

## NOTICE

\$100,000,000

Minnesota Housing Finance Agency

\$25,090,000 Residential Housing Finance Bonds, 2008 Series A (Non-AMT)

\$34,910,000 Residential Housing Finance Bonds 2008 Series B (AMT)

\$40,000,000 Residential Housing Finance Bonds 2008 Series C (AMT))

Official Statement, dated July 17, 2008,  
as supplemented August 15, 2008

The Official Statement, dated July 17, 2008, as supplemented August 15, 2008, 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 7.0). 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 7.0 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.



**\$100,000,000**  
**Minnesota Housing Finance Agency**  
**\$25,090,000 Residential Housing Finance Bonds, 2008 Series A (Non-AMT)**  
**\$34,910,000 Residential Housing Finance Bonds, 2008 Series B (AMT)**  
**\$40,000,000 Residential Housing Finance Bonds, 2008 Series C (Non-AMT)**

The Official Statement dated July 17, 2008, of the Minnesota Housing Finance Agency relating to the above-captioned bonds has been corrected as of the date set forth below as follows:

Numbered paragraph (1) under the subheading “*Remedies Upon Occurrence of an Event of Default*” on page I-5 under the caption “**The Initial Liquidity Facility**” of APPENDIX I – SUMMARY OF CERTAIN PROVISIONS OF AND RELATING TO THE STANDBY BOND PURCHASE AGREEMENT of the Official Statement, which describes the Standby Bond Purchase Agreement that secures the 2008 Series C Bonds, is corrected to read as set forth below:

1. In the case of the occurrence of an event of default specified in paragraphs (1), (6)(a), (c), (d), (e) or (f), (7), (8), (9), or (10) above (each, a “Termination Event”), the Bank’s Available Commitment and the obligations of the Bank under the Initial Liquidity Facility to purchase the 2008 Series C Bonds which are Eligible Bonds shall immediately terminate without notice or demand to any Person and, thereafter, the Bank shall be under no obligation to purchase the 2008 Series C Bonds which are Eligible Bonds. Promptly upon such event of default, the Bank shall give written notice of the same to the Agency, the Trustee, the Tender Agent and the Remarketing Agent, provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Bank’s Available Commitment and the termination of the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds pursuant to the Initial Liquidity Facility. The Agency shall cause the Tender Agent to notify all Bondowners of the termination of the Bank’s Available Commitment and of the termination of the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds.

The effect of this correction is to make clear that an event of default as described in numbered paragraph (11) under the subheading “*Events of Default Under the Initial Liquidity Facility*” under the same caption of APPENDIX I of the Official Statement, which paragraph relates to the federal tax-exempt status of the 2008 Series C Bonds, is not a Termination Event under the Standby Bond Purchase Agreement.

Dated: August 15, 2008.

## NEW ISSUE

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



**\$100,000,000**  
**Minnesota Housing Finance Agency**  
**\$25,090,000 Residential Housing Finance Bonds, 2008 Series A (Non-AMT)<sup>1</sup>**  
**\$34,910,000 Residential Housing Finance Bonds, 2008 Series B (AMT)<sup>1</sup>**  
**\$40,000,000 Residential Housing Finance Bonds, 2008 Series C (AMT)<sup>2</sup>**

**Dated Date of Series Bonds: Date of Delivery**

**Due: As shown on inside front cover**

<i>Tax Exemption</i>	Interest on 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 27-29 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to such Series Bonds.
<i>Redemption</i>	The Series Bonds are subject to redemption as described on pages 11-16 herein. The 2008 Series A Bonds and the 2008 Series B Bonds are subject to mandatory tender at par, and the 2008 Series C Bonds are subject to optional and mandatory tender at par as described on pages 14-16 herein.
<i>Security</i>	On a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. <i>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.</i> Liquidity support for the purchase of any 2008 Series C Bonds tendered will, subject to the terms and conditions of such support, initially be provided by the Federal Home Loan Bank of Des Moines. See "Liquidity Facility" and "Security for the Bonds" on pages 18-21 herein.
<i>Interest Payment Dates</i>	January 1 and July 1, commencing January 1, 2009, and any redemption date or mandatory tender date.
<i>Denominations</i>	For the 2008 Series A Bonds and the 2008 Series B Bonds: \$5,000 or any integral multiple thereof; for the 2008 Series C Bonds: \$100,000 or any integral multiple of \$5,000 in excess thereof.
<i>Closing/Settlement</i>	August 7, 2008 through the facilities of DTC in New York, New York.
<i>Bond Counsel</i>	Dorsey & Whitney LLP, Minneapolis, Minnesota.
<i>Underwriters' Counsel</i>	Kutak Rock LLP, Atlanta, Georgia.
<i>Trustee</i>	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
<i>Book Entry-Only System</i>	The Depository Trust Company. See Appendix F hereto.

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

**RBC Capital Markets**

**Piper Jaffray & Co.**

The date of this Official Statement is July 17, 2008.

RBC Capital Markets Corporation is the initial Remarketing Agent for the 2008 Series C Bonds.

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<sup>1</sup>Fixed rate.

<sup>2</sup>Variable rate.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES**

**2008 Series A Bonds (Non-AMT)**

**\$18,570,000 Serial Bonds**

<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>CUSIP<sup>1</sup></b>	<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>CUSIP<sup>1</sup></b>
July 1, 2009	\$795,000	1.85%	60415NY63	January 1, 2015	\$955,000	3.80%	60415NZ96
January 1, 2010	800,000	2.45	60415NY71	July 1, 2015	975,000	3.80	60415N2A9
July 1, 2010	815,000	2.60	60415NY89	January 1, 2016	995,000	3.95	60415N2B7
January 1, 2011	825,000	2.90	60415NY97	July 1, 2016	1,015,000	3.95	60415N2C5
July 1, 2011	835,000	3.00	60415NZ21	January 1, 2017	1,040,000	4.05	60415N2D3
January 1, 2012	850,000	3.20	60415NZ39	July 1, 2017	880,000	4.05	60415N2E1
July 1, 2012	865,000	3.30	60415NZ47	January 1, 2018	890,000	4.10	60415N2F8
January 1, 2013	885,000	3.40	60415NZ54	July 1, 2018	920,000	4.10	60415N2G6
July 1, 2013	900,000	3.45	60415NZ62	January 1, 2019	725,000	4.20	60415N2M3
January 1, 2014	915,000	3.65	60415NZ70	July 1, 2019	755,000	4.20	60415N2N1
July 1, 2014	935,000	3.70	60415NZ88				

**Price of Serial Bonds — 100%**

**\$6,520,000 4.65% Term Bonds Due July 1, 2023 at 100% (CUSIP 60415N2H4<sup>1</sup>)**

**2008 Series B Bonds (AMT)**

**\$15,835,000 5.50% Term Bonds Due July 1, 2028 at 100% (CUSIP 60415N2J0<sup>1</sup>)**  
**\$19,075,000 5.65% Term Bonds Due July 1, 2033 at 100% (CUSIP 60415N2K7<sup>1</sup>)**

**2008 Series C Bonds (AMT)**

**\$40,000,000 Variable Rate Demand Term Bonds due July 1, 2048 (CUSIP 60415N2L5<sup>1</sup>)**  
**The initial interest rate on the 2008 Series C Bonds shall be as set forth in a certificate of the Remarketing Agent delivered to the Trustee at the closing.**

**Price of 2008 Series C Bonds — 100%**

<sup>1</sup> CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series Bonds or as indicated above.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency, the Federal Home Loan Bank of Des Moines (the “Initial Liquidity Provider”), 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, the Initial Liquidity Provider 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 or the Initial Liquidity Provider 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  
\$100,000,000  
MINNESOTA HOUSING FINANCE AGENCY  
RESIDENTIAL HOUSING FINANCE BONDS,  
2008 SERIES A, 2008 SERIES B  
AND 2008 SERIES C**

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Residential Housing Finance Bonds, 2008 Series A (the "2008 Series A Bonds"), 2008 Series B (the "2008 Series B Bonds," and collectively with the 2008 Series A Bonds, the "2008 Series AB Bonds"), and 2008 Series C (the "2008 Series C Bonds," and collectively with the 2008 Series A Bonds and the 2008 Series B Bonds, the "Series Bonds"), in connection with the offering and sale of such bonds by the Agency and for the information of all who may become initial Owners of such bonds.

