NOTICE

$23,000,000
Minnesota Housing Finance Agency
Single Family Mortgage Bonds, 2001 Series E (AMT)

Official Statement, dated July 10, 2003

The Official Statement, dated July 10, 2003, 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.

REMARKETING

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 the Official Statement.

$23,000,000
Minnesota Housing Finance Agency
Single Family Mortgage Bonds, 2001 Series E (AMT)

Original Issuance Date of Series Bonds: July 25, 2001 **Due: As shown on inside front cover**
Remarketing Date for Series Bonds: July 24, 2003

Tax Exemption	Interest on the above-captioned bonds (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 20-21 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 optional redemption, to special redemption at par and to mandatory tender at par as set forth on pages 7-10 herein.
Security	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series 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 11-13 herein.
Interest Payment Dates	January 1 and July 1, commencing January 1, 2004, and on any redemption date or mandatory tender date.
Denominations	$5,000 or any integral multiple thereof.
Closing/Settlement	July 24, 2003 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 Minnesota, National Association, in Minneapolis, Minnesota.
Book-Entry-Only System	The Depository Trust Company. See Appendix F herein.

The Series Bonds are offered, when, as and if remarketed, 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.

U.S. Bancorp Piper Jaffray Inc. **RBC Dain Rauscher Inc.**

Citigroup

The date of this Official Statement is July 10, 2003.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

2001 SERIES E BONDS (AMT)

Due	Principal Amount	Interest Rate	CUSIP
January 1, 2006	$200,000	2.00%	60415NLA8
July 1, 2006	205,000	2.00	60415NLB6
January 1, 2007	210,000	2.35	60415NLC4
July 1, 2007	215,000	2.35	60415NLD2
January 1, 2008	215,000	2.70	60415NLE0
July 1, 2008	220,000	2.70	60415NLF7
January 1, 2009	225,000	3.00	60415NLG5
July 1, 2009	230,000	3.00	60415NLH3
January 1, 2010	235,000	3.30	60415NLJ9
July 1, 2010	240,000	3.30	60415NLK6
January 1, 2011	245,000	3.55	60415NLL4
July 1, 2011	250,000	3.55	60415NLM2
January 1, 2012	255,000	3.75	60415NLN0
July 1, 2012	260,000	3.75	60415NLP5

$5,680,000 4.65% Term Bonds Due July 1, 2021 (CUSIP 60415NLQ3)

$9,250,000 4.75% Term Bonds Due July 1, 2031 (CUSIP 60415NLR1)

$4,865,000 4.90% Term Bonds Due July 1, 2035 (CUSIP 60415NLS9)

Price of all Bonds —100%

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
$23,000,000
Minnesota Housing Finance Agency
Single Family Mortgage Bonds,
2001 Series E

This Official Statement (which includes the cover page, inside front cover and appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Single Family Mortgage Bonds, 2001 Series E (the "Series Bonds"), in connection with the remarketing of the Series Bonds by the Agency, for the information of all who may become initial holders of the remarketed Series Bonds. The Series Bonds were issued and are being remarketed pursuant to the Act, a resolution of the Agency adopted on June 3, 1982, as amended (the "Bond Resolution"), and a series resolution of the Agency adopted July 12, 2001, and supplemented on July 10, 2003 (as so supplemented, the "Series Resolution," and with the Bond Resolution, the "Resolutions.") The Single Family Mortgage Bonds now outstanding (in the aggregate principal amount of $1,086,120,000 as of May 31, 2003) under the Bond Resolution (the "Outstanding Bonds") and any additional Single Family Mortgage Bonds hereafter issued pursuant to the Bond Resolution will be equally and ratably secured and are herein sometimes called the "Bonds."

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

INTRODUCTION

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

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

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to those programs, which are financed through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and loans through its Endowment Funds and Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements included in Appendix B.

The Series Bonds are being remarketed to provide money for the Agency to be used along with certain contributed funds of the Agency, to continue its Program by purchasing Mortgage Loans made by Mortgage Lenders to low and moderate income persons for single family, owner-occupied housing within the State, by depositing amounts into the Debt Service Reserve Fund and Insurance Reserve Fund and by paying certain costs of issuance of the Series Bonds. See "Estimated Sources and Uses of Funds — Series Bonds." Although the State has appropriated amounts to the Agency for various specific purposes (see "The Agency — State Appropriations"), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations.

The Series Bonds are secured, on a parity with Bonds heretofore and hereafter issued under the Bond Resolution, by a pledge of all Mortgage Loans and Revenues held and received by the Agency pursuant to the Bond Resolution including the Mortgage Loans funded by the Agency from the Acquisition Fund and Revenues received by the Agency in connection therewith. See "Security for the Bonds."

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.)

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 Commissioner of the Department of Trade and Economic Development, the State Auditor and five public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to the Act, the Vice Chairman of the Agency is the Commissioner of Trade and Economic Development. Pursuant to state law, the Commissioner of the Department of Trade and Economic Development and the State Auditor may delegate duties and have delegated their duties as a member of the Agency in the event that the Commissioner or 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:

Michael Finch, Chairman — Term expires January 2006, Minneapolis, Minnesota - Research Program Director

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

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

Marge Anderson, Member — Term expires January 2004, Onamia, Minnesota

Peter G. Bernier, Member — Term expires January 2005, Squaw Lake, 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 by the Governor effective June 2003. Mr. Marx has 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 1997, 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 fiscal year ended June 30, 2002, 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. Since the format of the 2002 Financial Report has changed significantly from the Agency's traditional presentation of its prior annual financial reports, readers are encouraged to pay particular attention to the Management's Discussion and Analysis and Notes To Financial Statements.

In Appendix A to this Official Statement, the Agency has included unaudited financial statements of the General Reserve Account and the Single Family Fund as of and for the nine months ended March 31, 2003, 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 has covenanted 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 with each Nationally Recognized Municipal Securities Information Repository (a "Repository"). The notices of material events, if any, are to be filed with each of the Repositories or with the Municipal Securities Rulemaking Board.

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

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions and a semi-annual 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 Single Family Mortgage Bond Resolution Disclosure Reports generally are filed quarterly. The most recent report is dated as of March 31, 2003. 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

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 equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of gross loans receivable.

The Agency also established an Alternative Loan Fund within the Agency's Residential Housing Finance Bond Resolution, adopted as amended and restated on August 24, 1995, as further amended and supplemented (the

"Residential Housing Finance Bond Resolution"). The Agency invests amounts on deposit in this fund in a combination of cash, cash equivalents, investment securities, and loans according to the investment guidelines established by the Agency for the Housing Investment and Housing Affordability Funds. The Alternative Loan Fund is not pledged to the payment of the Bonds or any other specific debt obligations of the Agency and is generally available to pay any debt obligations of the Agency. Loan activity related to loans financed by the Housing Investment and Housing Affordability Funds is recorded as part of the Alternative Loan Fund in the Residential Housing Finance Bond Resolution. All interfund transfers are approved by the Agency.

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

	Nine Months Ended March 31, 2003	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2001
Revenues and other additions to restricted net assets:			
Fees earned (1)	$ 5,663	$ 6,881	$ 5,518
Interest earned on investments	815	1,398	2,489
Unrealized gain (loss) on investment securities, net	1,193	(173)	5,232
Administrative reimbursement from funds (2)(3)	12,732	20,488	17,614
	$20,403	$28,594	$30,853
Expenses and other reductions to restricted net assets:			
Transfer of assets between funds (4)	--	10,366	13,169
Salaries and benefits	9,815	11,985	10,910
Other general operating	3,657	5,976	5,407
	13,472	28,327	29,486
Net changes in restricted net assets	6,931	267	1,367
Net assets restricted by covenant, beginning of year	36,556	36,289	34,922
Net assets restricted by covenant, end of year	$43,487	$36,556	$36,289

(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 which are recovered from the interest earnings on appropriations.

(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. See the comments under the heading "Net Assets-Restricted by Covenant" in the notes to the financial statements of the Agency for additional information.

State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families 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 $365,858,000. Most of the appropriations have been expended or committed by the Agency.

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

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is presently limited to $2,400,000,000 and will increase to $3,000,000,000 on August 1, 2003. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of May 31, 2003:

	Number of Series*	Bonds Maturing*	Original Principal Amount (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	20	2003-2045	$414,880	$257,120
Residential Housing Finance Bonds	18	2003-2033	567,175	515,450
Single Family Mortgage Bonds	90	2003-2033	1,980,220	1,086,120
Total Debt Outstanding			$2,962,275	$1,858,690

*Does not include the original principal amount of any series of bonds that have been, as of May 31, 2003, 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 at remarketing are as follows:

Sources:	
Principal Amount of Series Bonds	$23,000,000
Investment Earnings	403,393
Agency Contribution	1,150,000
Total Sources of Funds	$24,553,393
Uses:	
Deposit to Acquisition Fund to:	
Purchase Mortgage Loans	$23,553,631
Pay Costs of Issuance	100,000
Deposit to the Debt Service Reserve Fund	690,000
Underwriters' Compensation	209,762
Total Uses of Funds	$24,553,393

Upon the original issuance of the Series Bonds, proceeds thereof were deposited in the Acquisition Fund and the Debt Service Reserve Fund. Proceeds received from the remarketing of the Series Bonds are to be used to purchase upon mandatory tender the principal amount of Outstanding Series Bonds and, subsequent to such purchase, an amount of proceeds of such Bonds received upon original issuance would become available to fund the Program.

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 the Series Bonds. Wells Fargo Bank Minnesota, 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 are remarketed 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.

The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof. The Series Bonds bear interest from the date of remarketing, payable semiannually thereafter on January 1 and July 1 of each year, commencing January 1, 2004, at the rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Bonds. Interest on the Series Bonds shall be calculated on the basis of a year of 360 days composed of twelve 30-day months.

Sinking Fund Redemption

The Series Bonds with a stated maturity of July 1, 2021 are subject to mandatory redemption in part on January 1, 2013, and on each January 1 and July 1 thereafter to and including January 1, 2021, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2013	$ 265,000	July 1, 2017	$ 320,000
July 1, 2013	270,000	January 1, 2018	320,000
January 1, 2014	275,000	July 1, 2018	330,000
July 1, 2014	285,000	January 1, 2019	335,000
January 1, 2015	290,000	July 1, 2019	345,000
July 1, 2015	290,000	January 1, 2020	355,000
January 1, 2016	295,000	July 1, 2020	360,000
July 1, 2016	305,000	January 1, 2021	360,000
January 1, 2017	310,000	July 1, 2021*	370,000

*Stated maturity.

The Series Bonds with a stated maturity of July 1, 2031 are subject to mandatory redemption in part on January 1, 2022, and on each January 1 and July 1 thereafter to and including January 1, 2031, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2022	$380,000	January 1, 2027	$ 465,000
July 1, 2022	385,000	July 1, 2027	475,000
January 1, 2023	395,000	January 1, 2028	485,000
July 1, 2023	405,000	July 1, 2028	495,000
January 1, 2024	410,000	January 1, 2029	505,000
July 1, 2024	420,000	July 1, 2029	510,000
January 1, 2025	430,000	January 1, 2030	520,000
July 1, 2025	435,000	July 1, 2030	535,000
January 1, 2026	445,000	January 1, 2031	545,000
July 1, 2026	455,000	July 1, 2031*	555,000

*Stated maturity.

The Series Bonds with a stated maturity of July 1, 2035 are subject to mandatory redemption in part on January 1, 2032, and on each January 1 and July 1 thereafter to and including January 1, 2035, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, on the dates and in the principal amounts as follows:

Date	Principal Amount
January 1, 2032	$ 565,000
July 1, 2032	580,000
January 1, 2033	585,000
July 1, 2033	600,000
January 1, 2034	615,000
July 1, 2034	625,000
January 1, 2035	640,000
July 1, 2035*	655,000

*Stated maturity.

Special Redemption

Non-Origination. The Series Bonds are subject to special redemption, at the option of the Agency, prior to maturity, at any time, in whole or in part, at a redemption price equal to par plus accrued interest, without premium, from moneys representing proceeds of such Series Bonds not used to purchase Mortgage Loans and transferred to the Redemption Fund from the Acquisition Fund and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund transferred to the Redemption Fund. In the event that any Series Bonds are to be redeemed as a result of non-origination, such Bonds shall be selected by lot from such maturities of the Series Bonds as shall be determined by the Agency.

The Technical and Miscellaneous Revenue Act of 1988 added Section 143(a)(2)(d) to the Code, effective for bonds issued after December 31, 1988. Section 143(a)(2)(d) requires that, with respect to an issue of bonds, proceeds of the issue required to be used to make mortgage loans be so used within 42 months of the date of issue, or be used to redeem bonds of the issue prior to the expiration of the 42-month period (a requirement sometimes referred to as the "42-Month Rule"). The 42-Month Rule applies to "sale proceeds" of an issue deposited into a mortgage acquisition fund or "transferred proceeds" of a "new money" issue which were not used to make mortgage loans, but does not apply to "transferred proceeds" or "replacement proceeds" of an issue deposited into a mortgage acquisition fund as a result of a prepayment refunding. Hence, the 42-Month Rule is generally applicable only where the issue of bonds in question is wholly or partly a "new money" issue or a non-origination refunding of a "new money" issue. Since the Series Bonds are a "new money" issue, the 42-Month Rule is applicable to the Series Bonds and proceeds of the Series Bonds on deposit in the Acquisition Account are required to be applied to the redemption of the Series Bonds not later than January 1, 2005 to the extent such proceeds have not theretofore been applied to acquire Mortgage Loans or to the earlier redemption of Series Bonds. The Agency has received commitments for approximately $14 million for qualified Mortgage Loans to be financed with proceeds of the Series Bonds; however, such Mortgage Loans have not yet been purchased.

Excess Revenues. Any moneys on deposit in the Revenue Fund attributable to Excess Revenues may, in the Agency's discretion and subject to the requirements of the Resolutions, be applied to the redemption, at any time, at a redemption price equal to par plus accrued interest, without premium, of Outstanding Bonds under the Bond Resolution (including the Series Bonds) from such series, maturities and Sinking Fund Installments as the Agency may select at its option.

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

The Technical and Miscellaneous Revenue Act of 1988 added Section 143(a)(2)(A)(iv) to the Code, effective for bonds issued after December 31, 1988. Section 143(a)(2)(A)(iv) requires that, with respect to an issue of bonds, principal repayments (including prepayments) received after a date 10 years from the date of issue of the bonds be used to pay and redeem bonds of that particular issue (a requirement sometimes referred to as the "10-Year Rule"). Hence, in the case of a "new money" issue of bonds, principal repayments received during the first 10 years following the date of issue can be recycled into new mortgage loans, either directly, or indirectly through a refunding of bonds of the issue or another issue, but, after the 10-year date, no further recycling or principal repayment refundings are permitted and the principal repayments must be devoted to paying or redeeming bonds of the "new money" issue. Where the issue of bonds is itself a refunding issue, in whole or in part, the 10-Year Rule is applied by measuring the 10-year period from the dates of issue of the various issues of bonds being refunded (or the dates of issue of the original bonds in a chain of refundings), and the principal repayments, when received, must be allocated, for purposes of applying the 10-Year Rule, among the issues of bonds refunded. Varying percentages of the principal repayments, therefore, will have different 10-Year Rule effective dates. For the Series Bonds, 100% of scheduled payments and prepayments of principal of Mortgage Loans purchased with the proceeds of the Series Bonds received on or after July 25, 2011 are required to be applied no later than the close of the first semi-annual period beginning after the date of receipt to the retirement of the Series Bonds, through payment thereof at maturity or redemption. Scheduled payments and prepayments of principal of Mortgage Loans purchased with the proceeds of the Series Bonds need not be applied to the retirement of the Series Bonds upon receipt of an opinion of Bond Counsel that failure to comply with the 10-Year Rule will not adversely affect the exclusion of interest on the Series Bonds from gross income of the owners thereof for federal income tax purposes.

Optional Redemption of Series Bonds

The Series Bonds with stated maturities after January 1, 2013 are also subject to redemption at the option of the Agency as a whole or in part on any date on or after January 1, 2013 from any amounts available to the Agency for that purpose, and at a redemption price equal to the principal amount so redeemed, plus interest accrued to the date of redemption.

Mandatory Tender of Certain Series Bonds Upon Certain Events

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Mortgage Loans may be dissuaded from applying to the Agency for such Mortgage Loans, and the likelihood of a special redemption as described under "Special Redemption—*Non-Origination*" would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of the Series Bonds selected by the Agency for purchase at par (plus accrued interest if the mandatory tender date is not an interest payment date), or, at the option of the registered owner, exchange for a Series Bond of the same maturity and bearing interest as described below.

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

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

mandatory purchase on a date not less than 45 days after the date of such notice. Within each maturity designated by the Agency, the Trustee shall select at random the Series Bonds to be designated as Tender Bonds.

