires state and local governments to disclose the objectives of derivatives, such as interest rate swaps, as well as their terms, fair values, and certain risks. This Technical Bulletin was implemented by the Agency for the fiscal year ended June 30, 2004, and did not affect the Agency's net assets.

Summary of Significant Accounting Policies (continued)

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 fiscal periods beginning after December 15, 2004. The adoption of GASB Statement No. 42 in fiscal 2006 is not expected to have a significant effect on the Agency's financial statements.

In May 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Other postemployment benefits (OPEB) include health care and other non-pension benefits provided to employees as part of their compensation for services. The standards apply to OPEB plans that are included as trust funds in the financial reports of plan sponsors or employers, and to stand-alone financial reports of OPEB plans that are established as trusts, when issued by the public employee retirement systems or other governmental entities that administer them. GASB Statement No. 43 also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans when the fund used is not a trust fund. GASB Statement No. 43 addresses the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. GASB Statement No. 43 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. 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.

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

Summary of Significant Accounting Policies (continued)

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, 2004.

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

Interest Receivable on Loans

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

Mortgage Insurance Claims Receivable

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

Real Estate Owned

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan, or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance.

Bonds Payable, Net

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

Summary of Significant Accounting Policies (continued)

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 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 MHFA enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board is responsible for establishing the investment guidelines for these funds.

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2003 are for comparative purposes only.

Administrative Reimbursement

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

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

Summary of Significant Accounting Policies (continued)

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate applied to direct salary disbursements. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $686,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $13,663,000 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, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. 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.

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 2004 were $.74 million and $5.70 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

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

Related Party Transactions

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

Summary of Significant Accounting Policies (continued)

Reclassifications

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

Cash, Cash Equivalents and Investment Securities

Cash and cash equivalents are stated at cost which approximates market and are composed of the following at June 30, 2004 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 827	$ 3,980	$ —	$ 4,807
Rental Housing	—	6,871	36,402	43,273
Residential Housing Finance	5,915	64,486	559,516	629,917
Single Family	8,541	19,790	233,661	261,992
State Appropriated	—	6,256	—	6,256
Federal Appropriated	1,656	2,528	—	4,184
Agency-wide Totals	$16,939	$103,911	$829,579	$950,429

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

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities. Generally, repurchase agreements mature in one week or less. At June 30, 2004, the collateral for the repurchase agreements in General Reserve, State Appropriated, Federal Appropriated and bond funds is held by a third-party agent.

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, 2004, 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. 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.

Cash, Cash Equivalents and Investment Securities (continued)

Investments consist of those permitted by the various bond resolutions, state law and Board policy. Investment securities are recorded at fair market value and are composed of the following at June 30, 2004 (in thousands):

Investment Securities

Funds	Fair Market Value: US Treasuries, US Agencies and Municipals, at Amortized Cost	Fair Market Value: Unrealized Appreciation (Depreciation) in Fair Market Value	Fair Market Value: Estimated Market Value
General Reserve	$115,059	$ 96	$115,155
Rental Housing	38,543	228	38,771
Residential Housing Finance	141,808	1,085	142,893
Single Family	11,946	589	12,535
State Appropriated	69,434	(214)	69,220
Federal Appropriated	6,527	(18)	6,509
Agency-wide Totals	$383,317	$1,766	$385,083

US treasury, US agency and municipal securities in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury, US agency and municipal securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Net realized gain on sale of investment securities of $2.026 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, 2004 are as follows (in thousands):

Funds	Amount
Rental Housing	$22,319
Residential Housing Finance	12,536
Single Family	29,586
Totals	$64,441

Loans Receivable, Net

Loans receivable, net at June 30, 2004 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	237,604	(7,871)	(1,111)	228,622
Residential Housing Finance	645,155	(8,420)	(3,372)	633,363
Single Family	529,517	(109)	(6,589)	522,819
State Appropriated	30,146	(1,053)	—	29,093
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,442,422	$(17,453)	$(11,072)	$1,413,897

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 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.

Loans Receivable, Net (continued)

In addition to the loans in the table above, certain loans are originated at interest rates ranging from 0%-5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year ended June 30, 2004, the amount of these loans originated was $1.385 million in the Housing Affordability Fund, $3.655 million in the Homeownership Endowment Fund, $2.322 million in the Multifamily Endowment Fund and $47.714 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2004 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	$ 89,157
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	8,307
Other homeownership loans	1,480
Multifamily Endowment Fund:	
Multifamily, generally subordinated mortgage loans reserved at 100%	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	360,672
Alternative Loan Fund, Housing Investment Fund (Pool 2):	
Homeownership, first mortgage loans	8,789
Multifamily, first mortgage loans	14,322
Alternative Loan Fund, Housing Affordability Fund (Pool 3):	
Multifamily, first mortgage loans	119,927
Multifamily, subordinated mortgage loans reserved at 100%	—
Homeownership, first mortgage loans	30,709
Residential Housing Finance Totals	$633,363