The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, as heretofore or hereafter further amended and supplemented (the "Bond Resolution"), and two series resolutions of the Agency adopted on June 26, 2008 (with respect to the 2008 Series AB Bonds, the "2008 Series AB Resolution," with respect to the 2008 Series C Bonds, the "2008 Series C Resolution," and, collectively, the "Series Resolutions"). (The Bond Resolution and the Series Resolutions are herein sometimes called the "Resolutions.") The Residential Housing Finance Bonds Outstanding in the aggregate principal amount of \$1,816,020,000 as of May 31, 2008, under the Bond Resolution and any additional Residential Housing Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Series Bonds, will be equally and ratably secured thereunder (except as otherwise expressly provided therein) 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, the Standby Bond Purchase Agreement, 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 Resolutions, and the Standby Bond Purchase Agreement are qualified in their entirety by reference to the Act, the Resolutions and the Standby Bond Purchase Agreement, 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 Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements included in Appendix B.

The Series Bonds are being issued to provide money for the Agency, from proceeds of the Series Bonds and from certain outstanding single family mortgage bonds refunded by the Series Bonds, to be used, along with certain contributed funds of the Agency, to continue its Program by purchasing Program Loans made by Lenders to low and moderate income persons for single family, owner-occupied housing within the State, by depositing certain

amounts into the Debt Service Reserve Fund and by paying certain costs of issuance of the Series Bonds. See “Estimated Sources and Uses of Funds – Series Bonds.”

The 2008 Series C Bonds will bear interest at a rate determined weekly (the “Weekly Mode”), unless 2008 Series C Bonds are converted to a different interest-rate-setting mode (a “Mode”) as described herein. Except as otherwise provided herein, so long as the 2008 Series C Bonds are in the Weekly Mode, the owners of any 2008 Series C Bonds are entitled to demand purchase of such 2008 Series C Bonds at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase, upon satisfaction of the terms and conditions described herein. The 2008 Series C Bonds are also subject to mandatory tender for purchase under certain circumstances. RBC Capital Markets Corporation will act as the initial remarketing agent for the 2008 Series C Bonds (the “Remarketing Agent”).

The Agency will provide a liquidity facility (the “Liquidity Facility”) to be in effect for the period from the date of delivery of the 2008 Series C Bonds until the date, if any, when all 2008 Series C Bonds have been converted from a Weekly Mode to another mode not requiring a Liquidity Facility, subject to terms and conditions described herein. The Initial Liquidity Facility with respect to the 2008 Series C Bonds will be a Standby Bond Purchase Agreement (the “Standby Bond Purchase Agreement”), between the Agency, the Trustee, the Tender Agent and the Federal Home Loan Bank of Des Moines (the “Initial Liquidity Provider”). The Initial Liquidity Facility has a stated expiration date of August 7, 2015, subject to earlier termination or suspension as hereinafter described. The Standby Bond Purchase Agreement will be executed as of the date of delivery of the 2008 Series C Bonds, and will provide for the purchase by the Initial Liquidity Provider on the terms and conditions specified therein of tendered 2008 Series C Bonds that cannot be remarketed. If the Standby Bond Purchase Agreement is to expire or terminate according to its terms (other than as a result of a Termination Event thereunder), or is to be replaced with another Liquidity Facility, the related 2008 Series C Bonds are subject to mandatory tender. **If a Termination Event or Suspension Event has occurred under the Standby Bond Purchase Agreement, the Initial Liquidity Provider will have no obligation to purchase the 2008 Series C Bonds and the Remarketing Agent will be entitled to suspend its efforts to remarket 2008 Series C Bonds. See “Description of the Series Bonds—Optional and Mandatory Tender of Certain 2008 Series C Bonds—Agency Not Responsible to Bondowners for Initial Liquidity Provider’s Failure to Purchase 2008 Series C Bonds” herein, and “Appendix I – Summary of Certain Provisions of and Relating to the Standby Bond Purchase Agreement” hereto.**

This Official Statement is intended to provide information to prospective owners of 2008 Series C Bonds while such Series Bonds are in the Weekly Mode and while the Initial Liquidity Facility remains in effect, and is not intended to be relied upon by prospective owners of 2008 Series C Bonds with respect to which a Mode Change or a Conversion Date has occurred or while an Alternate Liquidity Facility is in effect. The delivery of an updated disclosure document is a condition of a Mode Change or Conversion and the related remarketing of 2008 Series C Bonds.

On April 24, 2003, the Members of the Agency adopted a resolution authorizing the Agency to enter into interest rate exchange agreements in respect of Bonds Outstanding or proposed to be issued. The Swap Agreement (as hereinafter defined) has been executed with Royal Bank of Canada as counterparty, in connection with the issuance of the 2008 Series C Bonds, effective on the date of delivery of the 2008 Series C Bonds. (See “The Series Bonds — Interest on the 2008 Series C Bonds” herein.)

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

other than single family loans or home improvement loans. See “Security for the Bonds” and “Appendix D – Summary of Certain Provisions of the Bond Resolution.”

The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The net assets of the General Reserve are legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds. See “The Agency – Net Assets Restricted By Covenant and Operations to Date – General Reserve.” (For purposes of the Resolutions, the General Reserve is designated as the “General Reserve Account.”)

Although the State has appropriated amounts to the Agency for various specific purposes (see “The Agency — State Appropriations”), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations. The appropriations are not available to pay debt service on the Bonds.

**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 the purchase price with respect to the Series Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to such payment.**

## THE AGENCY

### Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long term mortgage financing for such housing.

### Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

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

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

The Honorable *Rebecca Otto* — *Ex officio*, St. Paul, Minnesota – State Auditor

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

*Lee Himle*, Member — Term expires January 2011, Spring Valley, Minnesota – Insurance Agency Owner

*Marina Muñoz Lyon*, Vice Chairman — Term expires January 2011, St. Paul, Minnesota – Foundation Officer

*Gloria J. Bostrom*, Member — Term expires January 2012, Roseville, Minnesota – Retired

*Tony Goulet*, Member — Term expires January 2012, Sauk Rapids, Minnesota – Residential Builder

## **Staff**

The staff of the Agency presently consists of approximately 200 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 to the Agency.

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

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

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

*Patricia Hippe* — Deputy Commissioner. Ms. Hippe was appointed Deputy Commissioner effective May 2000. From January 1995 to the date of her appointment as Deputy Commissioner, Ms. Hippe was Director of Finance of the Agency. From January 1994 to January 1995, Ms. Hippe was Assistant Vice President and Trust Officer with Norwest Bank Minnesota, National Association, with responsibility for administration of taxable and tax-exempt bond issues. From January 1984 to January 1994, she held a variety of progressively more responsible positions with the HEAF Group, the most senior of which was Manager of Program Accounting with responsibility for student loan secondary market operations and accounting for multiple for-profit and non-profit entities. Ms. Hippe holds a Masters degree in Business Administration with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota, and 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 Conesco 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.mnhousing.gov>.

### **Independent Auditors**

The financial statements of the Agency as of and for the year ended June 30, 2007, included in this Official Statement as Appendix B have been audited by LarsonAllen LLP, independent auditors, as stated in their report appearing herein.

### **Financial Statements of the Agency**

The Agency financial statements included in this Official Statement as Appendix B are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

In Appendix A to this Official Statement, the Agency has included unaudited financial statements of the General Reserve Account and the Residential Housing Finance Program Fund as of and for the nine-months ended March 31, 2008. The information in Appendix A has been prepared by the Agency and, in the opinion of the Agency, reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of those Funds for the period, subject to year-end adjustments. The information in Appendix A is not accompanied by a statement from the independent auditors.

On April 26, 2007, the Agency adopted a resolution changing its net asset requirements and investment guidelines for its General Reserve assets, which became effective July 1, 2007. (See "The Agency—Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund.")

### **Disclosure Information**

The Agency will covenant for the benefit of the Beneficial Owners (as defined in Appendix C hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events, if material. The Agency Annual Report is to be filed by the Agency no later than nine months after the close of each fiscal year, commencing with the fiscal year ended June 30, 2008, with each National Repository (as defined in Appendix C). The notices of material events, if any, are to be filed with each of the Repositories or with the Municipal Securities Rulemaking Board. The Agency may file such reports and notices with alternative filing systems under the Continuing Disclosure Agreement. (See "Appendix C — Summary of Continuing Disclosure Agreement — Reporting of Significant Events — Alternative Filing Systems.")