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

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

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

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some registered owners to retain all or a portion of their Tender Bonds. The purchase of Tender Bonds is contingent upon satisfaction of certain arbitrage requirements of federal tax law, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds outstanding under the Bond Resolution, and a determination that, given the final Adjusted Rates, Mortgage Loans can be effectively originated and purchased to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

General Provisions

Except as otherwise provided in the Series Resolutions, 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 Resolutions. 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 registered or certified mail, to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the registry books as of the last business day of the month preceding the month in which such notice is mailed.

SECURITY FOR THE BONDS

The Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and grant of a security interest in (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from such proceeds, (c) all Revenues (as defined in the Bond Resolution), and (d) all money, investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series 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.

Projected Revenue Certificate

The Bond Resolution requires that the Agency file a Projected Revenue Certificate with the Trustee as of July 1 in each year and within 30 days thereafter and prior to the issuance of any series of Bonds, and permits a revised Certificate to be filed at any time directed by the Agency. The Projected Revenue Certificate must show Revenues (including principal, interest and prepayments on Mortgage Loans, and estimated investment income on all moneys held in the Program) anticipated to be derived from the Program in the current and each future Fiscal Year, sufficient to make required fund transfers and debt service payments on the Bonds in each such year, all to be based on the estimates and assumptions, and subject to the terms and conditions, more fully set forth in the definition "Projected Revenue Certificate" herein. If any Projected Revenue Certificate fails to show an excess of Revenues over required fund transfers and debt service in the current or any future Fiscal Year, the Agency is required to deposit on that date from any amounts properly available in its General Reserve Account or other funds not pledged under the Bond Resolution, an amount which when deposited and utilized as set forth in a revised Projected Revenue Certificate will be at least equal to such required fund transfers and debt service. As set forth more fully in "Appendix D — Summary of Certain Provisions of the Bond Resolution," the Agency may withdraw from the Program at the end of each Fiscal Year an amount which is not required to produce Revenues equal to debt service and required fund transfers in the current and all future Fiscal Years as set forth in the Projected Revenue Certificate, provided that, subsequent to such transfer, total assets, exclusive of moneys in the Insurance Reserve Fund, exceeds total liabilities by at least 3 percent.

Revenues

The Agency has covenanted in the Bond Resolution to collect and deposit, or cause to be collected and deposited, all Revenues with the Trustee, and to punctually pay or cause to be paid when due, from said Revenues, the principal of and interest on all Outstanding Bonds.

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 Qualified Mortgage Loans or to redeem Bonds, including the Series Bonds but excluding certain outstanding series of short-term Bonds. See "Description of the Series Bonds — Special Redemption." 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 Acquisition Fund, (c) the Redemption Fund (but not from amounts required to pay Bonds previously called for redemption), (d) the Insurance Reserve Fund, or (e) the proceeds of refunding Bonds, or the Trustee will withdraw the necessary amount from the Debt Service Reserve 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 not be less than 3 percent of the principal amount of the Outstanding Bonds. The Debt Service Reserve Fund balance will not be less than 3 percent of the principal amount of Outstanding Bonds upon issuance of the Series Bonds.

The balance in the Debt Service Reserve Fund on May 31, 2003, was $32,852,019, which was at least equal to the Debt Service Reserve Fund Requirement.

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 Loan which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each series of Bonds by the respective series resolutions. The Insurance Reserve Requirement with respect to the Series Bonds is $0.

The balance in the Insurance Reserve Fund on May 31, 2003 was $8,577,018, 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 Qualified Mortgage Loans 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 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, and that the estimated Revenues set forth in a Projected Revenue Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Projected Revenue Certificate.

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.

THE AGENCY MORTGAGE PROGRAM

Procedures for Origination and Purchase

General

The following provides a general description of the Agency's Program, which is subject to change from time to time as provided in the Resolutions.

Application

The Agency's Program provides funds for the purchase by the Agency of newly originated Mortgage Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds. From the proceeds of the Series Bonds, the Agency intends to purchase Mortgage 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 Mortgage Loans and other expenses of the Program. The Agency may require the payment of discount points to reduce the overall interest rate on the Mortgage Loans, provide adequate compensation to Mortgage 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 Mortgage 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 Mortgage 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, Mortgage Lenders that participate in the Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, on the day funds become available, Mortgage Lenders may fax the Agency for an individual commitment of Mortgage Loan funds on a case-by-case basis as each application is taken and initially screened by the Mortgage Lender. The Mortgage 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 Mortgage Lender. The amount of funds that may be used by an individual participating Mortgage Lender is to be determined by the Mortgage Loan demand experienced by the Mortgage Lender.

Upon execution of the Agreement by the Agency, each Mortgage 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, Mortgage 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. Mortgage Lenders are not required to pay a reservation fee upon initial telecopied reservation of an individual commitment. If the Agency has not purchased a Mortgage Loan pursuant to an individual commitment after 90 days where an existing home is to be financed or after 120 days if a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Mortgage Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees and, if charged, unrefunded extension fees are to be deposited in the General Reserve Account and are not specifically pledged to the payment of the Bonds.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law, the interest rate to be charged on the Mortgage Loan 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	$60,250	$65,100	$69,900	$74,750	$79,550
Olmsted County	$56,500	$61,000	$65,550	$70,050	$74,600
Balance Of State	$52,100	$56,300	$60,450	$64,650	$68,800

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 Mortgage Loans from the proceeds of the Series Bonds. The Agency may revise said income limits for the Program and for Homeownership Assistance Payments from time to time to conform with State and federal law and Agency policy objectives.

At the time the Mortgage 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, equity contributions or all three forms of subsidy, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" below.

Qualified Mortgage Loans

Under the Bond Resolution, the unpaid principal amount of Mortgage Loans made or purchased from the Acquisition Fund must not exceed, at the time of purchase, 75 percent of the Market Value of the Home subject to the Mortgage unless it is insured or guaranteed in one of the following ways: (1) if the Mortgage Loan is to be insured or guaranteed by the FHA, VA, USDA Rural Development or another agency or instrumentality, of the United States which has similar powers to insure or guarantee Mortgage Loans, the amount may be the maximum permitted under the regulations of such agency or instrumentality, as modified to comply with the requirements of applicable federal law; or (2) if the Agency is issued a mortgage insurance policy by a private mortgage insurer qualified to provide insurance on mortgages purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Corporation, or a similar federal agency or instrumentality, under which the insurer, if it requests the Agency to retain title, may pay a specified insured percentage of the claim, then the maximum amount of the Mortgage Loan is a percentage of the Market Value of the Home equal to 75 percent plus said insured percentage; or (3) if the Mortgage Loan is not initially guaranteed or insured in the manner set forth in either of subsections (1) or (2) above, the Agency, at the time it purchases the Mortgage Loan, shall either (i) transmit to the Trustee for deposit into the appropriate account in the Insurance Reserve Fund an amount equal to the difference between the amount of the uninsured Mortgage Loan and 75 percent of the Market Value or (ii) shall certify to the

Trustee that the balance then existing in said account in the Insurance Reserve Fund is not less than the amount otherwise required by the preceding clause (i) to be on deposit therein.

Pursuant to federal legislation enacted in 1999, Mortgagors, with respect to Mortgage Loans originated after July 29, 1999, will have a right to cancel any private mortgage insurance policy insuring such loans when the outstanding principal amount of the Mortgage Loan has been reduced or is scheduled to have been reduced to 80 percent or less of the value of the Home at the time the Mortgage Loan was originated. The Mortgagor's right to cancel the policy is subject to certain conditions, including (i) that the Mortgagor has a good payment history with respect to the Mortgage Loan, (ii) that the Mortgagor has satisfied any requirement of the Agency that the value of the Home has not declined below the original value of the Home and (iii) that the Mortgagor certifies that the Mortgagor's equity in the Home is unencumbered by a subordinate lien. Any requirements for private mortgage insurance will automatically terminate when the scheduled principal balance of the Mortgage Loan, based on the original amortization schedule for the Mortgage Loan, is reduced to 78 percent or less of the value of the Home at the time of origination, provided the Mortgage Loan is current. The legislation also requires that Mortgagors, with respect to Mortgage Loans originated prior to July 29, 1999, must be notified by the servicers on an annual basis that they may also have a right to cancel any private mortgage insurance policy insuring those loans with the consent of the Agency or in accordance with state law. The Agency's existing policy has been to permit the cancellation of private mortgage insurance when the outstanding balance of the Mortgage Loan has been reduced to 75 percent or less of the value of the Home at the time of origination, assuming a good payment history.

Qualified Mortgage Loans may be purchased from (1) Mortgage 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 Bond 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 Mortgage 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 Mortgage Loan. See "State Laws Affecting Foreclosure" in Appendix E.

Qualified Real Property

Pursuant to the Manual, Mortgage 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):

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	New Residences
11-County Twin Cities Area	$204,183	Not Allowed
Aitkin County	115,095	$115,095
Becker County	109,671	109,671
Beltrami County	90,156	90,156
Benton County	154,499	131,070
Blue Earth County	111,136	111,136

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	New Residences
Brown County	$ 85,787	$ 85,787
Carlton County	98,200	98,200
Cass County	140,634	131,070
Clay County	121,232	121,232
Cook County	146,828	131,070
Crow Wing County	132,816	131,070
Dodge County	116,981	116,981
Douglas County	130,367	130,367
Fillmore County	81,391	81,391
Goodhue County	129,053	129,053
Houston County	121,819	121,819
Hubbard County	120,608	120,608
Itasca County	99,452	99,452
Kanabec County	101,952	101,952
Kandiyohi County	96,472	96,472
Lake County	83,577	83,577
Le Sueur County	121,186	121,186
Lyon County	91,646	91,646
McLeod County	92,603	92,603
Meeker County	98,961	98,961
Mille Lacs County	116,808	116,808
Morrison County	90,341	90,341
Nicollet County	125,245	125,245
Olmsted County	162,689	162,689
Otter Tail County	89,173	89,173
Pine County	104,009	104,009
Polk County	82,569	82,569
Rice County	141,743	131,070
Sibley County	80,033	80,033
St. Louis County	135,357	131,070
Stearns County	154,499	131,070

If the property to be mortgaged is located in:	The Minnesota Mortgage Program	
	Existing Residences	New Residences
Steele County	$112,789	$112,789
Wabasha County	107,683	107,683
Waseca County	90,132	90,132
Winona County	104,111	104,111
Balance of State	77,540	77,540

The Agency may revise said maximum purchase prices from time to time to conform with applicable State and federal law and Agency policy objectives. New construction is currently not permitted to be financed in the 11-county Twin Cities metropolitan area, except in connection with the special assistance programs and Agency bond issuance on behalf of local governments described below.

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 proceeds to such entities as Mortgage 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 Mortgage Loans originated under special assistance program components shall be qualified mortgage loans as described above. Under certain circumstances, the Agency may elect to directly originate such Mortgage Loans through its own staff.

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, Mortgage Lenders designated by the unit of local government may reserve Mortgage 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 Mortgage 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.

Pursuant to State law governing the allotment and allocation of qualified mortgage bond authority, applicable units of local government may establish income and/or house price limits somewhat higher than the limits

otherwise provided for the Program. However, the Agency is to assure that the applicable limits meet requirements of federal law.

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

Homeownership Assistance Fund Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established a Homeownership Endowment Fund within the Residential Housing Finance 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 Mortgage Loan (up to a maximum of $1,440); or (iii) to provide an equity contribution loan in the amount necessary to reduce the Mortgage 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 only receive the equity contribution loan after application of the first two forms of assistance fail to qualify them for the Mortgage Loan. At the time the Mortgage 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 equity contribution loan must attend qualified homebuyer classroom instruction for at least six hours before the Mortgage 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. The initial monthly assistance payment (made directly by the Agency to the Servicer) ranges from a maximum of $60 ($1,440 cumulative) to a minimum of $20 ($240 cumulative) based upon actual need for the assistance by the Mortgagor. Monthly assistance payments decrease by $20 each year until the assistance ceases. In making a Mortgage 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 Mortgage Loan over its term.

Mortgagors whose housing debt ratio is greater than 29% of their total income and who will receive the maximum monthly payment assistance of $60 per month may also be eligible for an equity contribution loan in an amount necessary to reduce their housing debt ratio to 29%, but not to exceed $10,000. The equity contribution loan is available to Mortgagors who obtain loans under the Agency's Community Activity Set Aside Program. The equity contribution loan is a deferred loan which is due on sale, transfer, refinancing, when the first mortgage is repaid, or when the property is no longer occupied by the Mortgagor.

Mortgage Loans made or purchased from the proceeds of a series of Bonds may or may not include Homeownership Assistance. Neither the Homeownership Assistance Fund nor the Homeownership Endowment Fund have been pledged to or are available for the payment of principal or interest on the Bonds. The Agency, however, has covenanted in the Bond Resolution to set-aside an amount sufficient with anticipated investment income therefrom to make all disbursements of assistance agreed to be made available with respect to any Mortgage Loan.

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 Mortgage Loans financing the purchase of residences located in Target

Areas and will advertise the availability of Series Bond funds for Mortgage 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 Mortgage Loans in a Servicing Manual. Servicing may be granted to Mortgage 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 a number of reports from its Servicers. Among those to be submitted is a monthly reconciliation report together with a supporting loan trial balance. In addition, a settlement remittance report, designed to summarize amounts due the Agency and to reconcile weekly remittances to the final amount due for the reporting period, is due on a monthly basis. 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 1/12 of 3/8 of 1 percent of the outstanding principal amount of Mortgage 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 March 31, 2003, the Agency had outstanding loans receivable of $897,430,474 gross, from the proceeds of the Outstanding Bonds. An additional $3,165,201 aggregate principal amount of mortgage loans were being processed at March 31, 2003. As of March 31, 2003, excluding the proceeds of short-term bonds and notes, there were approximately $1,916,516 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.

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.

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 Mortgage Loans funded in whole or in part with proceeds of the Series Bonds are that (1) the Home on which the Mortgage Loan is made is a single family residence which, at the time the Mortgage 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 Mortgage 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 Mortgage 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 Series Bonds will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and 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 Series 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 opinion of Bond Counsel will be provided in substantially the form 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 remarketing of the Series Bonds.

UNDERWRITERS

The Series Bonds (except for the Series Bonds with a stated maturity of July 1, 2021, July 1, 2031 and July 1, 2035) are being remarketed by the Underwriters, for which UBS Financial Services Inc., U.S. Bancorp Piper Jaffray Inc., RBC Dain Rauscher Inc. and Citigroup Global Markets Inc. are acting as Managers. The Underwriters are to be paid a fee of $209,761.82 with respect to the remarketing of the Series Bonds. The Underwriters may offer

and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

The Series Bonds with a stated maturity of July 1, 2021, July 1, 2031 and July 1, 2035 are being directly placed by the Agency and are not being purchased or offered by the Underwriters.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ TIMOTHY E. MARX
Commissioner

Dated: July 10, 2003.

APPENDIX A

CERTAIN FINANCIAL STATEMENTS REGARDING THE SINGLE FAMILY FUND AND THE GENERAL RESERVE

(Unaudited)

For the nine months ended March 31, 2003

As prepared by the Agency's Accounting Department

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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.