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, 2004 consist of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,135	$ 3	$1,138
Rental Housing	—	8	8
Residential Housing Finance	73	425	498
Single Family	—	5	5
State Appropriated	—	250	250
Federal Appropriated	1,139	84	1,223
Agency-wide Totals	$2,347	$775	$3,122

Bonds Payable, Net

Bonds payable, net at June 30, 2004 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance and Issuance Costs	Net Unamortized Premium	Unamortized Deferred Gain	Bonds Payable, Net
Rental Housing	$ 221,685	$ (4,739)	$ —	$(18)	$ 216,928
Residential Housing Finance	935,210	(4,714)	3,497	—	933,993
Single Family	700,410	(6,742)	—	—	693,668
Totals	$1,857,305	$(16,195)	$3,497	$(18)	$1,844,589

Outstanding principal of bonds payable at June 30, 2004 are as follows (in thousands):

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Rental Housing Bonds				
1995 Series C-2	5.00% to 5.95%	2004-2015	$ 38,210	$ 17,710
1995 Series D	5.15% to 6.00%	2004-2022	234,590	108,870
1996 Series A	5.15% to 6.10%	2004-2027	2,820	2,575
1997 Series A	4.85% to 5.875%	2004-2028	4,750	4,365
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,570
1998 Series C	4.30% to 5.20%	2004-2029	2,865	2,665
1999 Series A	4.05% to 5.10%	2004-2024	4,275	3,865
1999 Series B	4.90% to 6.15%	2004-2025	3,160	2,780
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,095
2000 Series B	5.90%	2031	5,150	4,980
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,725
2002 Series A	1.75% to 4.05%	2004-2014	27,630	25,725
2003 Series A	4.55% to 4.95%	2018-2045	12,770	12,770
2003 Series B	4.15% to 5.08%	2013-2031	1,945	1,945
2003 Series C-1	4.35% to 5.20%	2013-2034	2,095	2,095
2003 Series C-2	1.80%	2005	100	100
2004 Series A	1.60% to 5.00%	2005-2035	9,345	9,345
			373,480	221,685
Residential Housing Finance Bonds				
1995 Series A	5.00% to 5.85%	2004-2017	53,645	24,410
2002 Series A	4.75% to 5.30%	2012-2019	14,035	6,755
2002 Series B	3.35% to 5.65%	2004-2033	59,650	31,980
2002 Series A-1	4.20% to 4.90%	2012-2019	6,860	6,860
2002 Series B-1	2.40% to 5.35%	2004-2033	25,760	25,505
2002 Series C	1.20%	2005	24,285	24,285
2002 Series D	1.25%	2005	11,230	11,230
2002 Series E	4.30% to 5.00%	2013-2020	12,805	12,725
2002 Series F	2.35% to 5.40%	2004-2032	52,195	51,555
2002 Series G	2.15%	2004	37,470	37,470
2002 Series H	3.88% to 4.93%	2007-2012	20,000	20,000
2003 Series A	1.40% to 4.25%	2005-2034	40,000	40,000
2003 Series B	Variable	2033	25,000	25,000
2003 Series D	1.40%	2005	36,240	36,240
2003 Series E	1.50%	2005	64,975	64,975
2003 Series F	1.00%	2004	39,840	39,840

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Residential Housing Finance Bonds (continued)				
2003 Series G	1.00%	2004	$ 24,845	$ 24,845
2003 Series H	1.00%	2004	38,610	38,610
2003 Series I	1.85% to 5.25%	2005-2035	25,000	25,000
2003 Series J	Variable	2033	25,000	25,000
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
2003 Series M-1	1.20%	2004	43,545	43,545
2003 Series M-2	1.20%	2004	10,000	10,000
2004 Series A	3.20% to 4.25%	2011-2018	22,480	22,480
2004 Series B	1.40% to 5.00%	2005-2033	94,620	94,620
2004 Series C	4.70%	2035	14,970	14,970
			1,000,370	935,210
Single Family Mortgage Bonds				
1992 Series C-2	6.15%	2023	12,185	2,235
1992 Series D-2	5.35% to 5.95%	2004-2017	26,740	8,460
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.85% to 6.25%	2004-2015	16,365	8,905
1993 Series D	6.40%	2027	17,685	5,640
1993 Series F	6.25%	2020	9,500	2,615
1994 Series D	4.80% to 5.00%	2004-2005	91,660	10,565
1994 Series E	4.70% to 5.90%	2004-2025	31,820	14,105
1994 Series N	6.45%	2025	18,770	1,975
1994 Series O	6.45%	2012	11,580	1,605
1994 Series P	6.45%	2021	21,150	3,510
1994 Series T	5.30% to 6.125%	2004-2017	16,420	3,665
1995 Series B	6.40% to 6.55%	2017-2027	35,815	12,405
1995 Series D	6.40% to 6.45%	2015-2025	40,160	13,335
1995 Series G	7.20% to 8.05%	2004-2012	8,310	1,750
1995 Series H	6.40%	2027	19,240	6,115
1995 Series I	6.35%	2017-2018	7,450	2,365
1995 Series J	5.00% to 6.10%	2004-2019	16,065	4,740
1995 Series K	6.20%	2020	1,495	555
1995 Series L	6.25%	2027	12,950	4,820
1995 Series M	4.90% to 5.875%	2004-2017	32,025	13,560
1996 Series A	6.375%	2028	34,480	7,725
1996 Series B	6.35%	2018-2019	7,990	3,950
1996 Series C	5.30% to 6.10%	2004-2015	12,345	4,145
1996 Series D	5.25% to 6.00%	2004-2017	23,580	5,315
1996 Series E	6.25%	2022-2023	14,495	4,415
1996 Series F	6.30%	2026-2028	18,275	5,575
1996 Series G	6.25%	2026-2028	41,810	11,295
1996 Series H	6.00%	2021	13,865	3,745
1996 Series I	7.04% to 8.00%	2004-2017	14,325	3,305
1996 Series J	5.60%	2021	915	360
1996 Series K	4.40% to 5.40%	2004-2017	9,280	4,845
1997 Series A	5.05% to 5.95%	2004-2017	22,630	8,360