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

In addition to the Agency Annual Report required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions and a semiannual disclosure report for its multifamily bond resolution. Recent reports are available at the Agency's website at <http://www.mnhousing.gov/investor>. The reports are also sent to the Repositories. The Residential Housing Finance Bond Resolution Disclosure Reports generally are filed quarterly. The most recent report is as of March 31, 2008. The Agency is also committed to providing appropriate credit information as requested by the rating agencies rating the Bonds.

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

In accordance with provisions of the respective bond resolutions, the Agency may transfer money from program funds to the General Reserve of the Housing Development Fund. The Agency has pledged to deposit in the General Reserve or the Alternative Loan Fund 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 will 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 that purpose. To ensure that funds available in or to the General Reserve provide security for the Agency's bondowners as covenanted in the bond resolutions, the Agency has established investment guidelines for its Net Assets Restricted By Covenant.

Under these guidelines as in effect through the fiscal year ended June 30, 2007, the Agency's General Reserve Net Assets Restricted By Covenant were to be maintained at a level at least equal to the Agency's Housing Endowment Fund requirement of two percent (2%) of gross loans receivable. Please refer to the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency.

By resolution adopted April 26, 2007, the Agency changed its net asset requirements and investment guidelines for its General Reserve assets, effective July 1, 2007. The purpose of the changes is to permit the Agency to create a funds structure that clearly distinguishes the sustainable lending operation of the Agency from its mission-intensive efforts that do not result in net asset growth. The new guidelines retain the liquidity reserve in the Housing Endowment Fund (held in the General Reserve and also referred to as "Pool 1") but reduce its size to 1% of gross loans receivable (excluding loans credited to the Housing Affordability Fund (held in the Alternative Loan Fund and also referred to as "Pool 3")), and change the required size of the Housing Investment Fund (held in the Alternative Loan Fund and also referred to as "Pool 2") from the difference between 5% of the principal amount of bonds outstanding and the amount of Pool 1 to an amount that would cause the combined net assets in the General Reserve and trustee-held funds under bond resolutions (exclusive of Pool 3) to be the greater of \$615 million or the combined net assets of the same funds for the immediately preceding fiscal year. Pool 2 comprises amortizing interest-bearing housing loans or investment grade securities held in bond funds. Pool 3 is retained for its current purposes (generally investment in investment grade securities and for deferred, zero percent and low interest-rate loans). Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operation of the Agency, and Pool 3 represents the more mission-intensive operations of 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	Fiscal Year Ended	
	Ended March 31,	June 30,	
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues and other additions to restricted net assets:			
Fees earned <sup>(1)</sup>	\$6,833	\$8,160	\$8,833
Interest earned on investments	980	1,956	1,231
Unrealized gain (loss) on investment securities, net	30	226	(101)
Administrative reimbursement <sup>(2),(3)</sup>	<u>17,803</u>	<u>19,118</u>	<u>16,730</u>
	25,646	29,460	26,693
Expenses and other reductions to restricted net assets:			
Transfer of assets between funds <sup>(4),(5)</sup>	26,800	1,280	(205)
Salaries and benefits	12,225	14,937	14,054
Other general operating	<u>6,284</u>	<u>6,899</u>	<u>6,725</u>
	45,309	23,116	20,574
Net changes in net assets	(19,663)	6,344	6,119
Net assets beginning period			
	<u>46,010</u>	<u>39,666</u>	<u>33,547</u>
Net assets end of period <sup>(5)</sup>	\$26,347	\$46,010	\$39,666

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- (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 consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. Costs associated with administering state appropriations are recovered only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations are recovered from the appropriations.
  - (4) Earnings from bond funds may be transferred to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, funds in excess of the requirement for Pool 1 may be transferred from the General Reserve to the Alternative Loan Fund. See the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency for additional information.
  - (5) The reduction of the liquidity reserve in Pool 1 (held in the General Reserve) from 2% to 1% of gross loans receivable on July 1, 2007 resulted in the transfer of \$20,998,000 to Pool 2 and Pool 3, both of which are held under the Bond Resolution. This transfer implemented the Agency's fund restructuring described in the preceding paragraph.

The Agency has established the Alternative Loan Fund within the Bond Resolution. The Agency invests amounts on deposit in this fund in a combination of cash, cash equivalents, investment securities, and loans according to the investment guidelines established by the Agency for Pool 2 and Pool 3 described above. The Alternative Loan Fund is not pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available, is generally available to pay any debt obligations of the Agency. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund in the Bond Resolution. All interfund transfers are approved by the Agency.

### State Appropriations

Over the years, the State Legislature has enacted several laws making amendments to the Act and appropriating funds to the Agency which are to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The State Legislature has

appropriated funds to the Agency for its programs in every biennium since 1975. Over the past five years, appropriations to the Agency have totaled \$235,249,000. Most of the appropriations have been expended or committed by the Agency.

For the biennium ending June 30, 2009, the Legislature has appropriated approximately \$133.6 million to the Agency.

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

### Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any bonds and notes refunded) is limited to \$5,000,000,000 by State statute. The following table lists the principal amounts of indebtedness, all of which are general obligations of the Agency, outstanding as of May 31, 2008:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds .....	23	2047	\$ 473,770	\$ 181,155
Residential Housing Finance Bonds.....	56	2048	2,031,810	1,816,020
Single Family Mortgage Bonds .....	55	2035	1,127,945	256,450
Total Debt Outstanding .....	134		\$ 3,633,525	\$ 2,253,625

\* Does not include the original principal amount of any bonds that had been, as of May 31, 2008, defeased or paid in full, whether at maturity or earlier redemption.

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

The Agency issued its Limited Obligation Bonds, Draw-Down Series 2007-1 (Non-AMT Refunding), Draw-Down Series 2007-2 (AMT Refunding), and Draw-Down Series 2007-3 (AMT New Authority), in an aggregate principal amount not to exceed \$500,000,000 (collectively, the “2007 Draw-Down Bonds”), pursuant to a resolution of the Agency adopted on September 27, 2007 (the “2007 Draw-Down Resolution”). The Agency has issued the 2007 Draw-Down Bonds for the purpose of preserving current private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of portions of bonds previously issued by the Agency (the “2007 Draw-Down Refunded Bonds”) or by issuing “new money” bonds. Funds representing prepayments and repayments of mortgage loans financed with 2007 Draw-Down Refunded Bonds and proceeds of such new money bonds are to be deposited into an escrow account established under the 2007 Draw-Down Resolution as security for such principal amount of the 2007 Draw-Down Bonds as has been drawn down by the Agency. The Agency has made draws in the aggregate principal amount of \$25,090,000 with respect to Draw-Down Series 2007-1 and in the aggregate principal amount of \$126,990,000 with respect to Draw-Down Series 2007-2. The 2007 Draw-Down Bonds are not general obligations of the Agency and are not secured by the Bond Resolution. The owner of the 2007 Draw-Down Bonds has given the Agency notice of its optional tender of the 2007 Draw-Down Bonds on October 1, 2008, on which date the Agency is obligated to purchase the outstanding 2007 Draw-Down Bonds at the principal amount thereof, which purchase will be funded from assets on deposit in the 2007 Escrow Account established pursuant to the 2007 Draw-Down Resolution or proceeds of refunding bonds. As a result of the delivery of the optional tender notice, the Agency may not make additional draws on the 2007 Draw-Down Bonds.

The proceeds of the 2008 Series A Bonds will be applied to refund the outstanding principal amount of the Draw-Down Series 2007-1 Bonds. A portion of the initial draw with respect to Draw-Down Series 2008-2 described in the next paragraph is expected to be applied to the refunding of the outstanding principal amount of the Draw-Down Series 2007-2 Bonds.