	March 31, 2003 (unaudited)	
	General Reserve	Single Family
ASSETS		
Cash and cash equivalents	$ 32,480	$ 277,409
Investment securities	103,157	15,926
Loans receivable, net	-	885,201
Interest receivable on loans	-	4,366
Interest receivable on investments	957	3,271
Mortgage insurance claims receivable	-	338
Real estate owned	-	938
Capital assets, net	890	-
Other assets	1,012	260
Total Assets	$ 138,496	$ 1,187,709
LIABILITIES AND NET ASSETS		
Liabilities:		
Bonds payable, net	$ -	$ 1,077,500
Interest payable	-	15,126
Accounts payable and other liabilities	2,365	8,867
Interfund payable (receivable)	(55)	1,197
Funds held for others	92,699	-
Total liabilities	95,009	1,102,690
Net Assets:		
Restricted by bond resolution	-	85,019
Restricted by covenant	42,597	-
Invested in capital assets	890	-
Total net assets	43,487	85,019
Total liabilities and net assets	$ 138,496	$ 1,187,709

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 Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 Nine Months Ended March 31, 2003 (unaudited)	
	General Reserve	Single Family
Revenues:		
Interest earned on loans……	$ -	$ 49,354
Interest earned on investments……..	815	11,864
Administrative reimbursement……	12,732	-
Fees earned……..	5,663	-
Unrealized gains on securities net……	1,193	1,247
Total revenues……	20,403	62,465
Expenses:		
Interest……	-	52,158
Loan administration and trustee fees……	-	2,617
Administrative reimbursement……	-	5,274
Salaries and benefits……	9,815	-
Other general operating……..	3,657	-
Reduction in carrying value of certain low interest rate deferred loans……	-	-
Provision for loan losses……	-	58
Total expenses……..	13,472	60,107
Revenues over (under) expenses……	6,931	2,358
Other charges:		
Non-operating transfer of assets between funds……	-	(4,062)
Change in net assets……	6,931	(1,704)
Total net assets, beginning of year……	36,556	86,723
Total net assets, end of year……	$ 43,487	$ 85,019

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 Nine Months Ended March 31, 2003 (unaudited)	
	General Reserve	Single Family
Cash flows from operating activities:		
Principal repayments on loans……..	$ -	$ 206,046
Investment in loans……..	-	(24,448)
Interest received on loans……	-	50,061
Fees received……	5,592	-
Salaries, benefits and vendor payments…..	(12,768)	(2,652)
Administrative reimbursement from funds……	12,867	(5,287)
Interest transferred to funds held for others……	(2,756)	-
Deposits into funds held for others……	25,093	-
Disbursements made from funds held for others……	(26,667)	-
Interfund transfers and other assets…….	(353)	(1,993)
Net cash provided (used) by operating activities……	1,008	221,727
Cash flows from noncapital financing activities:		
Principal repayment on bonds……	-	(218,270)
Interest paid on bonds and notes……..	-	(71,224)
Premium paid on redemption of bonds……	-	(787)
Agency contribution to program funds……..	-	(4,062)
Transfer of cash between funds……	(1,866)	-
Net cash provided (used) by noncapital financing activities……..	(1,866)	(294,343)
Cash flows from investing activities:		
Investment in real estate owned…….	-	(344)
Interest received on investments…….	3,916	9,226
Procceeds from sale of mortgage insurance claims/real estate owned……..	-	2,403
Proceeds from maturity, sale, or transfer of investment securities……	17,005	6,904
Purchase of investment securities……	(14,674)	(3,790)
Net cash provided (used) by investing activities……..	6,247	14,399
Net increase in cash and cash equivalents……	5,389	(58,217)
Cash and cash equivalents, net:		
Beginning of year……	27,091	335,626
End of year……	$ 32,480	$ 277,409

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 Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 Nine Months Ended March 31, 2003 (unaudited)	
	General Reserve	Single Family
Revenues over (under) expenses……	$ 6,931	$ 2,358
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Amortization of premiums and fees on loans……..	-	(448)
Depreciation……..	804	-
Realized gains on securities, net…….	-	(99)
Unrealized losses on securities, net…….	(1,193)	(1,247)
Provision for loan losses…….	-	58
Reduction in carrying value of certain low interest rate deferred loans…….	-	-
Capitalized interest on loans and real estate owned……..	-	(197)
Decrease in loans receivable, excluding loans transferred between funds……	-	181,598
Decrease in interest receivable on loans…….	-	1,278
Interest earned on investments……..	(815)	(11,724)
Arbitrage rebate liability……..	-	33
Interest transferred to funds held for others……..	(2,756)	-
Interest expense on bonds and notes……..	-	52,158
Decrease in accounts payable……	(556)	(30)
Increase (decrease) in interfund payable, affecting operating activities only……..	591	(2,006)
Decrease in funds held for others…….	(1,574)	-
Other……..	(424)	(5)
Total adjustments……..	(5,923)	219,369
Net cash provided (used) by operating activities……	$ 1,008	$ 221,727

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 Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 a March 31, 2003:

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve…….	$ -	$ 32,480	$ -	$ 32,480
Single Family…….……..	4,746	16,464	256,199	277,409

Investment Securities

Investment securities are recorded at fair market value and are composed of the following at March 31, 2003:

	Fair Market Value		
Funds	US Treasuries and Agencies	Unrealized Appreciation/ (Depreciation) in Fair Market Value	Estimated Market Value
General Reserve…….	$ 100,018	$ 3,139	$ 103,157
Single Family…….……..	12,961	2,965	15,926

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 March 31, 2003 consist of:

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve…….	$ -	$ -	$ -	$ -
Single Family……..……..	897,430	(121)	(12,108)	885,201

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 March 31, 2003 are as follows:

Funds	Outstanding Principal	Unamortized Deferred Finance Costs	Bonds Payable, Net
General Reserve…….	$ -	$ -	$ -
Single Family……..……..	1,086,120	(8,620)	1,077,500

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 for 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.

Single Family

Outstanding Principal of bonds payable at March 31, 2003 are as follows:

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
1992 Series B-2	6.15%	2026	$ 14,250	$ 7,710
1992 Series C-2	6.15%	2023	12,185	6,675
1992 Series D-2	5.25% to 5.95%	2003-2017	26,740	10,985
1992 Series H	6.50%	2026	23,410	18,390
1992 Series I	5.75% to 6.25%	2003-2015	16,365	9,485
1993 Series B	5.80%	2025	23,590	19,615
1993 Series C	5.60%	2017	27,860	525
1993 Series D	6.40%	2027	17,685	9,050
1993 Series F	6.25%	2020	9,500	4,200
1994 Series A	4.65% to 5.00%	2003-2013	15,105	3,250
1994 Series B	5.65%	2022	16,990	5,735
1994 Series C	5.65%	2025	9,000	7,615
1994 Series D	4.70% to 5.00%	2003-2025	91,660	15,470
1994 Series E	4.60% to 5.90%	2003-2025	31,820	14,450
1994 Series F	5.35% to 6.30%	2003-2025	42,645	14,535
1994 Series G	6.45%	2020	19,655	8,530
1994 Series H	5.85% to 6.70%	2004-2018	18,465	6,310
1994 Series I	5.85% to 6.90%	2003-2022	14,635	3,155
1994 Series J	6.95%	2026	13,900	4,685
1994 Series K	5.50% to 6.40%	2003-2015	23,970	6,445
1994 Series L	6.70%	2020	15,680	5,935
1994 Series M	6.70%	2026	22,660	8,485
1994 Series N	6.45%	2025	18,770	5,130
1994 Series O	6.45%	2012	11,580	4,655
1994 Series P	6.45%	2021	21,150	8,515
1994 Series Q	6.70%	2017	12,600	1,215
1994 Series R	6.10% to 6.50%	2003-2007	8,120	1,245
1994 Series S	6.92%	2026	23,610	9,360
1994 Series T	5.20% to 6.125%	2003-2017	16,420	6,190
1995 Series B	6.40% to 6.55%	2017-2027	35,815	19,490
1995 Series D	6.40% to 6.45%	2015-2025	40,160	21,595
1995 Series G	7.15% to 8.05%	2003-2012	8,310	2,985
1995 Series H	6.40%	2027	19,240	9,915
1995 Series I	6.35%	2017-2018	7,450	3,835
1995 Series J	4.90% to 6.10%	2003-2019	16,065	7,115
1995 Series K	6.20%	2020	1,495	795

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 for 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.

Single Family

Outstanding Principal of bonds payable at March 31, 2003 are as follows (continued):

1995 Series L	6.25%	2027	12,950	6,900
1995 Series M	4.80% to 5.875%	2003-2017	32,025	17,450
1996 Series A	6.38%	2028	34,480	11,950
1996 Series B	6.35%	2018-2019	7,990	6,115
1996 Series C	5.20% to 6.10%	2003-2015	12,345	7,020
1996 Series D	5.15% to 6.00%	2003-2017	23,580	9,120
1996 Series E	6.25%	2022-2023	14,495	7,065
1996 Series F	6.30%	2026-2028	18,275	8,935
1996 Series G	6.25%	2026-2028	41,810	18,755
1996 Series H	6.00%	2021	13,865	6,215
1996 Series I	6.95% to 8.00%	2003-2017	14,325	5,480
1996 Series J	5.60%	2021	915	435
1996 Series K	4.30% to 5.40%	2003-2017	9,280	6,105
1997 Series A	4.95% to 5.95%	2003-2017	22,630	13,960
1997 Series B	6.20%	2021	9,180	6,745
1997 Series C	6.25%	2029	27,740	7,780
1997 Series D	5.80% to 5.85%	2019-2021	15,885	11,845
1997 Series E	5.90%	2029	23,495	10,120
1997 Series F	6.93% to 7.43%	2003-2012	11,620	2,570
1997 Series G	5.10% to 6.00%	2003-2018	40,260	32,345
1997 Series H	6.15%	2019	11,455	5,280
1997 Series I	5.50%	2017	9,730	8,875
1997 Series K	5.75%	2026-2029	22,700	20,695
1997 Series L	6.50% to 6.95%	2003-2010	9,550	3,410
1998 Series A	4.65% to 5.20%	2008-2017	5,710	4,330
1998 Series B	4.40% to 5.50%	2003-2029	17,030	10,500
1998 Series C	4.30% to 5.25%	2003-2017	21,775	16,875
1998 Series D	4.70%	2020	7,965	1,005
1998 Series E	5.40%	2025-2030	30,500	26,785
1998 Series F-1	4.35% to 5.45%	2003-2017	10,650	7,880
1998 Series G-1	5.60%	2022	6,150	5,040
1998 Series H-1	5.65%	2031	14,885	12,215
1998 Series F-2	4.55% to 5.70%	2003-2017	11,385	9,615
1998 Series G-2	6.00%	2022	6,605	6,145
1998 Series H-2	6.05%	2031	15,965	14,865
1999 Series B	5.00% to 5.25%	2013-2020	18,865	17,180
1999 Series C	4.10% to 4.85%	2003-2024	21,960	13,040
1999 Series D	5.45%	2026-2031	23,975	21,880

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

The following information with respect to the General Reserve and Single Family Fund for the period ended March 31, 2003 was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of those Funds for the period ended March 31, 2003. 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 for 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.

Single Family

Outstanding Principal of bonds payable at March 31, 2003 are as follows (continued):

1999 Series H	5.30% to 5.80%	2011-2021	16,350	15,000
1999 Series I	4.55% to 6.05%	2003-2031	34,700	26,435
1999 Series J	5.00%	2017	4,745	4,695
1999 Series K	2.85% to 5.35%	2003-2033	44,515	44,000
2000 Series A	5.25% to 5.85%	2009-2020	18,650	16,680
2000 Series B	5.05% to 5.55%	2003-2024	16,580	11,815
2000 Series C	6.10%	2030-2032	30,320	27,125
2000 Series F	Variable	2031	20,000	19,410
2000 Series G	4.25% to 5.40%	2008-2025	39,990	39,230
2000 Series H	3.60%% to 5.50%	2003-2023	32,475	31,005
2000 Series I	4.75% to 5.80%	2003-2019	20,185	19,470
2000 Series J	5.40% to 5.90%	2023-2030	29,720	28,580
2001 Series A	5.35% to 5.45%	2017-2022	14,570	14,355
2001 Series B	3.90% to 5.675%	2003-2030	34,855	33,115
2001 Series E	3.50%	2003	59,405	59,405
			$ 1,819,615	$ 1,086,120

APPENDIX B

FINANCIAL STATEMENTS

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2002

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MINNESOTA HOUSING FINANCE AGENCY
Commissioner's Report

The Minnesota Housing Finance Agency (the Agency or "MHFA") continues its strong tradition of meeting Minnesotans' needs for decent, safe, affordable housing and stronger communities.

MHFA is completing the third year under its 1999 strategic plan. The Agency continues to make solid progress on the six objectives listed in that plan: increasing the extent to which housing resources are strategically targeted; developing and using a management tool to evaluate all Agency activity that balances mission, customer service, and revenues and expenses; reengineering the Agency's approach to staff development; implementing the information technology strategic plan; improving performance measurement; and working to increase the visibility of the affordable housing crisis at the national level.

In the latest program year, the Agency increased its investment in affordable housing for Minnesota households by serving over 50,000 households and disbursing $170 million for homeownership programs, $43 million for home improvement and rehabilitation programs, and $169 million for rental housing programs, including new construction, rehabilitation and preservation, and rent assistance. The significant increase over the previous year is attributable to the Agency's full implementation of the administration of housing assistance payments contracts for the HUD-financed portfolio, an activity begun in August 2000.

In addition, the Agency administered the federal housing credit program, managed a state property tax program, and oversaw a multifamily portfolio of over 900 first mortgages and deferred loans. Two-thirds of the families and individuals served by MHFA programs had annual incomes under $16,000.

During fiscal year 2002, MHFA continued to implement the one-time development funding provided by the legislature from 1999-2001 for workforce housing and for families moving from welfare to work. Funding trends include more mixed-income, mixed homeownership and rental developments; new urbanism in-fill development in older central city and suburban neighborhoods; greater use of project-based Section 8 vouchers by local housing agencies; and more supportive housing projects targeting families and individuals facing multiple challenges to self-sufficiency.

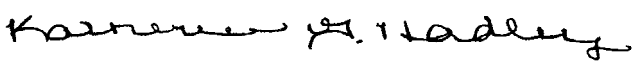
MHFA began work on two major technology projects designed to streamline and improve loan processing for customers and staff: one to develop an on-line mortgage system for home purchase and home improvement loans; and one to fully automate and integrate multifamily loan processing.

In the 2002 legislative session, the Governor and the Minnesota legislature confronted a budget shortfall of over $2 billion. The results of the budget balancing and biennial bonding bills were a $216,000 reduction to MHFA's base general fund appropriation and a $16.2 million one-time-only appropriation for two supportive housing developments for homeless veterans and other homeless adults. A state budget shortfall is predicted for the 2004-2005 biennium. MHFA staff is preparing recommendations for reductions in programs funded with state general funds, which constitute approximately 15% of all program funding.

For the first time, Agency 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 Agency funds as required by generally accepted accounting principles and reflect totals of similar accounts of various funds. Assets and revenues of the General Reserve and Bond Funds are restricted to uses specifically described in their respective bond resolutions and are pledged for the primary benefit of those respective bondholders and creditors. Assets and revenues of State Appropriated and Federal Appropriated Funds are not pledged to support the debt or general obligations of MHFA.

Since the 2002 Financial Report is such a significant format change from the Agency's traditional presentation of its prior annual financial reports, readers are encouraged to pay particular attention to Management's Discussion and Analysis and Notes to Financial Statements.

The strong financial condition of the Agency continues to be the solid foundation on which MHFA builds the programs and technical capacity necessary to meet the housing needs of families, individuals, and communities throughout the state.



Katherine G. Hadley, Commissioner
Minnesota Housing Finance Agency
August 19, 2002

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, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2002, 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 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, Housing Development, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency as of June 30, 2002 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.

As described in the notes to the basic financial statements, in fiscal year 2002, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments;* GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

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. 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. 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 19, 2002

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 $2.4 billion. Amounts so issued shall not be deemed to constitute 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, Housing Investment Fund and Housing Affordability Fund.

The members of MHFA (hereinafter referred to as the Board) consist of five members appointed at large by the Governor and two ex-officio members (the State Auditor and the Commissioner of Trade and Economic Development).

Discussion of Financial Statements

The financial section consists of three parts — independent auditor's 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 the MHFA:

- The first two statements are Agency-wide financial statements that provide information about the 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 these 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 the MHFA's seven 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 the 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 Housing Development, 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, 2001. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the 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. 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 credit program and contract administration of the Section 8 program for developments not financed by MHFA.

Housing Development and Rental Housing

The majority of the loans presently held in Housing Development and 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 Housing Investment Fund and Housing Affordability Fund are also available to finance multifamily developments, primarily those that utilize tax credits and/or MHFA's low-and moderate-income rental program.

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 and Housing Affordability Funds.

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans. The majority of the single family loans held under these bond issues were FHA insured, or VA or RD guaranteed. In fiscal year 2002, MHFA began to use this bond resolution as the principal source of financing for its bond-financed homeownership programs. MHFA may also issue bonds for its home improvement loan program in this fund. In fiscal year 2002, no bonds were issued for the home improvement loan program; however, MHFA sold taxable bonds in August 2002 to support its home improvement lending.

The Home Improvement Endowment Fund was the principal source of financing for MHFA's home improvement loan programs in fiscal year 2002. MHFA continued to utilize loan repayments to finance new loan activity and also began to internally warehouse loans in anticipation of issuing bonds. No bonds were issued for home improvement loan programs during fiscal year 2002.

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

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 interest rate debt and 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, zero percent deferred multifamily loans,

Discussion of Individual Funds (continued)

low-and moderate-income rental first and subordinated mortgage loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high rate debt and to warehouse loans.

Single Family

This is MHFA's single largest fund, representing over 50% of MHFA's combined assets (excluding appropriated funds), and 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. Single Family funds in excess of bond resolution requirements are budgeted for and may be used to redeem bonds within Single Family and 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.

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, Housing Development, 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 generally accepted accounting principles. 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

General Overview (continued)

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 bonds and notes and of loans made from the proceeds thereof.