Bonds Payable, Net (continued)

Series	Interest Rate	Maturity	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1997 Series B	6.20%	2021	$ 9,180	$ 4,340
1997 Series C	6.25%	2029	27,740	5,005
1997 Series D	5.80% to 5.85%	2019-2021	15,885	7,195
1997 Series E	5.90%	2029	23,495	6,145
1997 Series F	7.03% to 7.25%	2004-2007	11,620	1,230
1997 Series G	5.20% to 6.00%	2004-2018	40,260	16,855
1997 Series H	6.15%	2019	11,455	205
1997 Series I	5.50%	2017	9,730	6,225
1997 Series K	5.75%	2026-2029	22,700	14,515
1997 Series L	6.60% to 6.80%	2004-2007	9,550	1,865
1998 Series A	4.65% to 5.20%	2008-2017	5,710	3,050
1998 Series B	4.55% to 5.50%	2004-2029	17,030	7,070
1998 Series C	4.34% to 5.25%	2004-2017	21,775	12,195
1998 Series E	5.40%	2025-2030	30,500	20,715
1998 Series F-1	4.45% to 5.45%	2004-2017	10,650	5,580
1998 Series G-1	5.60%	2022	6,150	3,815
1998 Series H-1	5.65%	2031	14,885	9,240
1998 Series F-2	4.65% to 5.70%	2004-2017	11,385	7,970
1998 Series G-2	6.00%	2022	6,605	5,415
1998 Series H-2	6.05%	2031	15,965	13,100
1999 Series B	5.00% to 5.25%	2013-2020	18,865	13,685
1999 Series C	4.25% to 4.85%	2004-2024	21,960	9,455
1999 Series D	5.45%	2026-2031	23,975	17,430
1999 Series H	5.30% to 5.80%	2011-2021	16,350	11,225
1999 Series I	4.70% to 6.05%	2004-2031	34,700	18,685
1999 Series J	5.00%	2017	4,745	4,375
1999 Series K	3.20% to 5.35%	2004-2033	44,515	40,390
2000 Series A	5.25% to 5.85%	2009-2020	18,650	12,400
2000 Series B	5.15% to 5.55%	2004-2024	16,580	8,135
2000 Series C	6.10%	2030-2032	30,320	20,160
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	36,645
2000 Series H	3.90% to 5.50%	2004-2023	32,475	27,025
2000 Series I	4.85% to 5.80%	2004-2019	20,185	16,805
2000 Series J	5.40% to 5.90%	2023-2030	29,720	24,965
2001 Series A	5.35% to 5.45%	2017-2022	14,570	12,705
2001 Series B	4.10% to 5.675%	2004-2030	34,855	27,835
2001 Series E	2.00% to 4.90%	2006-2035	23,000	23,000
			1,452,510	700,410
Combined Totals			$2,826,360	$1,857,305

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

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

Bonds Payable, Net (continued)

Annual debt service requirements to maturity for bonds as of June 30, 2004, excluding bonds called for early redemption prior to June 30, 2004, as listed below, are as follows (in thousands):

	Rental Housing Bonds		Residential Housing Finance Bonds	
Fiscal Year	Principal	Interest	Principal	Interest
2005	$ 9,265	$11,733	$234,530	$23,605
2006	10,120	11,285	108,685	22,512
2007	10,615	10,812	185,430	21,240
2008	11,205	10,297	13,395	16,991
2009	12,040	9,738	8,715	16,598
2010-2014	68,045	38,410	65,350	75,516
2015-2019	47,150	22,261	59,770	61,051
2020-2024	25,000	10,412	68,955	46,936
2025-2029	14,360	5,638	82,275	31,945
2030-2034	7,340	2,555	92,220	13,897
2035-2039	2,985	1,232	15,885	672
2040-2044	2,890	573	—	—
2045-2049	670	25	—	—