The Agency has authorized the issuance of its Limited Obligation Bonds, Draw-Down Series 2008-1 (Non-AMT Refunding), Draw-Down Series 2008-2 (AMT Refunding), Draw-Down Series 2008-3 (AMT New

Authority), and Draw-Down Series 2008-4 (Non-AMT New Authority) in an aggregate principal amount not to exceed \$350,000,000 (collectively, the “2008 Draw-Down Bonds”), pursuant to a resolution of the Agency adopted on July 11, 2008 (the “2008 Draw-Down Resolution”). The Agency is issuing the 2008 Draw-Down Bonds for the purpose of preserving current private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of portions of bonds previously issued by the Agency (the "2008 Draw-Down Refunded Bonds") or by issuing new money bonds. Funds representing prepayments and repayments of mortgage loans financed with the 2008 Draw-Down Refunded Bonds and proceeds of such new money bonds are to be deposited into an escrow account established under the 2008 Draw-Down Resolution as security for such principal amount of the 2008 Draw-Down Bonds as has been drawn down by the Agency. The Agency expects to make an initial draw in the principal amount of \$161,865,000 with respect to Draw-Down Series 2008-2, and in the principal amount of \$33,965,000 with respect to either Draw-Down Series 2008-3 or Draw-Down Series 2008-4, on August 11, 2008. The 2008 Draw-Down Bonds will not be general obligations of the Agency and will not be secured by the Bond Resolution.

**ESTIMATED SOURCES AND USES OF FUNDS — SERIES BONDS**

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

*Sources:*

Principal Amount of Series Bonds .....	\$ 100,000,000
Agency Contribution .....	<u>3,220,000</u>
 Total Sources of Funds	 \$ <u>103,220,000</u>

*Uses:*

Deposit to 2008 Series A-B-C Acquisition Account.....	\$ 99,007,490
Deposit to Costs of Issuance Account .....	220,000
Deposit to Bond Fund Interest Account .....	450,000
Deposit to Debt Service Reserve Fund.....	3,000,000
Underwriters’ Compensation .....	<u>542,510</u>
 Total Uses of Funds	 \$ <u>103,220,000</u>

The Agency has acquired certain Program Loans from its own funds and intends to reimburse such funds from proceeds of the Series Bonds.

**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”), which will act as securities depository for each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, is to serve as Trustee. Interest on the Series Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC. Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. See “Appendix F — Book-Entry-Only System.”

The 2008 Series AB Bonds are issuable in the denominations of \$5,000 or any integral multiple thereof of single maturities. The 2008 Series C Bonds are issuable in denominations of \$100,000 or any integral multiple of \$5,000 in excess 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, subject to redemption as hereinafter described.

### **Interest on the 2008 Series AB Bonds**

The 2008 Series AB Bonds will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year, commencing January 1, 2009, and any redemption date or mandatory tender date at the respective annual rates set forth on the inside front cover hereof until payment of the principal of or redemption price on such Bonds. Interest on the 2008 Series AB Bonds will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the interest payment date, whether or not a business day (the "Record Date" for such Series Bonds).

### **Interest on the 2008 Series C Bonds**

The 2008 Series C Bonds will bear interest from their dated date and will be dated as of the date of their authentication and delivery. The 2008 Series C Bonds will mature, subject to earlier redemption and tender as herein described, on July 1, 2048. The Record Date for 2008 Series C Bonds in the Weekly Mode is the last Business Day preceding each Interest Payment Date.

*Weekly Mode.* Interest on the 2008 Series C Bonds in a Weekly Mode will accrue from their date of delivery and will be payable in arrears, on the basis of a 365/366-day year for the number of days actually elapsed. Interest shall be payable on January 1 and July 1 of each year, commencing January 1, 2009, and on any Conversion Date; for the initial Interest Payment Date, from the date of delivery of the 2008 Series C Bonds, and for subsequent Interest Payment Dates, from the preceding Interest Payment Date (i.e., January 1 or July 1), to, but not including, such Interest Payment Date.

The 2008 Series C Bonds will bear interest from the date of delivery to, but not including, August 14, 2008, at the rate set forth in a certificate delivered by the Remarketing Agent on the date of delivery of the 2008 Series C Bonds. Thereafter, the 2008 Series C Bonds in the Weekly Mode (other than Bank Bonds) will bear interest at the Weekly Rate that will take effect each Thursday (the "Effective Rate Date") following a Rate Determination Date and remain in effect until the day before the next Effective Rate Date. The Weekly Rate will be determined by the Remarketing Agent by 4:00 p.m. New York time on the first Business Day preceding the applicable Effective Rate Date (each a "Rate Determination Date"). In no event will the 2008 Series C Bonds (other than Bank Bonds) bear interest at an annual rate in excess of the lesser of 12% or the maximum rate permitted by law (the "Maximum Rate").

The Weekly Rate applicable to the 2008 Series C Bonds will be that rate which, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the 2008 Series C Bonds on the Effective Rate Date (without taking into account accrued interest thereon) being 100% of the principal amount thereof. In determining the Weekly Rate for any 2008 Series C Bonds, the Remarketing Agent will take into account to the extent applicable (1) market interest rates for comparable securities held by open-end municipal bond funds or other institutional or private investors with substantial portfolios (a) with interest rate adjustment periods and demand purchase options substantially identical to such 2008 Series C Bonds, (b) bearing interest at a variable rate intended to maintain par value, and (c) rated by a national credit rating agency in the same category as such 2008 Series C Bonds; (2) other financial market rates and indices that may have a bearing on the Weekly Rate (including, but not limited to, rates borne by commercial paper, Treasury Bills, commercial bank prime rates, certificate of deposit rates, federal fund rates, the London Interbank Offered Rate ("LIBOR"), the index published by the Securities Industry and Financial Markets Association (formerly, The Bond Market Association) based upon data compiled by Municipal Market Data concerning tax-exempt variable rates (the "SIFMA Index"), indices maintained by *The Bond Buyer*, and other publicly available interest rate indices); (3) general financial market conditions; and (4) factors particular to the Agency and such 2008 Series C Bonds.

The determination by the Remarketing Agent of the Weekly Rate to be borne by any 2008 Series C Bonds (other than Bank Bonds) will be conclusive and binding on the Owners of such 2008 Series C Bonds. Failure by the Remarketing Agent or the Trustee to give any notice required under the 2008 Series C Resolution, or any defect in such notice, will not affect the interest rate borne by any 2008 Series C Bonds or the rights of the Bondowners thereof.

If for any reason the position of Remarketing Agent is vacant or a Remarketing Agent fails to establish the interest rate, the 2008 Series C Bonds (other than Bank Bonds) will automatically bear interest in a Weekly Mode

with the interest rate reset on a weekly basis at the lesser of (i) the SIFMA Index plus 0.25% or (ii) the Maximum Rate.

*Mode Changes.* The Agency may elect (1) to change the intervals at which the interest rate is calculated with respect to all or part of the 2008 Series C Bonds (each such change is a “Mode Change” with respect to the 2008 Series C Bonds to which such Mode Change applies, and the date on which each such Mode Change is effective is a “Mode Change Date”), (2) to change all or part of the 2008 Series C Bonds to become variable rate bonds not required to be covered by a Liquidity Facility (each such change an “Unenhanced Variable Rate Change” with respect to the 2008 Series C Bonds to which it applies, and the date of each such change an “Unenhanced Variable Rate Change Date”) or (3) to convert all or part of the 2008 Series C Bonds to bear interest at fixed rates to their maturity or to bear interest at an index rate (with respect to the 2008 Series C Bonds to which such conversion applies, a “Conversion,” and the date on which such a Conversion is effective a “Conversion Date”). The Agency is to provide notice of a Mode Change, an Unenhanced Variable Rate Change, or a Conversion to the Remarketing Agent, the Trustee, the Liquidity Provider, and the Tender Agent not less than 20 days before the applicable Mode Change Date, Unenhanced Variable Rate Change Date or Conversion Date. The Trustee is to provide notice of a Mode Change, an Unenhanced Variable Rate Change or a Conversion to DTC not less than 15 days before the applicable Mode Change Date, Unenhanced Variable Rate Change Date or Conversion Date. On each Mode Change Date, Unenhanced Variable Rate Change Date, or Conversion Date, the 2008 Series C Bonds to which such Mode Change, Unenhanced Variable Rate Change or Conversion applies will be subject to mandatory tender for purchase. **This Official Statement is not intended to describe the 2008 Series C Bonds in any Mode other than a Weekly Mode.**

For additional information with respect to the 2008 Series C Bonds, see also “Optional Redemption of 2008 Series C Bonds” below, “Appendix H – Certain Definitions With Respect to the 2008 Series C Bonds” and “Appendix I – Summary of Certain Provisions of and Relating to the Standby Bond Purchase Agreement.”