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 Mortgage and Residential Housing Finance bond resolutions, and semi-annual disclosure reports for the Housing Development and Rental Housing bond resolutions. 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		Change	Combined General Reserve and Bond Funds	
		2002	2001	$	2002	2001
Assets	Cash and Investments	1,178,925	1,153,488	25,437	1,031,650	997,374
	Loans Receivable, Net	1,681,340	1,714,341	(33,001)	1,654,060	1,690,858
	Interest Receivable	18,847	17,454	1,393	15,898	14,076
	Total Assets	2,883,273	2,892,323	(9,050)	2,705,122	2,708,195
Liabilities	Bonds Payable	1,936,188	1,965,662	(29,474)	1,936,188	1,965,662
	Interest Payable	48,347	54,280	(5,933)	48,347	54,280
	Funds Held for Others	94,979	103,140	(8,161)	94,278	97,457
	Total Liabilities	2,093,618	2,130,886	(37,268)	2,092,761	2,125,521
Net Assets	Restricted by Bond Resolution	352,166	358,194	(6,028)	352,166	358,194
	Restricted by Covenant	259,023	223,397	35,626	259,023	223,397
	Restricted By Law	177,294	178,763	(1,469)	—	—
	Total Net Assets	789,655	761,437	28,218	612,361	582,674

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

		Agency-wide Total		Change	Combined General Reserve and Bond Funds	
		2002	2001	$	2002	2001
Revenues	Interest Earned	165,337	183,041	(17,704)	157,187	171,935
	Appropriations Received	177,499	184,201	(6,702)	—	—
	Fees and Reimbursements	8,893	7,086	1,807	28,697	24,700
	Total Revenues	352,298	386,629	(34,331)	187,342	204,829
Expenses	Interest Expense	114,338	120,032	(5,694)	114,338	120,032
	Appropriations Disbursed	150,751	143,901	6,850	—	—
	Fees and Reimbursements	7,118	6,663	455	21,259	20,345
	Payroll, Gen. & Admin.	19,338	17,724	1,614	17,961	16,345
	Loan Loss/Value Adjust's	32,535	17,687	14,848	4,097	2,181
	Total Expenses	324,080	306,007	18,073	157,655	158,903
	Revenues over Expenses	28,218	80,622	(52,404)	29,687	45,926
	Beginning Net Assets	761,437	680,815	80,622	582,674	536,748
	Ending Net Assets	789,655	761,437	28,218	612,361	582,674

Change $	Combined State and Federal Appropriations Funds 2002	2001	Change $
34,276	147,275	156,114	(8,839)
(36,798)	27,280	23,483	3,797
1,822	2,949	3,378	(429)
(3,073)	178,151	184,128	(5,977)
(29,474)	—	—	—
(5,933)	—	—	—
(3,179)	701	5,683	(4,982)
(32,760)	857	5,365	(4,508)
(6,028)	—	—	—
35,626	—	—	—
—	177,294	178,763	(1,469)
29,687	177,294	178,763	(1,469)

Change $	Combined State and Federal Appropriations Funds 2002	2001	Change $
(14,748)	8,150	11,106	(2,956)
—	177,499	184,201	(6,702)
3,997	—	—	—
(17,487)	184,760	199,414	(14,654)
(5,694)	—	—	—
—	150,751	143,901	6,850
914	5,663	3,932	1,731
1,616	1,377	1,379	(2)
1,916	28,438	15,506	12,932
(1,248)	186,229	164,718	21,511
(16,239)	(1,469)	34,696	(36,165)
45,926	178,763	144,067	34,696
29,687	177,294	178,763	(1,469)

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 2002 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

In recent years, the type of assets of 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 2% to $1,654 million at June 30, 2002 as a result of prepayments 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 operating liquidity needs. The combined investments, cash, and cash equivalents increased 3% to $1,032 million at June 30, 2002 due to higher levels of unexpended bond proceeds outstanding at fiscal year end.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 13% to $15.898 million at June 30, 2002 generally as a result of larger amounts of investment income, which is due in subsequent periods.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports a public mission objective. Bonds payable decreased 1% to $1,936 million at June 30, 2002 resulting from early redemptions made possible by accelerated loan prepayments, and scheduled redemptions, all of which exceeded new debt issuance.

The companion category of interest payable decreased 11% to $48.347 million at June 30, 2002 as a result of reduced interest rates and lower average bonds outstanding.

There is no debt issued in General Reserve, however General Reserve recognizes 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 for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 3% to $94.278 million at June 30, 2002 as a result of loan payoffs and reductions of certain escrow fund requirements.

Accounts payable and other liabilities increased 91% to $13.361 million at June 30, 2002 primarily as a result of additional arbitrage liability on tax-exempt bonds pursuant to federal law and 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 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 the ability of MHFA to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve (including the Alternative Loan Fund) only for the

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

administration and financing of programs in accordance with the policy and purpose of the act that established MHFA, including reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to ensure that funds are preserved to provide financial security for the Agency's bondholders as covenanted in the bond resolutions. Net assets increased 5% to $612.361 million at June 30, 2002 as a result of consistent financial performance of the bond funds and prudent management.

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 strong in fiscal year 2002, although lower than fiscal year 2001. Compared to the prior year, both total revenues and total expenses were down. Offsetting some of the unfavorable affects of interest revenue declines was the favorable affect of interest expense declines.

The largest revenue component, interest income, was down throughout the year as yields on loans and investments declined to historically low levels. Combined interest revenues of General Reserve and Bond Funds from loans and investments declined 9% to $157.187 million compared to the prior year, consistent with generally declining interest rates. Loan interest was lower in fiscal year 2002 as mortgage loan refinancing caused higher levels of prepayments and, when combined with repayments, exceeded new loan purchases and originations. Investment interest was lower in fiscal year 2002 due to the general decline in interest rates and as more rebateable arbitrage liabilities were recognized compared to the prior year.

Administrative reimbursements to General Reserve from funds increased 14% to $20.488 million compared to prior year, primarily as a result of additional administrative expense reimbursements made possible by legislative approval to use a pooled investment income approach to recovering overhead from state appropriations, and by receiving approval from the federal government for federal indirect cost recoveries.

Other fee income to General Reserve and Bond Funds increased 21% to $8.209 million compared to the prior year, primarily as a result of increased Federal Section 8 contract administration fees and increased federal Housing Assistance Payments administration fees as a result of a larger portfolio of low-income housing units.

Unrealized gains on investments decreased significantly by 82% to $1.458 million compared to the prior year as the average maturity of MHFA's investment portfolio has shortened significantly during fiscal year 2002.

Interest expense of the Bond Funds decreased 5% to $114.338 million compared to the prior year as a result of reduced interest rates on recently issued bonds and lower average bonds outstanding.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the Bond Funds increased modestly by 4% to $21.259 million compared to the prior year. Modest changes in bonds outstanding account for the change in trustee fees and other modest changes in loan assets and investment assets account for the remainder of the increase. Note that $19.804 million of the total administrative fee reimbursement revenue of $20.488 million was interfund charges which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries, benefits, and other general operating expenses in General Reserve increased 10% to $17.961 million compared to the prior year, largely influenced by employee compensation, health insurance, and benefits increases.

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

Reductions in carrying value of certain low interest rate deferred loans in the Bond Funds increased 377% to $4.415 million compared to prior year, as a result of fewer recoveries on deferred loans previously fully reserved and increased new production of deferred loans.

Provision for loan loss expense in the Bond Funds decreased 125% to $(.318) million, consistent with management's assessment of stable loan portfolio risk and slightly declining loan volume. The allowance for loan losses as a proportion of loans outstanding at June 30, 2002 remained almost unchanged from the prior year.

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 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 35% to $29.687 million compared to prior year. Although below the level of fiscal year 2001, this level of net revenue over expenses remains consistent with performance of General Reserve and the Bond Funds in recent years. Revenues over expenses in General Reserve, which are in excess of the Housing Endowment Fund requirement, are transferred annually to the Housing Investment and/or Housing Affordability Fund in the Residential Housing Finance Fund for use in housing programs.

The Single Family Bond fund had expenses slightly higher than revenues as a result of approximately $5 million of non-recurring investment income reductions to recognize rebateable arbitrage liabilities payable to the United States Treasury. All other bond funds and General Reserve had revenues in excess of expenses for the year.

Total combined net assets have increased 5% to $612.361 million as a result of revenues over expenses for fiscal year 2002. The net assets of some bond funds have increased while net assets of other bond funds have decreased, as a result of net revenues or net 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 restricted net assets.

Investments, cash, and cash equivalents are the largest category of assets in the Appropriated Funds. The June 30, 2002 combined balance decreased 6% to $147.275 million as a result of reduced appropriations received less expenditures, which are held for future expenditures of program purposes.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2002 State Appropriated Fund loans receivable increased 16% to $27.280 million reflecting higher volume of state loan program activity.

Interest receivable on investments of 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, 2002 decreased 13% to $2.949 million as a result of declining investment yields and lower average investment balances.

Accounts payable and other liabilities in the Federal Appropriated Fund represent amounts payable to MHFA for HUD Section 236 interest reduction payments and Section 8 FA/FAF savings. The balance payable at June 30, 2002 was $.743 million.

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

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, 2002 the combined net interfund receivable was $.587 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, 2002 the balance of funds held for the federal government declined 88% to $.701 million reflecting HUD's draw down of funds held during the year.

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 remained relatively constant at $177.294 million as of June 30, 2002 compared to the prior period, reflecting new appropriations received that approximated appropriations disbursed during fiscal year 2002.

State and Federal Appropriated Funds — Revenues Over Expenses

State and federal appropriated funds are recorded as revenue in the period in which such appropriations were 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 slightly to $177.499 million at June 30, 2002, reflecting a continuing commitment to housing by the state and federal government.

Interest income from investments was down throughout the year as interest rates in general declined to historically low levels. Investment assets were also down during the year contributing to the combined interest income decline of 27% to $8.101 million at June 30, 2002.

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

Unrealized gains on investments decreased significantly by 122% to $(.889) million compared to the prior year as the average maturity of MHFA's investment portfolio has shortened significantly during fiscal year 2002.

Administrative reimbursements of expenses to General Reserve increased 44% to $5.618 million compared to the prior year, primarily as a result of additional administrative expense reimbursements allowed from pooling investment income from state appropriated programs. The current year increase is non-recurring as it results from a legislative change, effective in the fiscal year ended June 30, 2002, that allows the reimbursement of administrative expenses incurred in prior years that previously could not be recovered. The Agency also received approval from the federal government for federal indirect cost recoveries.

Combined appropriations disbursed increased 5% to $150.751 million compared to prior year, reflecting additional efforts to support housing policy objectives.

Increased expenditures of State Appropriated Funds for below market and zero-percent interest rate loans resulted in greater reductions in carrying value of certain loans. Reductions of carrying value increased 83% to $28.438 million compared to prior year, as a result of making more 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 remained relatively unchanged at $1.377 million at June 30, 2002.

Combined revenues over expenses of the Appropriated Funds declined 104% to $(1.469) million compared to prior year, reflecting disbursements of appropriations that were carried over from the prior year. 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, 2002 long-term debt totaling $1,621 million and short-term debt totaling $315 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, 2002, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements to that date. Bond resolutions also generally require funding of debt service reserve and insurance reserve accounts. At June 30, 2002, 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 further 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 prepayments received more than ten years after the date of issuance of the bonds. 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 debt and State statute limits MHFA's outstanding debt to $2.4 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 preserving the maximum amount of bonding authority.

During the year, MHFA completed the issuance/remarketing of 14 series of bonds aggregating to $515 million. This is compared to the combined issuance and remarketing of 16 series totaling $356 million the previous year. In recent years, MHFA has aggressively retired high interest rate debt. 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 $546 million in principal payments were made during the year. Of this amount, $262 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 Minnesota Legislature has recently enacted laws to address a projected shortfall in the budget of the State of Minnesota for the current biennium. The enacted legislation places certain limitations on State agencies' (including MHFA) ability to enter into contracts for services and also imposes a moratorium on future employee hires through June 30, 2003. MHFA received relief from many of these limitations, and through June 30, 2002 there has been no material adverse financial impact as a result of the enacted legislation. Unfavorable changes in state and federal legislation, statutes, administration, funding objectives, housing policy, and fiscal policy represent an ever-present 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, 2002 (with comparative totals for June 30, 2001)

		2002 Agency-wide Total	2001 Agency-wide Total
Assets	Cash and cash equivalents	$ 765,873	$ 855,285
	Investment securities	413,052	298,203
	Loans receivable, net	1,681,340	1,714,341
	Interest receivable on loans	9,352	8,630
	Interest receivable on investments	9,495	8,824
	Mortgage insurance claims receivable	497	1,051
	Real estate owned	497	942
	Capital assets, net	1,172	1,083
	Other assets	1,995	3,964
	Total assets	$2,883,273	$2,892,323
Liabilities	Bonds payable, net	$1,936,188	$1,965,662
	Interest payable	48,347	54,280
	Deferred revenue	—	212
	Accounts payable and other liabilities	14,104	7,592
	Interfund payable (receivable)	—	—
	Funds held for others	94,979	103,140
	Total liabilities	2,093,618	2,130,886
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	352,166	358,194
	Restricted by covenant	259,023	223,397
	Restricted by law	177,294	178,763
	Invested in capital assets	1,172	1,083
	Total net assets	789,655	761,437
	Total liabilities and net assets	$2,883,273	$2,892,323

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

		2002 Agency-wide Total	2001 Agency-wide Total
Revenues	Interest earned on loans	$117,547	$121,979
	Interest earned on investments	47,790	61,062
	Appropriations received	177,499	184,201
	Administrative reimbursement	684	—
	Fees earned	8,209	7,086
	Unrealized gains on securities, net	569	12,301
	Total revenues	352,298	386,629
Expenses	Interest	114,338	120,032
	Loan administration and trustee fees	7,118	6,663
	Salaries and benefits	11,985	10,910
	Other general operating	7,353	6,814
	Appropriations disbursed	150,751	143,901
	Reduction in carrying value of certain low interest rate deferred loans	32,853	16,432
	Provision for loan losses	(318)	1,255
	Total expenses	324,080	306,007
	Revenues over expenses	28,218	80,622
Other changes	Non-operating transfer of assets between funds	—	—
	Change in net assets	28,218	80,622
Net Assets	Total net assets, beginning of year	761,437	680,815
	Total net assets, end of year	$789,655	$761,437

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
June 30, 2002 (with comparative totals for June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 27,091	$ 795	$ 38,699	$357,407	$ 335,626
	Investment securities	104,270	8,230	36,710	105,121	17,701
	Loans receivable, net	—	26,444	242,457	316,203	1,068,956
	Interest receivable on loans	—	191	1,733	1,784	5,644
	Interest receivable on investments	1,327	52	1,446	2,354	1,367
	Mortgage insurance claims receivable	—	—	—	100	397
	Real estate owned	—	—	—	38	459
	Capital assets, net	1,172	—	—	—	—
	Other assets	941	—	10	392	5
	Total assets	$134,801	$35,712	$321,055	$783,399	$1,430,155
Liabilities	Bonds payable, net	$ —	$32,131	$235,608	$374,447	$1,294,002
	Interest payable	—	933	5,752	4,915	36,747
	Deferred revenue	—	—	—	—	—
	Accounts payable and other liabilities	2,752	2	194	948	9,465
	Interfund payable (receivable)	1,220	—	21,105	(24,956)	3,218
	Funds held for others	94,273	—	—	5	—
	Total liabilities	98,245	33,066	262,659	355,359	1,343,432
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	2,646	58,396	204,401	86,723
	Restricted by covenant	35,384	—	—	223,639	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	1,172	—	—	—	—
	Total net assets	36,556	2,646	58,396	428,040	86,723
	Total liabilities and net assets	$134,801	$35,712	$321,055	$783,399	$1,430,155

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 4,457	$ 1,798	$ 765,873	$ 855,285
132,104	8,916	413,052	298,203
27,280	—	1,681,340	1,714,341
—	—	9,352	8,630
2,801	148	9,495	8,824
—	—	497	1,051
—	—	497	942
—	—	1,172	1,083
2	645	1,995	3,964
$166,644	$11,507	$2,883,273	$2,892,323
$ —	$ —	$1,936,188	$1,965,662
—	—	48,347	54,280
—	—	—	212
—	743	14,104	7,592
(1,043)	456	—	—
—	701	94,979	103,140
(1,043)	1,900	2,093,618	2,130,886
—	—	352,166	358,194
—	—	259,023	223,397
167,687	9,607	177,294	178,763
—	—	1,172	1,083
167,687	9,607	789,655	761,437
$166,644	$11,507	$2,883,273	$2,892,323

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 3,536	$18,704	$ 18,573	$76,685
	Interest earned on investments	1,398	700	3,318	12,582	21,691
	Appropriations received	—	—	—	—	—
	Administrative reimbursement	20,488	—	—	—	—
	Fees earned	6,881	84	1,084	160	—
	Unrealized gains (losses) on securities, net	(173)	(38)	284	984	401
	Total revenues	28,594	4,282	23,390	32,299	98,777
Expenses	Interest	—	4,046	16,771	6,878	86,643
	Loan administration and trustee fees	—	28	301	2,698	4,046
	Administrative reimbursement	—	384	2,031	2,832	8,939
	Salaries and benefits	11,985	—	—	—	—
	Other general operating	5,976	—	—	—	—
	Appropriations disbursed	—	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	4,415	—
	Provision for loan losses	—	(1,051)	(730)	1,313	150
	Total expenses	17,961	3,407	18,373	18,136	99,778
	Revenues over (under) expenses	10,633	875	5,017	14,163	(1,001)
Other changes	Non-operating transfer of assets between funds	(10,366)	(13,482)	240	28,015	(4,407)
	Change in net assets	267	(12,607)	5,257	42,178	(5,408)
Net Assets	Total net assets, beginning of year	36,289	15,253	53,139	385,862	92,131
	Total net assets, end of year	$ 36,556	$ 2,646	$58,396	$428,040	$86,723