	Single Family Mortgage Bonds		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2005	$ 18,705	$ 38,305	$262,500	$ 73,643
2006	19,305	37,386	138,110	71,183
2007	14,910	36,546	210,955	68,598
2008	15,095	35,780	39,695	63,068
2009	15,640	35,013	36,395	61,349
2010-2014	105,270	160,271	238,665	274,197
2015-2019	133,660	125,977	240,580	209,289
2020-2024	143,310	87,309	237,265	144,657
2025-2029	165,420	42,853	262,055	80,436
2030-2034	67,175	6,764	166,735	23,216
2035-2039	1,920	95	20,790	1,999
2040-2044	—	—	2,890	573
2045-2049	—	—	670	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 in the amounts due to bondholders. Such investment contracts are included in cash and cash equivalents on the statement of net assets.

Residential Housing Finance Bonds, 2003 Series B and J, 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, 2004. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated for each calendar month. The rate is the sum of the monthly London Interbank Offered Rate plus 0.30% per annum provided that the rate may not be more than 11.00% per annum. This series was placed with a single investor. Future interest due for this series, as displayed above in the annual

Bonds Payable, Net (continued)

debt service requirements table, is based upon the calculated rate as of June 30, 2004. 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, 2004, 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, 2004, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Interest Rate Swaps

Objective of Swaps

During fiscal 2004 the Agency 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, 2004, 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
2005	$ —	$ 538	$1,347	$ 1,885
2006	—	555	1,293	1,848
2007	—	555	1,264	1,819
2008	—	555	1,228	1,783
2009	—	555	1,195	1,750
2010-2014	—	2,775	5,514	8,289
2015-2019	—	2,770	4,859	7,629
2020-2024	6,115	2,728	4,133	12,976
2025-2029	21,400	1,926	2,150	25,476
2030-2034	22,485	607	360	23,452

Terms of Swaps

The terms, including the fair values and counterparty credit ratings of the outstanding swaps as of June 30, 2004, are contained in the table below. The initial notional amounts of the swaps match the principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. The Agency has purchased the cumulative right, based upon a 300% Bond Market Association (BMA) prepayment rate on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary and the right to terminate the outstanding swap balances at par value on or after the 20 year anniversary dates of the swaps.

Interest Rate Swaps (continued)

Associated Bond Series	Current Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
RHFB 2003B	$25,000,000	July 23, 2003	3.532%	65% of one-month LIBOR* plus 0.23% per annum	$ 1,127,840	January 1, 2033	Aa2**/ AA+***
RHFB 2003J	$25,000,000	October 15, 2003	4.183%	65% of one-month LIBOR* plus 0.23% per annum	$(1,037,619)	July 1, 2033	Aa2**/ AA+***
Total	$50,000,000				$ 90,221		

*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 counterparty 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 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, 2004. A positive fair value represents money due the Agency by the counterparty upon termination of the swap while a negative fair value represents money payable by the Agency.

Termination Risk

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

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 counterparty with which the swaps were executed. As of June 30, 2004, the Agency had a net credit risk exposure to its counterparty because the combined swap position had a positive net fair value. The swap agreements contain varying collateral requirements based upon counterparty credit rating and the fair value of the swap. These bi-lateral requirements are established to mitigate potential credit risk exposure. These requirements were met as of June 30, 2004.

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

Interest Rate Swaps (continued)

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, 2004, the interest rate on the Agency's variable rate debt was 1.10% per annum while the interest rate on the swaps was 0.96% 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.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2004 consist of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$ —	$1,904	$1,765	$ 3,669
Rental Housing	404	—	14	418
Residential Housing Finance	1,054	—	1,294	2,348
Single Family	8,674	—	43	8,717
State Appropriated	—	—	754	754
Federal Appropriated	—	—	1,966	1,966
Agency-wide Totals	$10,132	$1,904	$5,836	$17,872

The amount of arbitrage rebate payable that is not due within one year in Rental Housing is $.404 million, in Residential Housing Finance is $1.054 million and in Single Family is $5.059 million, for a total of $6.517 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2004 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	$ —	$ 5	$ —	$ —	$109	$214	$ 328
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	4,036	21,145	—	—	—	—	25,181
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	390	1,167	—	—	1,557
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$4,036	$21,150	$390	$1,167	$109	$214	$27,066

The $21.145 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 $20.182 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, 2004 consist of the following (in thousands):