*Swap Agreement.* With respect to the 2008 Series C Bonds, the Agency has entered into a swap agreement (the “Swap Agreement”) with Royal Bank of Canada (the “Swap Counterparty”) effective on the date of issuance of the 2008 Series C Bonds. The purpose of such swap agreement is to place the aggregate net obligation of the Agency with respect to the portion of the Program financed by all or a portion of the 2008 Series C Bonds on an approximately fixed-rate basis. Payments made to the Swap Counterparty by the Agency under the Swap Agreement are to be made semiannually on the basis of a notional principal amount and the relationship between an agreed-upon fixed rate and a variable rate calculated by reference to one-month LIBOR. Payments made to the Swap Counterparty, including any applicable termination amount referenced below, are to be paid from Revenues on deposit in the Revenue Fund under the Bond Resolution on a basis subordinate to the payment of the interest on and principal of the Bonds and the funding of the Debt Service Reserve Fund and the Insurance Reserve Fund. Payments made to the Agency by the Swap Counterparty under the Swap Agreement (which would result if the variable rate payable by the Swap Counterparty under the Swap Agreement exceeds the fixed interest rate payable by the Agency under the Swap Agreement) are pledged as Revenues under the Resolutions. Unless earlier terminated in whole (in which case a termination amount may be payable by one party to the other party), the Swap Agreement will expire on July 1, 2048.

The Royal Bank of Canada is the parent company of RBC Capital Markets Corporation, an underwriter of the Series Bonds.

### **Sinking Fund Redemption**

The 2008 Series A Bonds with a stated maturity on July 1, 2023 are subject to mandatory redemption in part on January 1, 2020 and on each January 1 and July 1 thereafter to and including January 1, 2023, at their principal amount plus accrued interest, without premium, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
January 1, 2020	\$785,000	January 1, 2022	\$910,000
July 1, 2020	810,000	July 1, 2022	940,000
January 1, 2021	845,000	January 1, 2023	975,000
July 1, 2021	880,000	July 1, 2023 (Maturity)	375,000

The 2008 Series B Bonds with a stated maturity on July 1, 2028 are subject to mandatory redemption in part on July 1, 2023 and on each January 1 and July 1 thereafter to and including January 1, 2028, at their principal amount plus accrued interest, without premium, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
July 1, 2023	\$ 650,000	July 1, 2026	\$1,535,000
January 1, 2024	1,320,000	January 1, 2027	1,585,000
July 1, 2024	1,360,000	July 1, 2027	1,635,000
January 1, 2025	1,400,000	January 1, 2028	1,685,000
July 1, 2025	1,445,000	July 1, 2028 (Maturity)	1,730,000
January 1, 2026	1,490,000		

The 2008 Series B Bonds with a stated maturity on July 1, 2033 are subject to mandatory redemption in part on January 1, 2029 and on each January 1 and July 1 thereafter to and including January 1, 2033, at their principal amount plus accrued interest, without premium, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2029	\$1,775,000	July 1, 2031	\$2,080,000
July 1, 2029	1,830,000	January 1, 2032	2,150,000
January 1, 2030	1,890,000	July 1, 2032	2,220,000
July 1, 2030	1,955,000	January 1, 2033	2,290,000
January 1, 2031	2,015,000	July 1, 2033 (Maturity)	870,000

The 2008 Series C Bonds are subject to mandatory redemption in part on July 1, 2033 and on each January 1 and July 1 thereafter to and including January 1, 2048, at their principal amount plus accrued interest, without premium, on the dates and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
July 1, 2033	\$1,495,000	July 1, 2041	\$435,000
January 1, 2034	2,430,000	January 1, 2042	445,000
July 1, 2034	2,490,000	July 1, 2042	455,000
January 1, 2035	2,550,000	January 1, 2043	470,000
July 1, 2035	2,615,000	July 1, 2043	480,000
January 1, 2036	2,675,000	January 1, 2044	490,000
July 1, 2036	2,740,000	July 1, 2044	505,000
January 1, 2037	2,810,000	January 1, 2045	515,000
July 1, 2037	2,880,000	July 1, 2045	530,000
January 1, 2038	2,950,000	January 1, 2046	540,000
July 1, 2038	3,020,000	July 1, 2046	555,000
January 1, 2039	1,930,000	January 1, 2047	570,000
July 1, 2039	395,000	July 1, 2047	580,000
January 1, 2040	405,000	January 1, 2048	595,000
July 1, 2040	415,000	July 1, 2048 (Maturity)	610,000
January 1, 2041	425,000		

Upon redemption of Series Bonds of a maturity for which sinking fund installments have been established or any purchase in lieu thereof, the principal amount of such maturity of the Series Bonds so redeemed or purchased may be credited toward one or more sinking fund installments for such series and maturity thereafter to become due in the manner specified by the Agency. The portion of any sinking fund installment remaining after the deductions credited to such payments is the unsatisfied balance of such sinking fund installment with respect to such maturity and series of the Series Bonds for the purpose of calculating the payment due on or scheduled for a future date.

## Special Redemption

*Unexpended Proceeds.* 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 the Series Bond proceeds not used to purchase Program Loans and transferred to the Bond Redemption Fund from the 2008 Series A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund transferred to the Bond Redemption Fund. In the event any Series Bonds are to be redeemed as a result of unexpended proceeds, such Bonds shall be selected at random by the Trustee within a series and maturity from such series and maturities of the Series Bonds and in such amounts as shall be determined by the Agency; provided that the 2008 Series C Bonds that are Bank Bonds shall be selected for redemption before other Series Bonds.

*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; subject, however, to any provisions to the contrary in any Series Resolution relating to a Series of Bonds.

As used herein, "Excess Revenues" shall mean the Revenues, including prepayments (except as described below under "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, including amounts to be paid under swap agreements, liquidity facilities, remarketing agreements and other similar instruments (including the Swap Agreement and the Standby Bond Purchase Agreement).

*10-Year Rule Requirements.* To comply with certain provisions of federal tax law, all available prepayments and regularly scheduled repayments of mortgage principal from Program Loans allocable to the proceeds of the Series Bonds and, (i) with respect to the proceeds of the Series Bonds allocated to the refunding of outstanding bonds of the Agency, received 10 years after the original issuance date of the bonds refunded, or (ii) with respect to the remaining proceeds of the Series Bonds, received 10 years after the issuance date of the Series Bonds, are required to be applied no later than the close of the first semiannual period beginning after the date of receipt to the retirement of the Series Bonds through payment thereof at maturity or redemption; provided, no such redemption shall be required if the amount available and required to be used to redeem the Series Bonds is less than \$100,000. The following percentages of scheduled payments and prepayments of mortgage principal allocated to the proceeds of the Series Bonds received on or after the following dates are subject to the 10-year rule:

<u>Dates</u>	<u>Percentages</u>
August 7, 2008 to June 30, 2015	25.35%
July 1, 2015 to June 30, 2016	56.20
July 1, 2016 to June 30, 2018	89.55
July 1, 2018 and thereafter	100.00

*Prepayments.* To the extent not needed to make regularly scheduled principal payments on the Series Bonds, either at maturity or pursuant to sinking fund installments, all prepayments of principal allocable to the Series Bonds are to be used as follows:

(1) to the extent required by applicable federal tax law (as described above under "*10-Year Rule Requirements*"), to redeem Outstanding Series Bonds, from such series and maturities selected by the Agency, on any date, in whole or in part, at a price equal to par plus accrued interest, without premium; or

(2) to the extent not required by applicable federal tax law, at the option of the Agency, to redeem any Outstanding Bonds, including any Series Bonds.

## **Optional Redemption of 2008 Series AB Bonds**

The 2008 Series AB Bonds 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, 2018 from any amounts available to the Agency for that purpose, and at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium.

## **Mandatory Tender of Certain 2008 Series AB Bonds Upon Certain Events**

To the extent interest rates decline, and particularly to the extent interest rates available on mortgages decline in the State, potential applicants for Program Loans may be dissuaded from applying to the Agency for such Program Loans, and the likelihood of a special redemption as described under “Special Redemption—Unexpended Proceeds” would be increased. In lieu of such redemption, the Agency has provided for the mandatory tender of 2008 Series AB Bonds selected by the Agency for purchase at par plus accrued interest, or, at the option of the owner, exchange for a Series AB Bond of the same series and maturity and bearing interest as described below.