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 49	$ —	$117,547	$121,979
8,242	(141)	47,790	61,062
52,932	124,567	177,499	184,201
—	—	20,488	17,614
—	—	8,209	7,086
(950)	61	569	12,301
60,273	124,487	372,102	404,243
—	—	114,338	120,032
45	—	7,118	6,663
5,618	—	19,804	17,614
—	—	11,985	10,910
1,377	—	7,353	6,814
26,997	123,754	150,751	143,901
28,438	—	32,853	16,432
—	—	(318)	1,255
62,475	123,754	343,884	323,621
(2,202)	733	28,218	80,622
—	—	—	—
(2,202)	733	28,218	80,622
169,889	8,874	761,437	680,815
$167,687	$ 9,607	$789,655	$761,437

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 3,495	$ 24,357	$ 80,886	$ 207,704
	Investment in loans	—	—	(3,830)	(68,410)	(212,985)
	Interest received on loans	—	3,600	17,879	18,995	75,767
	Other operating	—	—	—	—	—
	Fees received	6,599	74	1,019	160	—
	Salaries, benefits and vendor payments	(17,362)	(93)	(295)	(1,865)	(4,037)
	Appropriations received	—	—	—	—	—
	Appropriations disbursed	—	—	—	—	—
	Administrative reimbursement from funds	20,284	(384)	(1,983)	(2,901)	(8,930)
	Interest transferred to funds held for others	(4,166)	—	—	—	—
	Deposits into funds held for others	25,752	—	—	100	—
	Disbursements made from funds held for others	(28,936)	—	—	(95)	—
	Interfund transfers and other assets	(360)	—	95	(2,044)	2,045
	Net cash provided (used) by operating activities	1,811	6,692	37,242	24,826	59,564
Cash flows from noncapital financing activities	Proceeds from sale of bonds		—	4,800	329,555	181,130
	Principal repayment on bonds	—	(34,065)	(29,320)	(11,035)	(471,545)
	Interest paid on bonds and notes	—	(4,415)	(14,919)	(2,852)	(92,154)
	Financing costs paid related to bonds issued	—	—	(48)	(1,281)	(1,483)
	Interest paid/received between funds	—	—	(1,563)	1,563	—
	Principal paid/received between funds	—	—	(95)	95	—
	Premium paid on redemption of bonds	—	(230)	—	—	—
	Agency contribution to program funds	—	—	240	4,167	(4,407)
	Transfer of cash between funds	(12,669)	(13,482)	—	26,151	—
	Net cash provided (used) by noncapital financing activities	(12,669)	(52,192)	(40,905)	346,363	(388,459)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(33)	(548)
	Interest received on investments	5,584	694	3,185	8,892	26,587
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	341	5,194
	Proceeds from maturity, sale or transfer of investment securities	42,822	3,146	14,435	83,173	2,375
	Purchase of investment securities	(71,987)	(8,200)	(36,841)	(131,856)	(5,938)
	Purchase of loans between funds	—	25,496	—	(64,547)	39,051
	Net cash provided (used) by investing activities	(23,581)	21,136	(19,221)	(104,030)	66,721
	Net increase (decrease) in cash and cash equivalents	(34,439)	(24,364)	(22,884)	267,159	(262,174)
Cash and cash equivalents	Beginning of year	61,530	25,159	61,583	90,248	597,800
	End of year	$ 27,091	$ 795	$ 38,699	$ 357,407	$ 335,626

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ 8,096	$ —	$ 324,538	$ 241,567
(39,740)	—	(324,965)	(242,792)
49	—	116,290	122,217
(1,377)	—	(1,377)	(1,379)
—	—	7,852	6,631
(45)	—	(23,697)	(22,042)
52,932	124,432	177,364	178,221
(26,487)	(124,141)	(150,628)	(143,177)
(5,402)	—	684	—
—	(77)	(4,243)	(6,316)
—	751	26,603	35,526
—	(6,305)	(35,336)	(45,226)
185	—	(79)	(359)
(11,789)	(5,340)	113,006	122,871
—	—	515,485	356,495
—	—	(545,965)	(367,670)
—	—	(114,340)	(112,596)
—	—	(2,812)	(1,906)
—	—	—	—
—	—	—	—
—	—	(230)	—
—	—	—	—
—	—	—	—
—	—	(147,862)	(125,677)
—	—	(581)	(566)
8,656	443	54,041	61,038
—	—	5,535	5,237
34,110	2,378	182,439	215,959
(35,421)	(5,747)	(295,990)	(137,608)
—	—	—	—
7,345	(2,926)	(54,556)	144,060
(4,444)	(8,266)	(89,412)	141,254
8,901	10,064	855,285	714,031
$ 4,457	$ 1,798	$ 765,873	$ 855,285

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

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

		Bond Funds			
	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$10,633	$ 875	$ 5,017	$ 14,163	$ (1,001)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(87)	720	(1,214)
Depreciation	562	—	—	—	—
Realized losses (gains) on sale of securities, net	—	(65)	38	(157)	(3)
Unrealized losses (gains) on securities, net	173	38	(284)	(984)	(401)
Provision for loan losses	—	(1,051)	(730)	1,313	150
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	4,415	—
Capitalized interest on loans and real estate owned	—	—	(63)	(15)	(263)
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	3,495	20,527	12,476	(5,281)
Decrease (increase) in interest receivable on loans	—	(96)	(807)	(283)	464
Interest earned on investments	(1,398)	(593)	(3,467)	(12,422)	(26,765)
Arbitrage rebate liability	—	(42)	111	(3)	5,172
Decrease in deferred revenue	(137)	(10)	(65)	—	—
Interest transferred to funds held for others	(4,166)	—	—	—	—
Interest expense on bonds and notes	—	4,046	16,771	6,878	86,643
Increase (decrease) in accounts payable	493	(65)	5	833	9
Increase (decrease) in interfund payable, affecting operating activities only	(660)	160	276	(2,343)	2,054
Increase (decrease) in funds held for others	(3,184)	—	—	5	—
Other	(505)	—	—	230	—
Total adjustments	(8,822)	5,817	32,225	10,663	60,565
Net cash provided (used) by operating activities	$ 1,811	$ 6,692	$37,242	$ 24,826	$ 59,564

See accompanying notes to financial statements.

Appropriated Funds			
State Appropriated	Federal Appropriated	2002 Total	2001 Total
$ (2,202)	$ 733	$ 28,218	$ 80,622
—	—	(581)	112
—	—	562	738
—	—	(187)	(427)
950	(61)	(569)	(12,301)
—	—	(318)	1,255
28,438	—	32,853	16,432
—	—	(341)	(394)
(31,644)	—	(427)	(1,225)
—	—	(722)	648
(8,242)	141	(52,746)	(63,660)
—	—	5,238	3,184
—	—	(212)	(5,454)
—	(77)	(4,243)	(6,316)
—	—	114,338	120,032
—	157	1,432	(14)
866	(544)	(191)	611
—	(5,554)	(8,733)	(9,700)
45	(135)	(365)	(1,272)
(9,587)	(6,073)	84,788	42,249
$(11,789)	$(5,340)	$113,006	$122,871

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 $2.4 billion. Amounts so issued shall not be deemed to constitute a debt of the state of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, 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: Housing Development; Rental Housing; Residential Housing Finance; and Single Family.

Housing Development and Rental Housing

Bond proceeds for the multifamily housing programs are currently maintained under two separate bond resolutions: Housing Development and Rental Housing. 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. The Agency anticipates that future series will finance other types of program obligations, such as home improvement loans, in addition to single family mortgage 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 $5,000 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 and below-market interim financing during construction and/or rehabilitation of single family housing.

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 children.

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 interest rate debt and to warehouse loans.

The Alternative Loan Fund, Housing Affordability Fund, includes a reserve consisting of cash and investment grade 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, zero-percent deferred multifamily loans, low-and moderate-income rental first and subordinated mortgage 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 prior to November 2001 for the bond-financed homeownership programs are maintained primarily under Single Family. These loans are secured by first mortgages on real property. Since November 2001, bonds issued for homeownership programs have been issued under Residential Housing Finance and the Agency generally expects this practice to continue. Agency contributions to bonds issued under Residential Housing Finance may be made from Single Family.

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 Pronouncement

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* as amended by GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,* and by GASB Statement No. 38, *Certain Financial Statement Disclosures.* GASB Statement No. 34, as amended and commonly referred to as the new reporting model, retained much of the old reporting and disclosure requirements under the prior reporting model, with certain modifications and newly added information. Applicable portions of this statement were implemented by the Agency for the year ended June 30, 2002 and the most significant effects on the Agency's annual financial statements were the addition of Management's Discussion and Analysis as required supplementary information, and the elimination of interfund administrative fees for purposes of financial reporting in the Agency-wide statement of activities. The elimination of interfund activity had no affect on the amounts of Agency-wide net assets.

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.

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.

Summary of Significant Accounting Policies (continued)

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

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2002.

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

During the fiscal year, flooding impacted several regions in the state of Minnesota. The Agency undertook various survey methods to determine the extent of the impact to its loan portfolio. As a result of its findings, the Agency believes its allowances for loan loss are adequate at this time. However, the ultimate impact of the flooding may not be known for some time.

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' 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 deferred financing costs. Deferred financing costs are amortized using the effective interest method in the Single Family and Residential Housing Finance funds. In the Housing Development and Rental Housing funds, deferred financing costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received and pending transfer 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 plus monitoring fees collected and pending disbursement in connection with the Class 4(d) Real Estate

Summary of Significant Accounting Policies (continued)

Tax Assessment Legislation. 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 funds 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 funds in General Reserve and those funds that were otherwise available to be transferred to General Reserve. Under the Agency's bond resolutions, these are pledged as security for the Agency's general obligation pledge. 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 2001 are for comparative purposes only.

Administrative Reimbursement

The Agency's administrative operations are funded primarily by a monthly transfer from each of the bond funds to General Reserve in the amount of 60 basis points annually based on adjusted assets. Adjusted assets are defined as total assets plus the reserve for loan loss plus unearned discounts on loans minus the proceeds of short-term debt minus premiums on loans.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate applied to direct salary disbursements. Certain other direct costs are also recovered. Indirect costs from the federal government in the amount of $684,000 are reflected as administrative reimbursement revenues in the Agency-wide statement of activities.

Administrative reimbursements in the amount of $19,804,000 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

Fees earned 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 and application fees for administering the Class 4(d) Real Estate Tax Assessment Legislation. Fee income is recorded as it is earned.

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund loans, Endowment Fund loans and State Appropriated loans which are originated at interest rates ranging from 0%-5%, and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risk associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

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

Non-operating transfer of assets between funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the annual transfer of assets to maintain the Housing Endowment Fund requirement, 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 2002 were $.22 million and $3.54 million, for Residential Housing Finance and Single Family, respectively.

Use of Estimates

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

Related Party Transactions

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

Income Taxes

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

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent valuation specialist on an ongoing basis. This liability does not reflect any unrealized appreciation or depreciation as a result of recording investment securities at fair market value.

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, 2002 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Repurchase Agreements	Investment Agreements	Combined Totals
General Reserve	$ 90	$27,001	$ —	$ 27,091
Housing Development	39	756	—	795
Rental Housing	175	6,323	32,201	38,699
Residential Housing Finance	3,869	10,009	343,529	357,407
Single Family	10,552	13,781	311,293	335,626
State Appropriated	7	4,450	—	4,457
Federal Appropriated	732	1,066	—	1,798
Agency-wide Totals	$15,464	$63,386	$687,023	$765,873

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.

Repurchase agreements are collateralized at 102% of loan value with US treasury and agency securities, municipal securities, bank certificates of deposit or similar collateral. Generally, repurchase agreements mature in one week or less. At June 30, 2002, the collateral for the repurchase agreements in General Reserve, State Appropriated and Federal Appropriated is held by a third-party agent. The collateral for the repurchase agreements in the remainder of the funds is held by the trustee as trustee for the Agency.

Generally, investment agreements are uncollateralized, interest-bearing time deposits with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2002, 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 "Aa1" 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.

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, 2002 (in thousands):

Investment Securities

	Fair Market Value		
Funds	US Treasuries and Agencies	Unrealized Appreciation in Fair Market Value	Estimated Market Value
General Reserve	$102,556	$1,714	$104,270
Housing Development	8,198	32	8,230
Rental Housing	36,149	561	36,710
Residential Housing Finance	103,287	1,834	105,121
Single Family	16,216	1,485	17,701
State Appropriated	129,898	2,206	132,104
Federal Appropriated	8,731	185	8,916
Agency-wide Totals	$405,035	$8,017	$413,052

Cash, Cash Equivalents and Investment Securities (continued)

US treasury and agency 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 and agency securities in the remainder of the funds are held by the Agency's trustee in the Agency's name.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2002 are as follows (in thousands):

Funds	Amount
Housing Development	$ 4,122
Rental Housing	23,124
Residential Housing Finance	3,918
Single Family	47,875
Totals	$79,039

Loans Receivable, Net

Loans receivable, net at June 30, 2002 consist of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Discounts and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Housing Development	26,984	(540)	—	26,444
Rental Housing	251,940	(8,669)	(814)	242,457
Residential Housing Finance	323,091	(4,655)	(2,233)	316,203
Single Family	1,081,523	(237)	(12,330)	1,068,956
State Appropriated	28,264	(984)	—	27,280
Federal Appropriated	—	—	—	—
Agency-wide Totals	$1,711,802	($15,085)	($ 15,377)	$1,681,340

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 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.

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, 2002, the amount of these loans originated was $.684 million in the Housing Affordability Fund, $4.945 million in the Homeownership Endowment Fund, $2.569 million in the Multifamily Endowment Fund and $31.618 million in State Appropriated. These loans are excluded from the tables above and below as they are fully reserved.

Loans Receivable, Net (continued)

Loans receivable, net in Residential Housing Finance at June 30, 2002 consist of a variety of loans as follows (in thousands):

Description	Outstanding Amount
Home Improvement Endowment Fund:	
Home Improvement loans, generally secured by a second mortgage	$104,538
Homeownership Endowment Fund:	
Homeownership, first mortgage loans	31,382
Other homeownership loans	1,633
Multifamily Endowment Fund:	
Multifamily, generally second mortgage loans	—
Residential Housing Finance Bonds:	
Homeownership, first mortgage loans	50,917
Alternative Loan Fund, Housing Investment Fund:	
Homeownership, first mortgage loans	26,600
Multifamily, first mortgage loans	11,871
Alternative Loan Fund, Housing Affordability Fund:	
Multifamily, first mortgage loans	56,314
Multifamily, second mortgage loans	—
Homeownership, first mortgage loans	32,948
Residential Housing Finance Totals	$316,203

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

Bonds Payable, Net

Bonds payable, net at June 30, 2002 are as follows (in thousands):

Funds	Outstanding Principal	Unamortized Deferred Finance Costs	Bonds Payable, Net
Housing Development	$ 32,410	$ (279)	$ 32,131
Rental Housing	241,265	(5,657)	235,608
Residential Housing Finance	375,455	(1,008)	374,447
Single Family	1,304,390	(10,388)	1,294,002
Totals	$1,953,520	($ 17,332)	$1,936,188

Bonds Payable, Net (continued)

Outstanding principal of bonds payable at June 30, 2002 are as follows (in thousands):