		Transfer from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve-administrative reimbursement	$—	$1,491	$3,383	$ 4,653	$4,188	$665	$14,380
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	—	1,676	—	64,236	209	—	66,121
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	334	—	—	334
	Federal Appropriated	—	620	—	—	—	—	620
	Agency-wide Totals	$—	$3,787	$3,383	$69,223	$4,397	$665	$81,455

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

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2004, consist of the following (in thousands):

		Transfer from						
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —	$—	$ —	$ —	$—	$—	$ —
	Rental Housing	—	—	358	—	—	—	358
	Residential Housing Finance	2,856	—	—	11,918	—	—	14,774
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	$2,856	$—	$358	$11,918	$—	$—	$15,132

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

Net Assets

Restricted by Bond Resolution

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

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenants that it will use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the MHFA enabling legislation, including reserves for the payment of bonds and of loans made from 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, 2004, in thousands.

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve			
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) will be invested in short term, investment grade paper at market interest rates	$ 28,245	$ —	$ 28,245
Unrealized appreciation in fair market value of investments	—	96	96
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	28,245	96	28,341
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	64,620	—	64,620
Unrealized appreciation in fair market value of investments	—	698	698
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	64,620	698	65,318
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	183,598	—	183,598
Unrealized appreciation in fair market value of investments	—	200	200
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	183,598	200	183,798
Agency-wide Total	$276,463	$994	$277,457

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

In connection with self-insuring certain single family loans, the Agency has agreed to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance reserve. The amount aggregated $10.718 million at June 30, 2004.

Net Assets (continued)

Restricted by Law

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

Defined Benefit Pension Plan

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

Employees who retire at "normal" retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the "Rule of 90" (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the "step formula" for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the "level formula," whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee's five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for 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, 2004 was $435 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
07/01/03	$7,757,292	$7,830,671	$ 73,379	99.06%	$2,009,975	3.65%
07/01/02	7,673,028	7,340,397	(332,631)	104.53	1,915,350	(17.37)
07/01/01	7,366,673	6,573,193	(793,480)	112.07	1,834,042	(43.26)

Schedule of Employer Contributions
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Contribution	Actual Employer Contribution*	Percentage Contributed
2003	8.34%	$2,009,975	$83,850	$83,782	$80,399	95.96%
2002	6.79	1,915,350	79,487	50,565	76,614	151.52
2001	7.12	1,834,042	74,364	56,220	73,362	130.49

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

The information presented is as of July 1, 2003, which is the latest actuarial information available.

Defined Benefit Pension Plan (continued)

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2003, Minnesota State Retirement System Comprehensive Annual Financial Report for a more comprehensive description. A copy of the System's comprehensive annual financial report can be obtained by contacting Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103 or calling (651) 296-2761.

Commitments

As of June 30, 2004, 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	8,640
Residential Housing Finance	127,001
Single Family	—
State Appropriated	92,153
Federal Appropriated	18,468
Agency-wide Totals	$246,262

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, 2004 was $.916 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year:					
	2005	2006	2007	2008	2009	Total
Amount:	$943	$967	$983	$913	$858	$4,664

The Agency has in place a $15 million revolving line of credit with Wells Fargo Bank, N.A. that expires on December 31, 2004 and may be renewed annually for additional one-year periods through December 31, 2007. The line of credit agreement requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2004 there was no balance outstanding. The line of credit activity for the year ended June 30, 2004, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$8,563	$6,470	$(15,033)	$0

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

Subsequent Events

On May 27, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $102,345,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2004 Series E, 2004 Series F, and 2004 Series G were delivered on July 22, 2004.

On June 24, 2004 the Board of the Agency approved the remarketing of $38,610,000 convertible option Residential Housing Bonds 2003 Series H for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Bonds, 2003 Series H were remarketed on July 22, 2004.

On June 24, 2004 the Board of the Agency approved series resolutions authorizing the issuance of $41,510,000 convertible option bonds. The Residential Housing Bonds, 2004 Series H were delivered on July 22, 2004.

Subsequent Events (continued)

The Agency called for early redemption subsequent to June 30, 2004 the following bonds:

Program Funds	Retirement Date	Original Par Value
Residential Housing Finance	July 1, 2004	$ 8,290,000
Single Family	July 1, 2004	64,655,000
Rental Housing	July 26, 2004	1,640,000
Residential Housing Finance	August 20, 2004	1,670,000
Single Family	August 20, 2004	47,620,000
Rental Housing	September 16, 2004	870,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2000 – 2004