*Mandatory Tender of Certain 2008 Series AB Bonds.* Pursuant to the 2008 Series AB Resolution, a principal amount of 2008 Series AB Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of such 2008 Series AB Bonds on deposit in the 2008 A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund) may be subject to mandatory tender for purchase on any date (the “Purchase Date”). On the Purchase Date, the 2008 Series AB Bonds subject to mandatory tender are either to be purchased by the Agency and remarketed at an adjusted interest rate or rates or, if the Owner so elects, exchanged for an equal amount of 2008 Series AB Bonds of the same series and maturity bearing interest at the adjusted rate or rates, unless such 2008 Series AB Bonds are to be redeemed on the Purchase Date as provided in the 2008 Series AB Resolution.

*Determination of Preliminary Adjusted Interest Rate.* Upon making certain determinations as to the inability to purchase Program Loans at the mortgage rates established with respect to the 2008 Series AB Bonds, the Agency may appoint a remarketing agent (the “Series AB Remarketing Agent”) and provide the Series AB Remarketing Agent with a schedule of 2008 Series AB Bonds of one or more series and maturities determined by the Agency to be subject to purchase on mandatory tender (the “Tender Bonds”) and request the Series AB Remarketing Agent to determine, as of a stated date selected by the Agency not less than five days nor more than 10 days from the date of request, the interest rates (the “Preliminary Adjusted Rates”) at which such Tender Bonds could be remarketed at par. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds of the 2008 Series AB Bonds held in the 2008 A-B-C Acquisition Account and any allocable amounts held in the Debt Service Reserve Fund and Insurance Reserve Fund. If the yield on the Tender Bonds at the Preliminary Adjusted Rates is at least 0.50% per annum lower than the yield on the Tender Bonds when issued, and certain other conditions relating to compliance with applicable federal tax law are met, the Agency may elect by written notice to the Trustee to call Tender Bonds for mandatory purchase on a date not less than 45 days after the date of such notice. Within each series and maturity designated by the Agency, the Trustee shall select at random the 2008 Series AB 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 the Tender Bonds; (iii) that the 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 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 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 2008 Series AB Resolution. Such notice is to set forth the procedures to be followed by an Owner or beneficial owner who wishes to retain all or a portion (in whole multiples of \$5,000) of such 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 owner’s Tender Bonds.

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

*Mandatory Tender or Redemption.* Any Tender Bond called for mandatory tender on the applicable Purchase Date and not delivered to the Trustee for purchase by 11:30 a.m., New York Time, on the applicable Purchase Date shall be deemed tendered and a Series Bond of the same series and maturity bearing interest at the Final Adjusted Rate is to 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 owner thereof shall have no rights under the Resolutions other than the right to receive the purchase price thereof, without additional interest thereon.

Upon the occurrence of certain events, the Agency may determine to redeem all Tender Bonds on the Purchase Date, notwithstanding the election by some 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, if applicable, compliance with cash flow and other requirements of the Bond Resolution, maintenance of credit ratings on the Bonds Outstanding under the Bond Resolution, and a determination that, given the Final Adjusted Rates, Program Loans can be effectively Financed to carry out the Program. If one or more of these prerequisites cannot be satisfied, the Agency may redeem all Tender Bonds on the Purchase Date without additional notice at a price of par plus accrued interest, without premium.

#### **General Provisions as to 2008 Series AB Bonds**

Except as otherwise provided in the 2008 Series AB Resolution, any 2008 Series AB Bonds to be purchased or redeemed shall be purchased or redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the following: (a) the Series of the 2008 Series AB Bonds to be purchased or redeemed; (b) the maturities within such Series from which 2008 Series AB Bonds are to be purchased or redeemed; and (c) the maximum price or principal amount of such 2008 Series AB Bonds within such maturities to be purchased or redeemed. If less than all 2008 Series AB Bonds of a series and maturity are to be redeemed, the 2008 Series AB Bonds of that series and maturity to be redeemed are to be selected by lot, unless a different order of priority is specified by the 2008 Series AB Resolution. The Agency shall not at any time cause 2008 Series AB Bonds to be purchased or redeemed (other than pursuant to mandatory redemption) if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such purchase or redemption.

The Trustee is required to mail a copy of the notice, by first class mail, to the registered owner of any 2008 Series AB 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 15th day preceding date such notice is mailed.

#### **Optional Redemption of 2008 Series C Bonds**

*Optional Redemption.* 2008 Series C Bonds in the Weekly Mode may be redeemed at the option of the Agency, in whole or in part on any Business Day (including any optional or mandatory tender date), from any money made available for such purpose, at a Redemption Price equal to 100% of the principal amount thereof to be redeemed, plus accrued interest, if any, to but not including the redemption date.

*Notice of Redemption.* While 2008 Series C Bonds are in the Weekly Mode, a copy of the notice of redemption identifying 2008 Series C Bonds to be redeemed is to be given by Immediate Notice not less than 15 days prior to the date fixed for redemption to the Owners of 2008 Series C Bonds to be redeemed at their addresses as shown on the bond register. “Immediate Notice” means notice by telephone, telex or telecopier to such address as the addressee shall have directed in writing, promptly followed by written notice by first class mail, postage prepaid. Notwithstanding the foregoing, no separate notice of redemption need be given in addition to the notice of tender required to be given by the Bondholder or Trustee, as applicable, for 2008 Series C Bonds to be redeemed on an optional or mandatory tender date.

Subject to the terms of the 2008 Series C Resolution, any 2008 Series C Bonds to be optionally redeemed will be redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency stating (1) the principal amount and redemption price of the applicable 2008 Series C Bonds to be redeemed, and (2) the years in which and the amounts by which the applicable sinking fund installments, if any, are to be reduced. Upon any redemption of 2008 Series C Bonds, the Trustee is to select those to be redeemed by lot or such other method of selection as it shall deem proper in its discretion; provided that the 2008 Series C Bonds that are Bank Bonds shall be selected for redemption before other 2008 Series C Bonds.

### **Optional and Mandatory Tender of 2008 Series C Bonds**

*Optional Tender.* Owners of 2008 Series C Bonds in the Weekly Mode may elect to tender their 2008 Series C Bonds for purchase, by providing notice to the applicable Remarketing Agent and the Tender Agent not later than 5:00 p.m. (New York City time) on any Business Day that is at least seven calendar days before the purchase date, which must be a Business Day and must be set forth in the notice. Such 2008 Series C Bonds are to be purchased on the purchase date specified in the notice at a price equal to 100% of the principal amount thereof plus accrued interest to but not including the purchase date (the “Purchase Price”). The notice of optional tender for purchase of 2008 Series C Bonds by the Owners or beneficial owners thereof shall be irrevocable once such notice is given to the Remarketing Agent and the Tender Agent.

*Mandatory Tender.* The 2008 Series C Bonds or any portion thereof are subject to mandatory tender for purchase (with no right to retain) at the Purchase Price (i) on any Mode Change Date and each Unenhanced Variable Rate Change Date for such Bonds, (ii) upon scheduled expiration or termination by the Agency of the Initial Liquidity Facility or an Alternate Liquidity Facility (defined below) (a “Liquidity Expiration Event”) for such Bonds, on a date not less than five days prior to the scheduled expiration or earlier termination of the Liquidity Facility, (iii) on any Conversion Date for such Bonds, and (iv) upon receipt of a Notice of Termination Date (as described in any Liquidity Facility) by the Trustee following the occurrence of certain Events of Default under such Liquidity Facility, on a date not less than five days prior to the date on which the Liquidity Facility will terminate (each a “Mandatory Tender Date”). Upon any such event, the Trustee is to deliver a notice of mandatory tender to Bondowners, at least 15 days prior to the Mandatory Tender Date, stating the reason for the mandatory tender, the date of mandatory tender, and that all Bondowners of 2008 Series C Bonds subject to such mandatory tender are deemed to have tendered their 2008 Series C Bonds upon such date.