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Housing Development Bonds				
1991 Series A	6.40% to 6.95%	2002-2014	$ 44,240	$ 32,410
			44,240	32,410
Rental Housing Bonds				
1993 Series B	5.40% to 6.25%	2002-2022	17,380	6,965
1993 Series C	5.50% to 6.15%	2003-2014	1,310	1,010
1993 Series D	5.20% to 6.00%	2002-2022	4,830	4,085
1993 Series E	5.25% to 6.10%	2002-2022	25,960	17,100
1995 Series A	5.20% to 6.00%	2003-2019	1,840	1,530
1995 Series B	6.80% to 8.00%	2003-2018	3,565	75
1995 Series C-2	4.75% to 5.95%	2002-2015	38,210	23,645
1995 Series D	4.95% to 6.00%	2002-2022	234,590	141,775
1996 Series A	4.90% to 6.10%	2002-2027	2,820	2,665
1997 Series A	4.65% to 5.875%	2002-2028	4,750	4,530
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,840
1998 Series C	4.10% to 5.20%	2002-2029	2,865	2,770
1999 Series A	3.85% to 5.10%	2002-2024	4,275	4,080
1999 Series B	4.65% to 6.15%	2002-2025	3,160	2,990
2000 Series A	5.35% to 6.15%	2008-2030	9,290	8,750
2000 Series B	5.90%	2031	5,150	5,150
2001 Series A	4.50% to 5.35%	2012-2033	4,800	4,800
			374,480	241,265
Residential Housing Finance Bonds				
1995 Series A	4.85% to 5.85%	2002-2017	53,645	45,900
2001 Series A	1.87%	2002	38,065	38,065
2001 Series B	1.90%	2002	84,785	84,785
2001 Series C	1.90%	2002	40,230	40,230
2001 Series D	1.90%	2002	50,805	50,805
2002 Series A	4.75% to 5.30%	2012-2019	14,035	14,035
2002 Series B	3.35% to 5.65%	2004-2033	59,650	59,650
2002 Series C	3.00%	2004	24,285	24,285
2002 Series D	3.20%	2004	17,700	17,700
			383,200	375,455
Single Family Mortgage Bonds				
1992 Series A	6.35%	2002	15,405	125
1992 Series B-1	6.75%	2026	11,250	1,140
1992 Series C-1	6.75%	2023	9,630	4,605
1992 Series D-1	5.75% to 6.50%	2002-2017	21,120	7,805
1992 Series B-2	6.15%	2026	14,250	8,670
1992 Series C-2	6.15%	2023	12,185	7,505
1992 Series D-2	5.15% to 5.95%	2002-2017	26,740	12,940
1992 Series E	6.85%	2024	46,485	37,415
1992 Series F	6.75%	2012	3,895	3,135
1992 Series H	6.50%	2026	23,410	19,220
1992 Series I	5.65% to 6.25%	2002-2015	16,365	10,485

Bonds Payable, Net (continued)

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1993 Series B	5.80%	2025	$23,590	$23,590
1993 Series C	5.60%	2017	27,860	630
1993 Series D	6.40%	2027	17,685	10,545
1993 Series F	6.25%	2020	9,500	4,895
1994 Series A	4.55% to 5.00%	2002-2007	15,105	4,710
1994 Series B	5.65%	2022	16,990	6,770
1994 Series C	5.65%	2025	9,000	8,995
1994 Series D	4.70% to 5.00%	2002-2005	91,660	20,450
1994 Series E	4.50% to 5.90%	2002-2025	31,820	14,825
1994 Series F	5.25% to 6.30%	2002-2025	42,645	19,380
1994 Series G	6.45%	2020	19,655	10,700
1994 Series H	5.85% to 6.70%	2004-2018	18,465	8,540
1994 Series I	5.70% to 6.90%	2002-2022	14,635	4,705
1994 Series J	6.95%	2026	13,900	6,350
1994 Series K	5.40% to 6.40%	2002-2015	23,970	8,860
1994 Series L	6.70%	2020	15,680	7,630
1994 Series M	6.70%	2026	22,660	10,900
1994 Series N	6.45%	2025	18,770	7,030
1994 Series O	6.45%	2012	11,580	5,900
1994 Series P	6.45%	2021	21,150	10,790
1994 Series Q	6.70%	2017	12,600	1,775
1994 Series R	6.00% to 6.50%	2002-2007	8,120	2,365
1994 Series S	6.92%	2026	23,610	13,705
1994 Series T	5.10% to 6.125%	2002-2017	16,420	8,380
1995 Series B	6.40% to 6.55%	2017-2027	35,815	24,680
1995 Series D	6.40% to 6.45%	2015-2025	40,160	27,540
1995 Series G	7.05% to 8.05%	2002-2012	8,310	3,785
1995 Series H	6.40%	2027	19,240	11,545
1995 Series I	6.35%	2017-2018	7,450	4,470
1995 Series J	4.80% to 6.10%	2002-2019	16,065	8,825
1995 Series K	6.20%	2020	1,495	950
1995 Series L	6.25%	2027	12,950	8,275
1995 Series M	4.65% to 5.875%	2002-2017	32,025	20,615
1996 Series A	5.70% to 6.375%	2022-2028	34,480	15,010
1996 Series B	6.35%	2018-2019	7,990	7,680
1996 Series C	5.10% to 6.10%	2002-2015	12,345	9,440
1996 Series D	5.00% to 6.00%	2002-2017	23,580	11,595
1996 Series E	6.25%	2022-2023	14,495	8,510
1996 Series F	6.30%	2026-2028	18,275	10,765
1996 Series G	6.25%	2026-2028	41,810	24,100
1996 Series H	6.00%	2021	13,865	7,985
1996 Series I	6.80% to 8.00%	2002-2017	14,325	7,365
1996 Series J	5.60%	2021	915	470
1996 Series K	4.20% to 5.40%	2002-2017	9,280	6,880
1997 Series A	4.85% to 5.95%	2002-2017	22,630	18,475
1997 Series B	6.20%	2021	9,180	8,445
1997 Series C	5.30% to 6.25%	2025-2029	27,740	9,740
1997 Series D	5.80% to 5.85%	2019-2021	15,885	13,010

Bonds Payable, Net (continued)

Series	Interest Rates	Maturity Due	Original Amount	Outstanding Amount
Single Family Mortgage Bonds (continued)				
1997 Series E	5.05% to 5.90%	2024-2029	$ 23,495	$ 11,190
1997 Series F	6.83% to 7.43%	2002-2012	11,620	5,250
1997 Series G	5.10% to 6.00%	2003-2018	40,260	38,080
1997 Series H	5.10% to 6.15%	2002-2019	11,455	8,115
1997 Series I	5.50%	2017	9,730	9,535
1997 Series J	4.85%	2021	9,020	725
1997 Series K	5.75%	2026-2029	22,700	22,240
1997 Series L	6.38% to 6.95%	2002-2010	9,550	6,035
1998 Series A	4.65% to 5.20%	2008-2017	5,710	5,035
1998 Series B	4.30% to 5.50%	2002-2029	17,030	12,640
1998 Series C	4.20% to 5.25%	2002-2017	21,775	18,815
1998 Series D	4.70%	2020	7,965	3,695
1998 Series E	5.40%	2025-2030	30,500	28,330
1998 Series F-1	4.20% to 5.45%	2002-2017	10,650	9,270
1998 Series G-1	5.60%	2022	6,150	5,625
1998 Series H-1	5.65%	2031	14,885	13,615
1998 Series F-2	4.45% to 5.70%	2002-2017	11,385	10,740
1998 Series G-2	6.00%	2022	6,605	6,525
1998 Series H-2	6.05%	2031	15,965	15,765
1999 Series B	5.00% to 5.25%	2013-2020	18,865	18,040
1999 Series C	4.00% to 4.85%	2002-2024	21,960	18,595
1999 Series D	5.45%	2026-2031	23,975	22,970
1999 Series H	5.30% to 5.80%	2011-2021	16,350	15,890
1999 Series I	4.40% to 6.05%	2002-2031	34,700	31,580
1999 Series J	5.00%	2017	4,745	4,745
1999 Series K	2.85% to 5.35%	2003-2033	44,515	44,515
2000 Series A	5.25% to 5.85%	2009-2020	18,650	17,435
2000 Series B	4.90% to 5.55%	2002-2024	16,580	14,640
2000 Series C	6.10%	2030-2032	30,320	28,355
2000 Series F	Variable	2031	20,000	19,740
2000 Series G	4.25% to 5.40%	2008-2025	39,990	39,990
2000 Series H	3.60% to 5.50%	2003-2023	32,475	32,475
2000 Series I	4.60% to 5.80%	2002-2019	20,185	20,160
2000 Series J	5.40% to 5.90%	2023-2030	29,720	29,585
2001 Series A	5.35% to 5.45%	2017-2022	14,570	14,570
2001 Series B	3.90% to 5.675%	2003-2030	34,855	34,855
2001 Series E	3.50%	2003	59,405	59,405
			1,936,420	1,304,390
Totals			$2,738,340	$1,953,520

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, 2002, excluding bonds called for early redemption prior to June 30, 2002, as listed below, are as follows (in thousands):

	Housing Development		Rental Housing	
Fiscal Year	Principal	Interest	Principal	Interest
2003	$ 1,615	$ 2,214	$ 8,855	$ 13,695
2004	$ 1,720	$ 2,104	$ 9,360	$ 13,242
2005	$ 1,845	$ 1,984	$ 9,815	$ 12,755
2006	$ 1,975	$ 1,855	$ 10,315	$ 12,235
2007	$ 2,115	$ 1,717	$ 10,900	$ 11,675
2008-2012	$ 13,090	$ 6,123	$ 65,355	$ 48,235
2013-2017	$ 10,050	$ 1,061	$ 62,320	$ 29,019
2018-2022	—	—	$ 47,175	$ 11,421
2023-2027	—	—	$ 10,675	$ 3,403
2028-2032	—	—	$ 6,190	$ 778
2033-2037	—	—	$ 305	$ 16

	Residential Housing Finance		Single Family	
Fiscal Year	Principal	Interest	Principal	Interest
2003	$226,835	$10,258	$ 63,800	$ 72,096
2004	$ 33,110	$ 7,521	$ 86,225	$ 68,592
2005	$ 3,305	$ 6,144	$ 28,205	$ 66,065
2006	$ 3,460	$ 5,991	$ 29,675	$ 64,610
2007	$ 3,635	$ 5,825	$ 25,100	$ 63,185
2008-2012	$ 22,150	$26,080	$139,200	$294,984
2013-2017	$ 28,740	$19,277	$205,865	$247,285
2018-2022	$ 14,410	$13,187	$259,055	$178,055
2023-2027	$ 17,045	$ 8,919	$302,850	$ 94,380
2028-2032	$ 17,330	$ 4,174	$157,180	$ 21,161
2033-2037	$ 5,435	$ 310	$ 7,235	$ 341

	Totals	
Fiscal Year	Principal	Interest
2003	$301,105	$ 98,263
2004	$130,415	$ 91,459
2005	$ 43,170	$ 86,948
2006	$ 45,425	$ 84,691
2007	$ 41,750	$ 82,402
2008-2012	$239,795	$375,422
2013-2017	$306,975	$296,642
2018-2022	$320,640	$202,663
2023-2027	$330,570	$106,702
2028-2032	$180,700	$ 26,113
2033-2037	$ 12,975	$ 667

The principal due for convertible option bonds (COBs) is reflected in subsequent fiscal year columns of this table based on the mandatory tender dates of those bonds. In previous fiscal years, the principal due for COBs was reflected in the debt service requirement table based upon the anticipated long-term remarketing of those bonds. This change in 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.

Bonds Payable, Net (continued)

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The Agency believes that as of June 30, 2002, the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions. 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.

On July 12, 2001 the Board of the Agency approved a series resolution authorizing the issuance of $59,405,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Single Family Bonds, 2001 Series E were delivered July 25, 2001.

On July 12, 2001 the Board of the Agency approved series resolutions authorizing the remarketing of $72,465,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Bonds, 2000 Series G and H were delivered August 16, 2001.

On September 13, 2001 the Board of the Agency approved series resolutions authorizing the remarketing of $49,260,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Single Family Bonds, 1999 Series J and K were delivered October 11, 2001.

On September 13, 2001 the Board of the Agency approved series resolutions authorizing the issuance of $4,800,000 of bonds for the purpose of providing funds for the Agency's multifamily housing lending program. The Rental Housing Bonds, 2001 Series A were delivered November 29, 2001.

On November 15, 2001 the Board of the Agency approved series resolutions authorizing the issuance of $213,885,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Residential Housing Finance Bonds, 2001 Series A, B, C and D were delivered November 27, 2001.

On April 4, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $73,685,000 of bonds for the purpose of providing funds for certain of the Agency's homeownership programs. A portion of the refunding bonding authority used for these bonds was made available as the result of optionally redeeming certain bonds issued in 1992 that were approaching their ten-year rule date. The Residential Housing Finance Bonds, 2002 Series A and B were delivered April 30, 2002.

On April 25, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $41,985,000 of bonds for the purpose of preserving bonding authority for future use in the Agency's homeownership lending programs. The Residential Housing Finance Bonds, 2002 Series C and D were delivered April 30, 2002.

As of or after June 30, 2002, the Agency called for early redemption of certain bonds that are described under Subsequent Events.

Net Assets

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 Minnesota Housing Finance Agency Act, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds

Net Assets (continued)

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 the balances to be maintained according to the guidelines. Amounts in this table do not include unrealized appreciation or depreciation resulting from valuing investment securities at fair market value.

Net Assets — Restricted By Covenant	Amount at June 30, 2002 (in thousands)
Housing Endowment Fund	
An amount equal to 2% of gross loans outstanding (excludes loans reserved 100%) will be invested in short term, investment grade paper at market interest rates	$ 33,670
Housing Investment Fund	
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund will be invested in intermediate to long term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market.	64,006
Housing Affordability Fund	
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	160,753
Agency-wide Total	$258,429

The Housing Endowment Fund is maintained in the Restricted By Covenant Net Assets of General Reserve. The Housing Investment Fund and the Housing Affordability Fund 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 $10.929 million at June 30, 2002.

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 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.

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

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Excess Funded Actuarial Accrued Liability (EFAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	EFAAL as a % of Covered Payroll
07/01/01	$7,366,673	$6,573,193	$793,340	112.07%	$1,834,042	43.26%
07/01/00	$6,744,165	$6,105,703	$638,462	110.46%	$1,733,054	36.84%
07/01/99	$5,968,692	$5,464,207	$504,485	109.23%	$1,649,469	30.58%

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
2001	7.12%	$1,834,042	$74,364	$56,220	$73,362	130.49%
2000	6.12%	$1,733,054	$70,378	$35,685	$69,322	194.26%
1999	6.48%	$1,649,469	$66,823	$40,063	$65,979	164.69%

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

The information presented is as of July 1, 2001, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the June 30, 2001, 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, 2002, 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	$ —
Housing Development	—
Rental Housing	1,011
Residential Housing Finance	116,883
Single Family	18,980
State Appropriated	123,943
Federal Appropriated	21,360
Agency-wide Totals	$282,177

The Agency has lease commitments for office facilities and parking on a long-term basis. Lease expense for the fiscal year ended June 30, 2002 was $.961 million. Commitments for future minimum lease payments are (in thousands):

	Year:						
	2003	2004	2005	2006	2007	2008-2009	Total
Amount:	$996	$1,028	$1,025	$1,054	$1,080	$2,153	$7,336

The Agency has the option to terminate the lease for office facilities effective May 31, 2004.

The Agency has in place a $15 million line of credit with Wells Fargo Bank Minnesota, N.A. that expires on December 31, 2002 and may be renewed for an additional one-year period through December 31, 2003. The line of credit contains covenants that govern the Agency and requires the Agency to maintain certain asset levels and meet certain reporting requirements. At June 30, 2002 there were no outstanding advances.

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

Subsequent Events

On June 20, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $65,000,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2002 Series E and Series F were delivered on July 31, 2002.

On July 25, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $37,470,000 bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance Bonds, 2002 Series G were delivered on July 31, 2002.

On August 14, 2002 the Board of the Agency approved series resolutions authorizing the issuance of $20,000,000 bonds for the purpose of providing funds for the Agency's home improvement programs. The Residential Housing Finance Bonds, 2002 Series H are expected to be delivered on September 10, 2002.