		2000	2001	2002	2003	2004
Loans Receivable, net	Multifamily programs	$ 392,010	$ 353,893	$ 337,087	$ 348,196	$ 362,870
	Homeownership programs	1,226,528	1,228,105	1,212,436	1,009,937	932,777
	Home improvement programs	99,770	108,860	104,537	92,345	89,157
	Total	$1,718,308	$1,690,858	$1,654,060	$1,450,478	$1,384,804
Bonds Payable, net	Multifamily programs	$ 337,013	$ 325,314	$ 267,739	$ 246,701	$ 216,928
	Homeownership programs	1,637,944	1,640,348	1,668,449	1,579,978	1,607,661
	Home improvement programs	—	—	—	20,000	20,000
	Total	$1,974,957	$1,965,662	$1,936,188	$1,846,679	$1,844,589
Loans purchased or originated in year	Multifamily programs	$ 25,419	$ 14,143	$ 18,341	$ 58,607	$ 50,509
	Homeownership programs	165,703	165,633	229,603	145,748	216,109
	Home improvement programs	29,965	40,027	37,281	35,391	34,981
	Total	$ 221,087	$ 219,803	$ 285,225	$ 239,746	$ 301,599
Net Assets	Total net assets	$ 536,748	$ 582,674	$ 612,361	$ 648,459	$ 666,978
	Percent of total assets	20.0%	21.5%	22.6%	24.6%	25.2%
Revenues over Expenses	Revenues over expenses for the year[1]	$ 19,452	$ 42,023	$ 29,687	$ 36,098	$ 18,519

Notes:

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

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2004 (with comparative totals for June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 4,807	$ 43,273	$ 629,917	$261,992
	Investment securities	115,155	38,771	142,893	12,535
	Loans receivable, net	—	228,622	633,363	522,819
	Interest receivable on loans	—	1,697	2,887	2,811
	Interest receivable on investments	1,128	1,141	913	243
	Mortgage insurance claims receivable	—	—	6	757
	Real estate owned	—	—	251	1,342
	Capital assets, net	1,774	—	—	—
	Other assets	1,138	8	498	5
	Total assets	$124,002	$313,512	$1,410,728	$802,504
Liabilities	Bonds payable, net	$ —	$216,928	$ 933,993	$693,668
	Interest payable	—	4,945	12,141	19,197
	Accounts payable and other liabilities	3,669	418	2,348	8,717
	Interfund payable (receivable)	3,708	21,150	(24,791)	1,167
	Funds held for others	86,510	—	—	—
	Total liabilities	93,887	243,441	923,691	722,749
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	—	70,071	237,921	79,755
	Restricted by covenant	28,341	—	249,116	—
	Invested in capital assets	1,774	—	—	—
	Total net assets	30,115	70,071	487,037	79,755
	Total liabilities and net assets	$124,002	$313,512	$1,410,728	$802,504

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 939,989	$ 845,334
309,354	327,971
1,384,804	1,450,478
7,395	8,032
3,425	4,253
763	584
1,593	899
1,774	733
1,649	1,755
$2,650,746	$2,640,039
$1,844,589	$1,846,679
36,283	43,464
15,152	13,768
1,234	1,325
86,510	86,344
1,983,768	1,991,580
387,747	382,253
277,457	265,473
1,774	733
666,978	648,459
$2,650,746	$2,640,039

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, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$16,982	$ 31,989	$ 46,325
	Interest earned on investments	617	3,098	15,499	18,034
	Administrative reimbursement	14,349	—	—	—
	Fees earned and other income	7,631	933	319	—
	Unrealized gains (losses) on securities	(2,042)	(1,473)	(2,735)	(2,772)
	Total revenues	20,555	19,540	45,072	61,587
Expenses	Interest	—	15,196	23,064	51,254
	Loan administration and trustee fees	—	246	2,651	2,405
	Administrative reimbursement	—	1,496	3,383	4,653
	Salaries and benefits	13,131	—	—	—
	Other general operating	5,782	—	252	—
	Reduction in carrying value of certain low interest rate deferred loans	—	(226)	2,718	—
	Provision for loan losses	—	897	1,255	78
	Total expenses	18,913	17,609	33,323	58,390
	Revenues over (under) expenses	1,642	1,931	11,749	3,197
Other changes	Non-operating transfer of assets between funds	(4,036)	358	15,596	(11,918)
	Change in net assets	(2,394)	2,289	27,345	(8,721)
Net Assets	Total net assets, beginning of year	32,509	67,782	459,692	88,476
	Total net assets, end of year	$30,115	$70,071	$487,037	$ 79,755

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 95,296	$109,067
37,248	35,943
14,349	14,372
8,883	8,909
(9,022)	5,394
146,754	173,685
89,514	101,023
5,302	5,948
9,532	9,174
13,131	13,124
6,034	6,543
2,492	(331)
2,230	2,106
128,235	137,587
18,519	36,098
—	—
18,519	36,098
648,459	612,361
$666,978	$648,459