This paragraph is applicable to the 2008 Series C Bonds only if the book-entry-only system has been discontinued and replacement bonds have been issued. Any 2008 Series C Bonds not tendered and delivered to the Tender Agent on or prior to its Mandatory Tender Date for which there have been irrevocably deposited in trust with the Trustee the Purchase Price will be deemed to have been tendered and purchased on such Mandatory Tender Date. Bondowners will not be entitled to any payment (including any interest to accrue on or after the Mandatory Tender Date) other than the principal amount of such 2008 Series C Bonds, plus accrued interest to the day preceding the Mandatory Tender Date, and said Bondowners will no longer be entitled to the benefits of the Resolutions, except for the purpose of payment of the Purchase Price. Replacement 2008 Series C Bonds will be issued in place of such untendered 2008 Series C Bonds pursuant to the 2008 Series C Resolution, and, after the issuance of the replacement 2008 Series C Bonds, such untendered 2008 Series C Bonds will be deemed purchased, canceled, and no longer Outstanding under the Resolutions.

### **Remarketing of 2008 Series C Bonds**

*General.* On each date on which 2008 Series C Bonds are required to be purchased, the Remarketing Agent is to use its best efforts to sell such 2008 Series C Bonds at a Weekly Rate (or, in the case of purchase upon a Mode Change, an interest rate corresponding to the appropriate mode) that results as nearly as practicable in the price being 100% of the principal amount thereof. In the event the Remarketing Agent is unable to remarket the 2008 Series C Bonds so tendered while the Initial Liquidity Facility is in effect, the Initial Liquidity Provider has agreed to purchase such 2008 Series C Bonds in accordance with the Initial Liquidity Facility. The Remarketing Agent is not required to remarket the 2008 Series C Bonds (i) after the occurrence of an Event of Default under the Resolution; (ii) after the occurrence of a Termination Event under the Initial Liquidity Facility and the Initial Liquidity Provider’s termination of its commitment to purchase 2008 Series C Bonds thereunder; (iii) during a Suspension Event under the Initial Liquidity Facility and the Initial Liquidity Provider’s suspension of its commitment to purchase the 2008 Series C Bonds thereunder (unless there is reinstatement of the Initial Liquidity

Facility; provided that if no reinstatement occurs within specific time periods, termination will occur without mandatory tender); or (iv) if the Initial Liquidity Provider breaches its obligation to purchase 2008 Series C Bonds tendered and not remarketed. The Agency will enter into a Remarketing Agreement with the Remarketing Agent pursuant to which the Remarketing Agent will undertake the duties of Remarketing Agent in the 2008 Series C Resolution, including remarketing of tendered 2008 Series C Bonds and determination of interest rates. The Remarketing Agreement provides that the Remarketing Agent may suspend its activities under certain circumstances, that the Remarketing Agent may resign its duties by giving 30 days' written notice to the Agency, and that the Agency may remove the Remarketing Agent upon 30 days' written notice.

*Remarketing Agent Is Paid by the Agency.* The Remarketing Agent's responsibilities include determining the interest rate from time to time and using best efforts to remarket the 2008 Series C Bonds that are optionally or mandatorily tendered by the Owners thereof (subject, in each case, to the terms of the Remarketing Agreement), as further described in this Official Statement. The Remarketing Agent is appointed by the Agency and is paid by the Agency for its services. As a result, the interests of the Remarketing Agent may differ from those of Owners and potential purchasers of 2008 Series C Bonds.

*Remarketing Agent Routinely Purchases Bonds for Its Own Account.* The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2008 Series C Bonds for its own account and, in its sole discretion, may acquire such tendered 2008 Series C Bonds in order to achieve a successful remarketing of the 2008 Series C Bonds (i.e., because there otherwise are not enough buyers to purchase the 2008 Series C Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase 2008 Series C Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2008 Series C Bonds by routinely purchasing and selling 2008 Series C Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the 2008 Series C Bonds. The purchase of 2008 Series C Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2008 Series C Bonds in the market than is actually the case. The Remarketing Agent may also sell any 2008 Series C Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2008 Series C Bonds. The practices described above also may result in fewer 2008 Series C Bonds being tendered for purchase pursuant to the 2008 Series C Resolution.

*2008 Series C Bonds May Be Offered at Different Prices on Any Date, Including a Rate Determination Date.* Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest which, in the determination of the Remarketing Agent, would result as nearly as practicable in the market value of the 2008 Series C Bonds on the Effective Rate Date (without taking into account accrued interest thereon) being 100% of the principal amount thereof. The interest rate will reflect, among other factors, the level of market demand for the 2008 Series C Bonds (including whether the Remarketing Agent is willing to purchase 2008 Series C Bonds for its own account). There may or may not be 2008 Series C Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2008 Series C Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2008 Series C Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the 2008 Series C Bonds at the remarketing price. In the event the Remarketing Agent owns any 2008 Series C Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2008 Series C Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

*Ability to Sell the 2008 Series C Bonds Other Than Through Tender Process May Be Limited.* The Remarketing Agent may buy and sell 2008 Series C Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require Owners that wish to tender their 2008 Series C Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2008 Series C Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2008 Series C Bonds other than by tendering the 2008 Series C Bonds in accordance with the tender process.

*Under Certain Circumstances, the Remarketing Agent May be Removed, Resign or Cease Remarketing the 2008 Series C Bonds, Without a Successor Being Named.* Under certain circumstances, the Remarketing Agent may

be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement. In the event there is no Remarketing Agent, the Trustee shall establish the applicable rate of interest on the 2008 Series C Bonds as described in the 2008 Series C Resolution.

*Agency Not Responsible to Bondowners for Initial Liquidity Provider's Failure To Purchase 2008 Series C Bonds.* Under the terms and provisions of the Remarketing Agreement and the Initial Liquidity Facility, the Purchase Price of 2008 Series C Bonds is payable from moneys furnished in connection with the remarketing of the 2008 Series C Bonds or from the Initial Liquidity Facility. Upon the occurrence of certain Termination Events or Suspension Events under the Initial Liquidity Facility, the Initial Liquidity Provider's obligation to purchase 2008 Series C Bonds under the Initial Liquidity Facility will immediately terminate or may be suspended without notice or other action on the part of the Initial Liquidity Provider. See "Appendix I – Summary of Certain Provisions of and Relating to the Standby Bond Purchase Agreement." **The Agency is not responsible to Bondowners for any failure by the Initial Liquidity Provider to purchase 2008 Series C Bonds tendered at the option of the Owner or subject to mandatory tender for purchase pursuant to the 2008 Series C Resolution or upon the occurrence of a Termination Event or a Suspension Event.**

If a Termination Event or Suspension Event has occurred resulting in the termination or suspension of the Initial Liquidity Facility or if the Initial Liquidity Provider does not purchase any 2008 Series C Bonds tendered or deemed tendered for purchase by the owners thereof and not remarketed, such Bonds will automatically bear interest in a Weekly Mode with the interest rate reset on a weekly basis at the lesser of (i) the SIFMA Index plus 1.25% or (ii) the Maximum Rate. Owners will not have the right to tender their 2008 Series C Bonds during such period and may be required to hold their 2008 Series C Bonds to maturity or prior redemption.

## LIQUIDITY FACILITY

### General Provisions

The Agency has agreed in the 2008 Series C Resolution to maintain a Liquidity Facility in effect at all times when any 2008 Series C Bonds are in a Weekly Mode, or other Mode requiring a Liquidity Facility, except as otherwise provided below, in an amount not less than the potential Purchase Price of the outstanding 2008 Series C Bonds in the Weekly Mode or other Mode requiring a Liquidity Facility.

The Agency may elect to replace any Liquidity Facility (including but not limited to the Initial Liquidity Facility) for the 2008 Series C Bonds, with another liquidity facility meeting the requirements of the 2008 Series C Resolution (an "Alternate Liquidity Facility," and, together with the Initial Liquidity Facility, a "Liquidity Facility"). The Agency will notify the Trustee, the Remarketing Agent and the Tender Agent of the Agency's intention to deliver an Alternate Liquidity Facility at least 45 days prior to such delivery. Upon receipt of such notice, the Trustee will mail a notice of the anticipated delivery of an Alternate Liquidity Facility, including the name of the provider of such Alternate Liquidity Facility, to each Owner of the 2008 Series C Bonds at such Owner's registered address not less than 15 days prior to the date the 2008 Series C Bonds are subject to mandatory tender. If the Agency elects to replace the Liquidity Facility, the 2008 Series C Bonds will be subject to mandatory tender not less than five days prior to the termination of the existing Liquidity Facility. This Official Statement is not intended to apply to 2008 Series C Bonds when an Alternate Liquidity Facility in respect thereof is in place.