As of June 30, 2002, the Agency called for early redemption of the following bonds:

Program Funds	Retirement Date	Original Par Value
Single Family	July 1, 2002	$40,550,000
Residential Housing Finance	July 29, 2002	$10,965,000
Rental Housing	August 26, 2002	$ 6,030,000
Single Family	August 30, 2002	$41,050,000
Rental Housing	September 16, 2002	$ 635,000

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 1998 – 2002

		1998	1999	2000	2001	2002
Loans Receivable, Net	Multifamily programs	$ 416,797	$ 381,387	$ 392,010	$ 353,893	$ 337,087
	Homeownership programs	1,290,777	1,233,716	1,226,528	1,228,105	1,212,436
	Home improvement programs	92,820	94,420	99,770	108,860	104,537
	Total	$1,800,394	$1,709,523	$1,718,308	$1,690,858	$1,654,060
Bonds Payable, Net	Multifamily programs	$ 405,479	$ 355,330	$ 337,013	$ 325,314	$ 267,739
	Homeownership programs	1,633,361	1,726,375	1,637,944	1,640,348	1,668,449
	Home improvement programs	—	—	—	—	—
	Total	$2,038,840	$2,081,705	$1,974,957	$1,965,662	$1,936,188
Loans purchased or originated in year	Multifamily programs	$ 24,077	$ 17,986	$ 25,419	$ 14,143	$ 18,341
	Homeownership programs	199,162	137,793	165,703	165,633	229,603
	Home improvement programs	27,593	31,808	29,965	40,027	37,281
	Total	$ 250,832	$ 187,587	$ 221,087	$ 219,803	$ 285,225
Net Assets	Total net assets	$ 488,357	$ 513,166	$ 536,748	$ 582,674	$ 612,361
	Percent of total assets	18.1%	18.6%	20.0%	21.5%	22.6%
Revenues over Expenses	Revenues over expenses for the year	$ 25,176	$ 22,286	$ 19,452	$ 42,023	$ 29,687[1]

Notes:

(1) Includes $5,618 of Administrative Reimbursement revenue in 2002 received from State Appropriated fund. This revenue item was included in the table 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, 2002 (with comparative totals for June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 27,091	$ 795	$ 38,699	$357,407	$ 335,626
	Investment securities	104,270	8,230	36,710	105,121	17,701
	Loans receivable, net	—	26,444	242,457	316,203	1,068,956
	Interest receivable on loans	—	191	1,733	1,784	5,644
	Interest receivable on investments	1,327	52	1,446	2,354	1,367
	Mortgage insurance claims receivable	—	—	—	100	397
	Real estate owned	—	—	—	38	459
	Capital assets, net	1,172	—	—	—	—
	Other assets	941	—	10	392	5
	Total assets	$134,801	$35,712	$321,055	$783,399	$1,430,155
Liabilities	Bonds payable, net	$ —	$32,131	$235,608	$374,447	$1,294,002
	Interest payable	—	933	5,752	4,915	36,747
	Deferred revenue	—	—	—	—	—
	Accounts payable and other liabilities	2,752	2	194	948	9,465
	Interfund payable (receivable)	1,220	—	21,105	(24,956)	3,218
	Funds held for others	94,273	—	—	5	—
	Total liabilities	98,245	33,066	262,659	355,359	1,343,432
	Commitments and contingencies					
Net Assets	Restricted by bond resolution	—	2,646	58,396	204,401	86,723
	Restricted by covenant	35,384	—	—	223,639	—
	Restricted by law	—	—	—	—	—
	Invested in capital assets	1,172	—	—	—	—
	Total net assets	36,556	2,646	58,396	428,040	86,723
	Total liabilities and net assets	$134,801	$35,712	$321,055	$783,399	$1,430,155

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$ 759,618	$ 836,320
272,032	161,054
1,654,060	1,690,858
9,352	8,630
6,546	5,446
497	1,051
497	942
1,172	1,083
1,348	2,811
$2,705,122	$2,708,195
$1,936,188	$1,965,662
48,347	54,280
—	212
13,361	7,006
587	904
94,278	97,457
2,092,761	2,125,521
352,166	358,194
259,023	223,397
—	—
1,172	1,083
612,361	582,674
$2,705,122	$2,708,195

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, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues	Interest earned on loans	$ —	$ 3,536	$18,704	$ 18,573	$76,685
	Interest earned on investments	1,398	700	3,318	12,582	21,691
	Administrative reimbursement	20,488	—	—	—	—
	Fees earned	6,881	84	1,084	160	—
	Unrealized gains (losses) on securities, net	(173)	(38)	284	984	401
	Total revenues	28,594	4,282	23,390	32,299	98,777
Expenses	Interest	—	4,046	16,771	6,878	86,643
	Loan administration and trustee fees	—	28	301	2,698	4,046
	Administrative reimbursement	—	384	2,031	2,832	8,939
	Salaries and benefits	11,985	—	—	—	—
	Other general operating	5,976	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	4,415	—
	Provision for loan losses	—	(1,051)	(730)	1,313	150
	Total expenses	17,961	3,407	18,373	18,136	99,778
	Revenues over (under) expenses	10,633	875	5,017	14,163	(1,001)
Other changes	Non-operating transfer of assets between funds	(10,366)	(13,482)	240	28,015	(4,407)
	Change in net assets	267	(12,607)	5,257	42,178	(5,408)
Net Assets	Total net assets, beginning of year	36,289	15,253	53,139	385,862	92,131
	Total net assets, end of year	$ 36,556	$ 2,646	$58,396	$428,040	$86,723

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$117,498	$121,943
39,689	49,992
20,488	17,898
8,209	6,802
1,458	8,194
187,342	204,829
114,338	120,032
7,073	6,634
14,186	13,711
11,985	10,910
5,976	5,435
4,415	926
(318)	1,255
157,655	158,903
29,687	45,926
—	—
29,687	45,926
582,674	536,748
612,361	$582,674

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

			Bond Funds			
		General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Cash flows from operating activities	Principal repayments on loans	$ —	$ 3,495	$ 24,357	$ 80,886	$ 207,704
	Investment in loans	—	—	(3,830)	(68,410)	(212,985)
	Interest received on loans	—	3,600	17,879	18,995	75,767
	Fees received	6,599	74	1,019	160	—
	Salaries, benefits and vendor payments	(17,362)	(93)	(295)	(1,865)	(4,037)
	Administrative reimbursement from (to) funds	20,284	(384)	(1,983)	(2,901)	(8,930)
	Interest transferred to funds held for others	(4,166)	—	—	—	—
	Deposits into funds held for others	25,752	—	—	100	—
	Disbursements made from funds held for others	(28,936)	—	—	(95)	—
	Interfund transfers and other assets	(360)	—	95	(2,044)	2,045
	Net cash provided by operating activities	1,811	6,692	37,242	24,826	59,564
Cash flows from noncapital financing activities	Proceeds from sale of bonds	—	—	4,800	329,555	181,130
	Principal repayment on bonds	—	(34,065)	(29,320)	(11,035)	(471,545)
	Interest paid on bonds and notes	—	(4,415)	(14,919)	(2,852)	(92,154)
	Financing costs paid related to bonds issued	—	—	(48)	(1,281)	(1,483)
	Interest paid/received between funds	—	—	(1,563)	1,563	—
	Principal paid/received between funds	—	—	(95)	95	—
	Premium paid on redemption of bonds	—	(230)	—	—	—
	Agency contribution to program funds	—	—	240	4,167	(4,407)
	Transfer of cash between funds	(12,669)	(13,482)	—	26,151	—
	Net cash provided (used) by noncapital financing activities	(12,669)	(52,192)	(40,905)	346,363	(388,459)
Cash flows from investing activities	Investment in real estate owned	—	—	—	(33)	(548)
	Interest received on investments	5,584	694	3,185	8,892	26,587
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	—	341	5,194
	Proceeds from maturity, sale or transfer of investment securities	42,822	3,146	14,435	83,173	2,375
	Purchase of investment securities	(71,987)	(8,200)	(36,841)	(131,856)	(5,938)
	Purchase of loans between funds	—	25,496	—	(64,547)	39,051
	Net cash provided (used) by investing activities	(23,581)	21,136	(19,221)	(104,030)	66,721
	Net increase (decrease) in cash and cash equivalents	(34,439)	(24,364)	(22,884)	267,159	(262,174)
Cash and cash equivalents	Beginning of year	61,530	25,159	61,583	90,248	597,800
	End of year	$ 27,091	$ 795	$ 38,699	$ 357,407	$ 335,626

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$ 316,442	$ 235,073
(285,225)	(220,167)
116,241	122,181
7,852	6,631
(23,652)	(22,013)
6,086	3,944
(4,166)	(6,316)
25,852	32,230
(29,031)	(41,156)
(264)	(650)
130,135	109,757
515,485	356,495
(545,965)	(367,670)
(114,340)	(112,596)
(2,812)	(1,906)
—	11
—	195
(230)	—
—	—
—	—
(147,862)	(125,471)
(581)	(566)
44,942	51,302
5,535	5,237
145,951	167,311
(254,822)	(74,742)
—	4,111
(58,975)	152,653
(76,702)	136,939
836,320	699,381
$ 759,618	$ 836,320

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2002 (with comparative totals for the year ended June 30, 2001)

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

		Bond Funds			
	General Reserve	Housing Development	Rental Housing	Residential Housing Finance	Single Family
Revenues over (under) expenses	$10,633	$ 875	$ 5,017	$ 14,163	$ (1,001)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:					
Amortization of premiums (discounts) and fees on loans	—	—	(87)	720	(1,214)
Depreciation	562	—	—	—	—
Realized losses (gains) on sale of securities, net	—	(65)	38	(157)	(3)
Unrealized losses (gains) on securities, net	173	38	(284)	(984)	(401)
Provision for loan losses	—	(1,051)	(730)	1,313	150
Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	4,415	—
Capitalized interest on loans and real estate owned	—	—	(63)	(15)	(263)
Decrease (increase) in loans receivable, excluding loans transferred between funds	—	3,495	20,527	12,476	(5,281)
Decrease (increase) in interest receivable on loans	—	(96)	(807)	(283)	464
Interest earned on investments	(1,398)	(593)	(3,467)	(12,422)	(26,765)
Arbitrage rebate liability	—	(42)	111	(3)	5,172
Increase (decrease) in deferred revenue	(137)	(10)	(65)	—	—
Interest transferred to funds held for others	(4,166)	—	—	—	—
Interest expense on bonds and notes	—	4,046	16,771	6,878	86,643
Increase (decrease) in accounts payable	493	(65)	5	833	9
Increase (decrease) in interfund payable, affecting operating activities only	(660)	160	276	(2,343)	2,054
Increase (decrease) in funds held for others	(3,184)	—	—	5	—
Other	(505)	—	—	230	—
Total adjustments	(8,822)	5,817	32,225	10,663	60,565
Net cash provided by operating activities	$ 1,811	$ 6,692	$37,242	$ 24,826	$ 59,564

2002 Total General Reserve and Bond Funds	2001 Total General Reserve and Bond Funds
$ 29,687	$ 45,926
(581)	112
562	738
(187)	(441)
(1,458)	(8,194)
(318)	1,255
4,415	926
(341)	(394)
31,217	14,906
(722)	648
(44,645)	(52,576)
5,238	3,184
(212)	212
(4,166)	(6,316)
114,338	120,032
1,275	227
(513)	109
(3,179)	(8,926)
(275)	(1,671)
100,448	63,831
$130,135	$109,757

Other Information

Board of Directors

Michael Finch, Ph.D., Chair
Research Program Director

Rebecca D. Yanisch, Vice Chair
Commissioner of Trade and Economic Development
State of Minnesota

The Honorable Judith H. Dutcher
State Auditor State of Minnesota

Marge Anderson
Member

Peter G. Bernier
Member

Lee Himle
Member

Marina Muñoz Lyon
Member

Legal and Financial Services

Bond Trustee
Wells Fargo Bank Minnesota, N.A.

Bond Paying Agent
Wells Fargo Bank Minnesota, N.A.

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Underwriting Team
UBS PaineWebber Inc.
U.S. Bancorp Piper Jaffray Inc.
RBC Dain Rauscher Inc.
Salomon Smith Barney

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, national origin, sex, religion, age, or disability in employment or the provision of services. Information contained in this publication will be made available in an alternative format (Braille, large print or audio cassette) 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, 2003, 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 Single Family Mortgage 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 generally accepted accounting principles, referred to as "GAAP."

Reporting of Significant Events.

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

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

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

Debt Service Reserve Requirement: As of any particular date of calculation, the sum of amounts established for each Series of Bonds by the Series Resolution, not less than 3 percent of the principal amount of Bonds of that Series from time to time Outstanding.

Defaulted Mortgage Loan: A Mortgage Loan on which payments are 60 days in arrears (but not a Mortgage Loan as to which all defaults have been cured to the satisfaction of the Agency).

Escrow Payment: Any amount required pursuant to a Mortgage or collateral agreement to be deposited periodically in escrow by a Mortgagor to accumulate funds needed to pay when due premiums for mortgage insurance and fire and other hazard insurance, and taxes and other governmental charges or to create or maintain reserves for anticipated or contingent construction, completion, replacement or operating costs.

Fees: All financing, commitment or similar fees or charges received by the Agency in connection with and at or before the time of making or purchase of a Mortgage Loan, whether paid by a Mortgage Lender or a Mortgagor, seller, builder or developer of the mortgaged property, or as a discount on the purchase of the Mortgage Loan or as a deduction from the first interest payable thereon.

Home: Real property and improvements in the State, comprising not more than four dwelling units, occupied or to be occupied by one or more persons or families.

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

Investment: Any of the following which, at the time of purchase, are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein:

(1) Direct general obligations of the United States.

(2) Obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States.

(3) Bonds, debentures, participation certificates or notes issued or unconditionally guaranteed by any agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress as an agency or instrumentality of the United States (including but not limited to the fully guaranteed portion of an obligation partially guaranteed by any of the foregoing, if the Trustee's ownership of such portion is accepted in writing by an officer of the guaranteeing agency or instrumentality).

(4) New housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual

contributions contract or contracts with the United States, or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States.

(5) Direct and general obligations of any state within the United States or any political subdivision of the State of Minnesota, which are at the time of purchase rated in the AA or a higher rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent or higher rating category based on any subsequent redefinition.

(6) Certificates of deposit, whether negotiable or non-negotiable, interest-bearing time deposits, guaranteed investment contracts or similar deposit agreements or contracts (i) issued or guaranteed by any national banking association or by a bank or trust company organized under the laws of any state (including the Trustee), or by a United States subsidiary of a foreign bank or a branch of a foreign bank licensed by any state or the United States, provided that (a) the principal amount thereof is fully insured by the Federal Deposit Insurance Corporation or, to the extent not so insured, is continuously secured by the deposit with the Trustee, as custodian, of securities described in any of the clauses (1) through (5), inclusive, having an average market value at least equal to the amount not so insured, together with a written undertaking satisfactory to the Trustee that the aggregate value of all securities so deposited will be so maintained, on which undertaking the Trustee shall be entitled to rely, or, alternatively, provided that (b) the institution issuing the certificate of deposit or accepting the time deposit or entering into the guaranteed investment contract or similar deposit agreement or contract, or the guarantor of such institution, has a combined capital and surplus, or stockholder's equity or capital and retained earnings, of at least $50,000,000, and is rated in the AA or higher rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent or higher rating category based on any subsequent redefinition (without reference to any modifiers within a category), or (ii) issued or guaranteed by an insurance company organized under the laws of any state or the United States, provided that (a) the principal amount thereof is continuously secured by the deposit with the Trustee, as custodian, of securities described in any of the clauses (1) through (5), inclusive, having an average market value at least equal to said principal amount, together with a written undertaking satisfactory to the Trustee that the aggregate value of all securities so deposited will be so maintained, on which undertaking the Trustee shall be entitled to rely, or, alternatively, provided that (b) the institution issuing the certificate of deposit or accepting the time deposit or entering into the guaranteed investment contract or similar deposit agreement or contract, or the guarantor of such institution, has a combined capital and surplus, or stockholder's equity or capital and retained earnings, of at least $50,000,000, and is rated in the highest rating category as defined on the date hereof by a nationally recognized bond rating agency, or in an equivalent category based on any subsequent redefinition (without reference to any modifiers within a category).

(7) Any repurchase agreement or similar financial transaction with a national banking association or a bank or trust company organized under the laws of any state (including the Trustee), or with a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York, or with a securities broker-dealer licensed pursuant to Minnesota statutes, chapter 80A, or an affiliate of it, regulated by the Securities Exchange Commission and maintaining a combined capital and surplus of $40,000,000 or more, exclusive of subordinated debt, which agreement is secured by any one or more of the securities described in clauses (1) through (4) inclusive.

(8) 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 clauses (1), (2), (3) and (7) above and which has an investment policy of maintaining a stable $1.00 unit price 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 $50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in clauses (1), (2), (3) and (7) above and which has an investment policy of maintaining a stable $1.00 unit price.

Mortgage: A mortgage deed, deed of trust, or other instrument securing a Mortgage Loan and constituting a first lien on a Home.

Mortgage Lender: Any of the following institutions making or holding a Mortgage Loan, whether for its own account or as agent of the Agency: (i) any bank, savings bank, mutual savings bank, savings and loan

association, or building and loan association organized under the laws of Minnesota or the United States, and any mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veterans Affairs; or (ii) any agency or instrumentality of the United States or the State, or a political subdivision of the State.

Mortgage Loan: An interest-bearing loan to a Mortgagor secured by a Mortgage on a Home, and evidenced by a promissory note or a security payable from or evidencing an interest in such Mortgage Loans.

Operating Expense Requirement: The amount at any time directed by an Officer's Certificate to be deposited in the Expense Fund under a schedule approved by the Agency for each Fiscal Year, as such schedule shall be amended from time to time, for the payment or reimbursement of certain fees and expenses in connection with the Program as set forth in the Bond Resolution.

Prepayment: Any money received as payment of principal on a Mortgage Loan in excess of the scheduled payments of principal then due.

Private Mortgage Insurer: A company qualified to provide insurance on mortgage loans purchased by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association, or any other agency or instrumentality of the United States to which the powers of either of them have been transferred, or which has similar powers to purchase mortgage loans.

Program: The Agency's program of making or purchasing Qualified Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Bonds.