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 27,622	$ 97,365	$ 234,931
	Investment in loans	—	(21,860)	(254,070)	(25,669)
	Interest received on loans	—	16,815	31,403	43,818
	Other operating	—	—	(252)	—
	Fees and other income received	7,628	933	427	—
	Salaries, benefits and vendor payments	(18,391)	(249)	(2,262)	(2,419)
	Administrative reimbursement from funds	14,379	(1,491)	(3,383)	(4,653)
	Interest transferred to funds held for others	(2,649)	—	—	—
	Deposits into funds held for others	35,907	—	10	—
	Disbursements made from funds held for others	(35,747)	—	(4)	—
	Interfund transfers and other assets	(352)	—	222	(333)
	Net cash provided (used) by operating activities	775	21,770	(130,544)	245,675
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	13,485	727,941	23,000
	Principal repayment on bonds	—	(43,740)	(313,223)	(408,710)
	Interest paid on bonds and notes	—	(12,824)	(17,226)	(59,488)
	Financing costs paid related to bonds issued	—	(315)	(4,117)	(294)
	Interest paid/received between funds	—	(1,541)	1,541	—
	Principal paid/received between funds	—	(135)	135	—
	Premium paid on redemption of bonds	—	(392)	—	(1,026)
	Agency contribution to program funds	—	358	11,560	(11,918)
	Transfer of cash between funds	(2,856)	—	2,856	—
	Net cash provided (used) by noncapital financing activities	(2,856)	(45,104)	409,467	(458,436)
Cash flows from investing activities	Investment in real estate owned	—	—	(49)	(692)
	Interest received on investments	4,003	3,338	14,668	15,615
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	708	5,885
	Proceeds from maturity, sale or transfer of investment securities	40,080	32,729	142,136	20,798
	Purchase of investment securities	(39,343)	(29,155)	(151,060)	(5,753)
	Purchase of loans between funds	—	—	(64,236)	64,236
	Net cash provided (used) by investing activities	4,740	6,912	(57,833)	100,089
	Net increase (decrease) in cash and cash equivalents	2,659	(16,422)	221,090	(112,672)
Cash and cash equivalents	Beginning of year	2,148	59,695	408,827	374,664
	End of year	$ 4,807	$ 43,273	$ 629,917	$ 261,992

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 359,918	$ 439,075
(301,599)	(239,746)
92,036	108,770
(252)	(628)
8,988	8,731
(23,321)	(24,649)
4,852	5,494
(2,649)	(3,468)
35,917	34,451
(35,751)	(42,385)
(463)	(66)
137,676	285,579
764,426	446,823
(765,673)	(538,270)
(89,538)	(99,038)
(4,726)	(2,066)
—	—
—	—
(1,418)	(1,103)
—	—
—	—
(96,929)	(193,654)
(741)	(429)
37,624	39,379
6,593	4,034
235,743	280,742
(225,311)	(329,935)
—	—
53,908	(6,209)
94,655	85,716
845,334	759,618
$ 939,989	$ 845,334

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2004 (with comparative totals for the year ended June 30, 2003)

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

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance	Bond Funds: Single Family
Revenues over expenses	$ 1,642	$ 1,931	$ 11,749	$ 3,197
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	—	(164)	326	(3,626)
Depreciation	481	—	—	—
Loss on disposal of fixed assets	—	—	—	—
Realized gains on sale of securities, net	(80)	(134)	(159)	(1,650)
Unrealized losses (gains) on securities, net	2,042	1,473	2,735	2,772
Provision for loan losses	—	897	1,255	78
Reduction in carrying value of certain low interest rate and/or deferred loans	—	(226)	2,718	—
Capitalized interest on loans and real estate owned	—	(73)	(44)	(420)
Interest earned on investments	(537)	(3,141)	(16,181)	(16,619)
Interest expense on bonds and notes	—	15,196	23,064	51,254
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	5,762	(156,705)	209,262
Decrease (increase) in interest receivable on loans	—	70	(867)	1,434
Increase in arbitrage rebate liability	—	177	841	340
Interest transferred to funds held for others	(2,649)	—	—	—
Increase (decrease) in accounts payable	41	(4)	496	(15)
Increase (decrease) in interfund payable, affecting operating activities only	30	5	207	(333)
Increase (decrease) in funds held for others	160	—	6	—
Other	(355)	1	15	1
Total	(867)	19,839	(142,293)	242,478
Net cash provided (used) by operating activities	$ 775	$21,770	$(130,544)	$245,675

2004 Total General Reserve and Bond Funds	2003 Total General Reserve and Bond Funds
$ 18,519	$ 36,098
(3,464)	(1,369)
481	539
—	571
(2,023)	(1,187)
9,022	(5,394)
2,230	2,106
2,492	(331)
(537)	(348)
(36,478)	(36,201)
89,514	101,023
58,319	199,329
637	1,320
1,358	1,545
(2,649)	(3,468)
518	(753)
(91)	738
166	(7,934)
(338)	(705)
119,157	249,481
$137,676	$285,579

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Member

Peter Bernier, Vice Chair
Member

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

Lee Himle
Member

Marina Muñoz Lyon
Member

Betty Lou Berg
Member

Paul Gaston
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank, N.A.