Projected Revenue Certificate: An Officer's Certificate setting forth, as of any particular date:

(1) A schedule of estimated Revenues available in the current and each future Fiscal Year for the payment of interest and Principal Installments or Redemption Prices of Bonds, giving effect to:

(i) Scheduled payments of principal and interest on Mortgage Loans then held in the Acquisition Fund, except Defaulted Mortgage Loans, and on any Mortgage Loans expected to be made or purchased from cash or Investments then held in the Acquisition Fund; assuming that such additional Mortgage Loans bear interest at stated rates and commence amortization on one or more stated dates, and that the scheduled payments of principal and interest on Mortgage Loans assumed to be prepaid pursuant to clause (ii) terminate on their assumed prepayment dates, respectively.

(ii) Assumed dates and amounts of Prepayments of any of said Mortgage Loans (which may vary from the Prepayments assumed in establishing the Principal Installment Dates of the Series of Bonds from the proceeds of which the respective Mortgage Loans were made or purchased).

(iii) Payments of principal and interest on Mortgage Loans, if any, anticipated to be made or purchased from Prepayments and other Revenues received from time to time in excess of amounts required for transfers and debt service payments estimated pursuant to clauses (2) and (3) below.

(iv) The amount, if any, expected to be paid to the Agency on any future date for the purchase of Mortgage Loans originally made or purchased in whole or in part from the proceeds of any Series of Bonds, under a mortgage purchase agreement entered into by the Agency with the Minnesota State Board of Investment or any other entity, at a price equal to a specified percentage of the unpaid balance of the Mortgage Loans which will result from the scheduled payments and Prepayments predicted pursuant to clauses (i) and (ii).

(v) Income receivable from the deposit and investment of amounts from time to time held in all Funds pledged to the payment of the Bonds, except interest on Mortgage Loans.

(vi) Amounts, if any, other than income, which may be transferred to the Revenue Fund or the Bond Fund from any other Fund created by or pursuant to the Bond Resolution, without drawing the Expense Fund, the Debt Service Reserve Fund or the Insurance Reserve Fund below their respective Requirements, and which are not expected to be transferred to the General Reserve Account pursuant to clause (5) under the caption "Revenue Fund" below.

(2) A schedule of amounts, if any, required to be transferred in the current and each future Fiscal Year to the Expense Fund, the Debt Service Reserve Fund and the Insurance Reserve Fund for the purpose of accumulating and maintaining the Operating Expense, Debt Service Reserve and Insurance Reserve Requirements.

(3) A schedule of interest and Principal Installments or Redemption Prices due and payable with respect to all Outstanding Bonds in the current and each future Fiscal Year, consistent with the dates and prices at which and the amounts in which Bonds may and are assumed to be called for redemption in accordance with their terms.

(4) The amount, if any, by which Revenues estimated pursuant to clause (1) to be available in the current and each Fiscal Year exceed fund transfers and debt service payments estimated pursuant to clauses (2) and (3) to be required in the same Fiscal Year.

Qualified Mortgage Loan: A Mortgage Loan satisfying the conditions set forth under the caption "Qualification of Mortgage Loans," or a security payable from or evidencing an interest in Mortgage Loans each satisfying such conditions.

Revenues: All scheduled payments of principal of and interest on the Mortgage Loans, net of Service Charges (whether paid by or on behalf of the Mortgagor); all prepayments, payments by mortgage insurers, and proceeds of the sale of Mortgage Loans; all income and gain, net of losses, from the investment and reinvestment of Bond proceeds and Revenues; all payments received by the Agency under any mortgage purchase agreement entered into with the State Board of Investment or another entity; and all other payments, proceeds, rents, charges and other cash income derived by or for the account of the Agency from or related to the Program, without limitation of the foregoing except that the following shall not be included in Revenues: (i) Escrow Payments, (ii) Service Charges, (iii) Fees, unless otherwise specified in a Series Resolution with respect to all or part thereof, or (iv) amounts from time to time held in the General Reserve Account, including Series Arbitrage Reserves.

Series Arbitrage Reserve: A special subaccount created by a Series Resolution within the General Reserve Account of the Agency for the purpose of compliance with applicable federal law.

Acquisition Fund

The Trustee shall use the amount credited to each Series Account in the Acquisition Fund to pay the Costs of Issuance of the related Series of Bonds, to make or purchase Qualified Mortgage Loans, and to reimburse the Agency for payments made by it from other funds for these purposes.

As to each Mortgage Loan, the Trustee shall receive an Officer's Certificate stating:

(1) the loan number assigned to it by the Agency, the names of the Mortgagor and the Servicer and the date and amount of disbursement to be made therefor; and

(2) that the Mortgage Loan is Qualified.

All interest and other income received from the deposit and investment of money in each Series Account in the Acquisition Fund and all scheduled payments and prepayments received on Mortgage Loans held therein shall be transferred by the Trustee as received to the Revenue Fund.

Any amount of proceeds of a Series of Bonds remaining in the Acquisition Fund, three years after the Issue Date of that Series, or at such earlier time as may be provided in the applicable Series Resolution, shall be transferred by the Trustee to the related Series Account in the Redemption Fund unless otherwise directed by an Officer's Certificate.

Any amount in the Acquisition Fund required for the payment of Principal Installments of and interest on Bonds shall be transferred to the Bond Fund if necessary in case of a deficiency.

Qualification of Mortgage Loans

At the time of acquisition by the Agency, among other requirements, the unpaid principal amount of the Mortgage Loan shall not exceed 75 percent of the Market Value of the Home subject to the Mortgage, unless the Mortgage Loan is to be insured, secured or guaranteed in one of the following ways: (a) if the Mortgage Loan is to be insured or guaranteed by the Federal Housing Administration or Veterans Administration, or any other agency or instrumentality of the United States to which the powers of either of them have been transferred, or which has similar powers to insure or guarantee Mortgage Loans, the amount may be the maximum permitted under the regulation of such agency or instrumentality; provided that any Mortgage Loan made by the Agency shall be endorsed for insurance or guaranty before a disbursement of Bond proceeds is made thereon, and all mortgage purchase agreements entered into with Mortgage Lenders shall require the Mortgage Lender to repurchase the Mortgage Loan if a final endorsement for insurance or guaranty is not received within 60 days, (b) if the Agency is issued a mortgage insurance policy by a Private Mortgage Insurer before making or purchasing the Mortgage Loan, under which the insurer must either (i) pay a claim after foreclosure and receipt of title to the Home, equal to the entire unpaid principal, accrued interest and expenses of foreclosure of the Mortgage Loan, or (ii) if it requests the Agency to retain title, may pay only a specified insured percentage of the claim, then the maximum amount of the Mortgage Loan shall be a percentage of the Market Value equal to 75 percent plus the insured percentage, or (c) if the Mortgage Loan is not initially insured in the manner set forth in either (a) or (b) above, the Agency shall either (i) transmit to the Trustee for deposit into the appropriate Insurance Reserve Fund an amount equal to the difference between the amount of the uninsured Mortgage Loan and 75 percent of the Market Value, or (ii) shall certify to the Trustee that the balance then existing in the appropriate Insurance Reserve Fund is not less than the amount required by this clause (c) to be on deposit therein.

The Agency shall enter into a Servicing Agreement with respect to each Mortgage Loan unless it determines to service the Mortgage itself.

Assistance Payments

The Agency reserves the right to transfer any amount from its General Reserve Account or other legally available funds to the Trustee for credit to the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan, or to advance such money to cure or avert a default on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

Deposit Revenues

The Agency will collect and deposit or will cause Servicers to collect and deposit with the Trustee or with Depositories in the name of the Trustee, as soon after receipt as practicable, all Revenues derived from Mortgage Loans, including Defaulted Mortgage Loans, and the Trustee shall credit all such receipts to the Revenue Fund, together with all Revenues derived from Investments held in all Funds.

Revenue Fund

On or before each Interest Payment Date and each Principal Installment Date the Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting the amount indicated to each Fund preceding it:

(1) To the Expense Fund, the amount, if any, needed to increase the balance therein to the Operating Expense Requirement.

(2) To the Bond Fund the amount needed to increase the balance therein to the Bond Requirement.

(3) To the Debt Service Reserve Fund, the amount, if any, needed to increase the amount therein to the Debt Service Reserve Requirement.

(4) To the Insurance Reserve Fund the amount, if any, needed to increase the amount therein to the Insurance Reserve Requirement.

(5) The remainder shall be held in the Revenue Fund until and unless directed by an Officer's Certificate to be transferred (i) to the Acquisition Fund, (ii) to the Redemption Fund, or (iii) as provided in the following two paragraphs.

If the net Investment earnings received in any Series Account in the Revenue Fund exceed at any time the earnings permitted under applicable federal law to be retained, the excess amount shall be paid over to the United States at the times and in the manner provided in the applicable Series Resolution and applicable federal law. Such excess amount may be transferred to a Series Arbitrage Reserve in the General Reserve Account at such times and in such amounts as may be required to assure compliance with applicable federal law, notwithstanding the requirements of other Funds as set forth in the preceding paragraph.

Upon submission of the Projected Revenue Certificate as of July 1 in each year, the Agency may by an Officer's Certificate direct the transfer to the General Reserve Account, free and clear of any lien or pledge created by the Bond Resolution, of an amount which is not required to produce estimated Revenues equal to debt service and required Fund transfers in the current and all future Fiscal Years as set forth in the Projected Revenue Certificate, provided that, subsequent to such transfer, total assets held under the Bond Resolution, exclusive of amounts on deposit in the Insurance Reserve Fund, exceed total liabilities by at least 3 percent.

Expense Fund

Money deposited in the Expense Fund shall be applied to the payment of:

(1) Fees and disbursements of the Trustee and other Fiduciaries.

(2) The cost of mortgage pool insurance, special hazard insurance, mortgage purchase commitments, letters of credit, review and analysis of Mortgage Loans and servicing and other security and services under contracts entered into by the Agency for the purpose of assuring the sufficiency of Revenues for debt service.

(3) Costs of foreclosure, sale, taxes, hazard insurance, appraisals, legal fees, maintenance, repairs and other expenses incurred or to be incurred by the Agency to protect its interest as mortgagee of Homes as established by an Officer's Certificate.

(4) Such amount as may be determined by the Agency to be necessary to pay its administrative expenses directly related to the Program, not exceeding the annual amount estimated to be available for this purpose in the most recent Projected Revenue Certificate.

Bond Fund

The Trustee shall withdraw money from the Bond Fund prior to each Interest Payment Date and Principal Installment Date for the payment of interest on and principal of the Bonds. Money in the Bond Fund for the payment of Sinking Fund Installments shall be applied to the purchase or mandatory redemption of Bonds. No such money may be used to purchase Bonds less than 25 days prior to the Sinking Fund Installment date, or at a price higher than the then applicable Redemption Price.

Any amount in the Bond Fund in excess of the Bond Requirement shall be credited by the Trustee to the Revenue Fund.

Debt Service Reserve Fund

If at any time there shall not be a sufficient amount in the Bond Fund to make payment of Principal Installments of or interest on the Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency. Money in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement may be withdrawn and credited to the Revenue Fund.

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

The Agency shall cause the Chairman annually, on or before each December 1, to make and deliver to the Governor of the State his 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.

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 Defaulted Mortgage Loan, made or purchased from the Acquisition Fund, which is not paid by any public or private insuring agency. The Agency shall promptly furnish to the Trustee an Officer's 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. Money in excess of the Insurance Reserve Requirement is to be withdrawn on Principal Installment Dates and credited 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 supplied by the Agency, upon notice, the deficiency shall be supplied by the Trustee by the transfer of funds available from the following sources in the following order of priority:

(1) from the Expense Fund;

(2) from any amount in the Acquisition Fund in excess of Loan commitments; or

(3) from the Redemption Fund.

Redemption Fund

Money in the Redemption Fund may be used to purchase Bonds or to redeem Bonds at the Redemption Prices set forth in Series Resolutions.

Interest and other income derived from the investment or deposit of money in the Redemption Fund shall be transferred to the Revenue Fund as received. Other amounts in the Redemption Fund may be retransferred to the Acquisition Fund for the making or purchase of Qualified Mortgage Loans when directed by an Officer's Certificate.

Investment of Funds

Subject to instructions from time to time received from an Authorized Officer and with the objective of assuring the maximum yield reasonably possible on money held in each Fund within the limitations set forth in applicable federal law, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in qualified Investments. All Investments shall mature (or be redeemable at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage Loan disbursements and for the payment of the principal of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions.

Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions described in the preceding paragraph. Moneys held in separate Funds or Series Accounts may be invested in common trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or Series Account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of the immediately preceding paragraph and to the restrictions on Investments imposed by each Series Resolution. However, Investments of amounts held in Series Accounts established by each Series Resolution shall be segregated from Investments of amounts held in other Series Accounts, to the extent required by the Series Resolution for compliance with applicable federal law. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary, in

order to make any disbursement for the purchase of Mortgage Loans, payment of expenses or debt service. Investments need not be disposed of to make required transfers from one Fund or account to another, but one or more investments or portions thereof may be transferred in lieu of cash.

Except as otherwise provided below, all Funds of the Agency held by a Fiduciary or another financial institution in time deposits or under certificates of deposit shall be continuously secured by the pledge and assignment to the Agency and the Trustee of Investments of classes (1) through (5), inclusive, as defined above.

The requirement in the preceding paragraph shall not apply to the following:

(1) Funds held by a Paying Agent in trust for the payment of particular Bonds or interest.

(2) Funds held by a Fiduciary less than three working days pending investment or disbursement.

(3) Any amount insured by the Federal Deposit Insurance Corporation.

(4) Amounts held by a Fiduciary in uninvested trust accounts pending investment in accordance with the first paragraph of this section.

(5) Certificates of deposit or time deposits qualified as Investments under the provisions of subparagraph (6) of the definition thereof set forth above.

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

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 restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize Additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency.

Other Supplemental Resolutions may become effective only with consent of the Holders of at least 66-2/3 percent in principal amount of the outstanding Bonds affected thereby.

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

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

Defeasance

Bonds, the payment or redemption for which moneys shall have been deposited with the Trustee, shall be deemed to have been paid, provided that, if any such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investments. Alternatively, if the maturing principal of Investments (not redeemable at the option of the issuer and which are described in clauses (i) or (ii) of the definition of "Investments" above) deposited with the Trustee and the interest to fall due thereon are at least equal the amount of money required for the payment on any future date of the interest on or principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid and shall no longer be considered Outstanding under the Bond Resolution.

Events of Default

Each of the following shall constitute an event of default under the Bond Resolution: (1) interest on any of the Bonds shall become due on any date and shall not be paid on said date, or the principal or Redemption Price of any of the Bonds shall become due on any date, whether at maturity or upon call for redemption and shall not be paid on said date; or (2) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; or (3) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution or the applicable Series Resolution contained and such default shall continue for a period of 90 days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (4) certain acts of bankruptcy, insolvency or reorganization by or against the Agency.

Remedies

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the written request of the Holders of 25 percent of the Outstanding Bonds affected by an event of default described in clause (1) or (2) of "Events of Default" above, or 25 percent of all Outstanding Bonds if the event of default is one described in clause (3) or (4) of "Events of Default" above, proceed to protect the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Resolutions unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Resolutions contained shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on such Bondholder's Bond.

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 mortgaged premises 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. Mortgage 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 of a series, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of such Series Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of such Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

Neither the Agency, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to 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 Bondholder.

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

OPINION OF BOND COUNSEL

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[To be dated the date of remarketing of the Remarketed 2001 Series E Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Single Family Mortgage Bonds, 2001 Series E

Ladies and Gentlemen:

We have acted as bond counsel in connection with the remarketing by the Minnesota Housing Finance Agency (the "Agency") of its Single Family Mortgage Bonds, 2001 Series E, in the principal amount of $23,000,000 (the "Remarketed 2001 Series E Bonds"), which are issuable only as fully registered bonds of single stated maturities in the principal amount of $5,000 or any integral multiple thereof.

The Remarketed 2001 Series E Bonds are dated, mature on the date, bear interest at the rate and are payable as set forth in the Supplemented Series Resolution referenced below. The Remarketed 2001 Series E 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 Supplemented Series Resolution.

In this connection, 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 Bond Resolution adopted June 3, 1982, as amended, and the Series Resolution adopted July 12, 2001, as supplemented by a resolution adopted July 10, 2003 (the "Supplemented Series Resolution"). 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 Remarketed 2001 Series E Bonds in order that interest on the Remarketed 2001 Series E Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Supplemented 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 Supplemented Series Resolutions.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond and Supplemented Series Resolutions 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 Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond and Supplemented Series Resolutions; (3) the Remarketed 2001 Series E 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 Supplemented Series Resolutions, 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 Remarketed 2001 Series E 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 Remarketed 2001 Series E 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 Remarketed 2001 Series E 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 Remarketed 2001 Series E 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 Remarketed 2001 Series E Bonds. All owners of Remarketed 2001 Series E 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 Remarketed 2001 Series E Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Remarketed 2001 Series E Bonds and the Bond and Supplemented Series Resolutions 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: _____, 2003.

Respectfully yours,