Bond Paying Agent
Wells Fargo Bank, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
Caine Mitter & Associates

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

Certified Public Accountants
Deloitte & Touche LLP

Location

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

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

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mhfa.state.mn.us

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

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

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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

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, 2005, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

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

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

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

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 D

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.

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 this 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, 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.

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 amounts deposited in or irrevocably appropriated to any Fund or Account established under this 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 this 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 this 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.

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 or 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 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; and

(5) 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 respective 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. Notwithstanding the foregoing, the Agency will agree in the Series Resolution for the Series Bonds to maintain in the Endowment Fund a sum of moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of Program Obligations in an amount not less than the principal amount of the then Outstanding Series Bonds.

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.

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 E

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 either upon foreclosure (or other acquisition of possession) and conveyance of the Home to the Department of Housing and Urban Development ("HUD") or upon assignment of the defaulted mortgage loan to HUD. With respect to the assignment of mortgaged premises containing less than five dwelling units to HUD, mortgagees must first make a determination as to whether or not the default is caused by a circumstance or set of circumstances beyond the mortgagor's control, which temporarily renders the family financially unable to cure the delinquency within a reasonable time or make full mortgage payments. If a determination is made that the default is caused by such circumstances, HUD must be requested to accept assignment and must have rejected the request for the mortgagee to initiate foreclosure proceedings. Assignments of mortgaged premises containing five or more dwelling units is at the option of the mortgage lender, but HUD may decrease the insurance payment if the mortgage lender chooses to assign such a mortgage by an amount equal to 1% of the unpaid principal amount of the mortgage loan.

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 all 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. When entitlement to insurance benefits results from assignment of the Mortgage Loan to HUD, the insurance payment is computed as of the date of the assignment and includes full compensation for mortgage interest accrued and unpaid to the assignment date. The regulations under all insurance programs described above provide that the insurance payment itself shall bear interest from the date of default, or, where applicable, the date of assignment, 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 or subject to a mortgage to be assigned 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 within 60 days of the date of acquisition of the property through foreclosure. 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 Qualified Mortgages 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 75% of such Market Value. Each private mortgage insurer insuring such Qualified Mortgages must be qualified to insure mortgages purchased by FNMA or 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 Qualified Mortgage 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 D.

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 F

BOOK-ENTRY-ONLY SYSTEM

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for the Series Bonds. The ownership of one fully registered Series Bond for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. is the Registered Owner of the Series Bonds, 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 the Series Bonds 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 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 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, the 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 the Series Bonds. In such event, the Series Bonds are to be delivered as described in the Series Resolution.

APPENDIX G

OPINIONS OF BOND COUNSEL

[To be dated the date of issuance of the 2004 Series I Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2004 Series I

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, 2004 Series I, in the aggregate principal amount of $740,000 (the "2004 Series I Bonds"), which are issued only as fully registered bonds in the principal amount of $5,000 or any integral multiple thereof.

The 2004 Series I Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The 2004 Series I Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, 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 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 December 3, 2004. 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 2004 Series I Bonds in order that interest on the 2004 Series I 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 Resolution.

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 2004 Series I 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 2004 Series I 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 2004 Series I 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 2004 Series I 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 2004 Series I 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 ownership of the 2004 Series I Bonds. All owners of 2004 Series I 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 2004 Series I Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2004 Series I 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: _____, 2004.

Respectfully yours,

[To be dated the date of issuance of the 2004 Series J Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2004 Series J

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, 2004 Series J, in the aggregate principal amount of $56,540,000 (the "2004 Series J Bonds"), which are issuable only as fully registered bonds in the principal amount of $5,000 or any integral multiple thereof.

The 2004 Series J Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The 2004 Series J Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, 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 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 December 3, 2004. 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 2004 Series J Bonds in order that interest on the 2004 Series J 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 Resolution.

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 2004 Series J 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 2004 Series J 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 2004 Series J 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 2004 Series J 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 2004 Series J 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 2004 Series J Bonds. All owners of 2004 Series J 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 2004 Series J Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2004 Series J 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: _____, 2004.

Respectfully yours,

[To be dated the date of issuance of the 2004 Series K Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Residential Housing Finance Bonds, 2004 Series K

Ladies and Gentlemen:

We have acted as bond counsel in connection with the authorization, issuance and delivery by the Minnesota Housing Finance Agency (the "Agency") of its Residential Housing Finance Bonds, 2004 Series K, in the aggregate principal amount of $63,045,000 (the "2004 Series K Bonds"), which are issuable only as fully registered bonds in the principal amount of $5,000 or any integral multiple thereof.

The 2004 Series K Bonds are dated, mature on the dates, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The 2004 Series K Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, 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 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 December 3, 2004. 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 2004 Series K Bonds in order that interest on the 2004 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 Resolution.

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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 Series K Bonds. All owners of 2004 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 2004 Series K Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2004 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: _____, 2004.

Respectfully yours,