The Agency may also elect to provide liquidity support for any 2008 Series C Bonds from its own funds or by delivering a liquidity facility which does not meet the requirements of an Alternate Liquidity Facility. If the Agency makes such an election, such 2008 Series C Bonds will be subject to mandatory tender prior to the expiration of the Liquidity Facility then in effect.

### The Standby Bond Purchase Agreement

The Initial Liquidity Facility will be the Standby Bond Purchase Agreement. Appendix I to this Official Statement summarizes certain provisions of the Standby Bond Purchase Agreement, to which Appendix reference is made for the detailed provisions thereof. Certain information regarding the Initial Liquidity Provider appears in Appendix J to this Official Statement.

## SECURITY FOR THE BONDS

Outstanding Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge of (a) all proceeds of the sale of the Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds, notes or other obligations), (b) all Program Obligations and Investment Obligations made or purchased from such proceeds, (c) all Revenues, (d) any other loans, funds, securities, Cash Equivalents or other property of the Agency otherwise pledged as security for Outstanding Bonds pursuant to a Series Resolution; and (e) all money, Investment Obligations, and other assets and income held in and receivables of Funds (other than the Alternative Loan Fund, except as otherwise provided in a Series Resolution), 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 granted by the Bond Resolution shall be for the equal benefit, protection and security of Owners of all Outstanding Bonds, except as otherwise expressly provided therein.

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

### Cash Flow Certificate

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

### Revenues

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law, be used to make or purchase additional Program Obligations or to redeem Bonds. If Revenues are less than the amount necessary to pay maturing principal of the Bonds, then either the Agency at its option may provide the amount necessary for such payment from (a) the General Reserve Account of the Agency, (b) the Alternative Loan Fund or (c) from any other lawful source other than funds and accounts pledged pursuant to the Bond Resolution, or the Trustee is to withdraw the necessary amount from the following funds in order of priority: (i) the Bond Redemption Fund, but only to the extent that

amounts therein are in excess of amounts required for the redemption of Bonds for which the notice of redemption has been given, (ii) the Revenue Fund, (iii) the Debt Service Reserve Fund, and (iv) the Insurance 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 be the sum of amounts established for each series of Bonds by each Series Resolution. The aggregate Debt Service Reserve Requirement with respect to the Series Bonds is equal, as of the date of calculation, to three percent (3%) of the aggregate principal amount of the then Outstanding Series Bonds, initially, \$3,000,000. The balance in the Debt Service Reserve Fund on May 31, 2008, was \$48,137,700, which was at least equal to the Debt Service Reserve Fund Requirement for all Series of Bonds then Outstanding.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund are to 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 are not to 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 is not to 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 deposits in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

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

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

### **Insurance Reserve Fund**

The Bond Resolution creates and establishes an Insurance Reserve Fund to be used for the purpose of paying that portion of the claim for loss with respect to any defaulted Program Obligation which is not paid by a public or private insuring agency. As of any particular date of calculation, the Insurance Reserve Requirement is the sum of amounts, if any, established for each series of Bonds by the applicable Series Resolution. The Insurance Reserve Requirement with respect to the Series Bonds is \$0. Currently, there is no balance in the Insurance Reserve Fund, as there is no Insurance Reserve Requirement for any Series of Bonds 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 Program Obligations and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional series of Bonds may be issued except

upon receipt by the Trustee of (i) an Agency Certificate certifying (a) 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 (b) that the estimated Revenues set forth in an Agency Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Agency Certificate, and (ii) written confirmation that the then existing ratings of the Bonds will not be impaired. A Cash Flow Certificate need not be filed in connection with the issuance of additional Bonds unless the series resolution authorizing Bonds of the series so provides.

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other Outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements in the Bond Resolution, except as otherwise expressly provided therein.

### **State Pledge Against Impairment of Contracts**

The State in the Act has pledged to and agreed with the Bondowners 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 Bondowners 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 Bondowners, are fully met and discharged.

## **RESIDENTIAL HOUSING FINANCE PROGRAM**

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

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

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

## **PROGRAM LOANS TO BE MADE FROM SERIES BONDS**

### **Procedures for Origination and Purchase**

#### ***General***

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

#### ***Application***

The Agency’s Program provides funds for the purchase by the Agency of newly originated Program Loans at a price and bearing interest at rates to be established on the basis of the interest cost of the Bonds and local mortgage market conditions. Except with respect to Home Improvement Program Loans described herein, Program

Loans purchased by the Agency historically have had 30-year terms. However, the Agency has implemented a program to offer Program Loans with 40-year terms and expects that approximately 20% of the Program Loans to be purchased with proceeds of the Series Bonds will have 40-year terms. The Agency intends to purchase Program Loans on terms resulting in an effective rate sufficient to pay the principal of and interest on the Series Bonds, the costs of servicing the Program Loans and other Program Expenses. The Agency may make loan commitments and purchases in advance of issuing bonds. As of June 30, 2008, the Agency had loan commitments and purchases outstanding of \$97,995,951 at an average interest rate of 5.763%. The Agency may require the payment of discount points to reduce the overall interest rate on the Program Loans, provide adequate compensation to Lenders and defray Agency operation costs and expenses.

In connection with the Program, the Agency has published the MHFA Mortgage Program Procedural Manual (the "Manual") which sets forth the guidelines and procedures for participation in the Program and the requirements for origination of Program Loans, including provisions for compliance with the requirements of applicable federal law. The Agency responds to inquiries by interested lenders by directing them to the appropriate page on the Agency's website delineating information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Each Lender that meets Program requirements and participates in the Program either executes or has executed a Lender Participation Agreement (the "Agreement"), which incorporates the Manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds from the Agency (see exceptions in "Special Assistance Programs" below). Rather, Lenders may request an individual commitment of Program Loan funds via the internet by entering loan information in the Agency's online loan purchase system (HDS SF Web Application). Each commitment request is subject to a review of the Agency's eligibility rules that are a part of the HDS SF Web Application. If the information entered by the Lender meets the eligibility rules, the Program Loan funds are then committed for each specific loan for a specific period. Should a specific loan ultimately be declined or cancelled, the funds are available for use by another eligible borrower and Lender. There is no prescribed limit on the amount of funds that may be used by an individual participating Lender, subject to availability of funds.

Upon execution of the Agreement by the Agency, each Lender headquartered in the HUD-identified Metropolitan Statistical Areas of Duluth-Superior, MN-WI, Fargo-Moorhead, ND-MN, Grand Forks, ND-MN, LaCrosse, WI-MN, Minneapolis-St. Paul, MN-WI, Rochester, MN and St. Cloud, MN must pay an initial fee of \$5,000 to participate in the Program and an annual renewal fee of \$2,500, Lenders headquartered in the balance of the State must pay an initial participation fee of \$2,000 and an annual renewal fee of \$1,000, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to renew the Agreement and pay the \$2,500/\$1,000 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the July 1st that follows execution of an Agreement with the Agency. Lenders are not required to pay a reservation fee upon obtaining a commitment of Program Funds through the HDS Web Application. If the Agency has not purchased a Program Loan pursuant to an individual commitment after 60 days where an existing home is to be financed or after 100 days where a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Participation fees are deposited into the Alternative Loan Fund. Unrefunded extension fees, if charged, are deposited into the funds from which the loans are purchased, namely the Alternative Loan Fund and the Residential Housing Finance bond fund.

### ***Qualified Borrowers***

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Program is currently as follows:

Persons in Household

<u>Location of Mortgaged Property</u>	<u>One to Four Member Household</u>	<u>Five Member Household</u>	<u>Six Member Household</u>	<u>Seven Member Household</u>	<u>Eight Member Household</u>	<u>Nine Member Household</u>	<u>Ten Member Household**</u>
11-County Twin Cities Metropolitan Area*	\$64,800	\$70,000	\$75,200	\$80,400	\$85,600	\$90,800	\$96,000
Olmsted County	\$60,600	\$65,500	\$70,300	\$75,200	\$80,000	\$84,900	\$89,700
Balance Of State	\$56,200	\$60,700	\$65,200	\$69,700	\$74,200	\$78,700	\$83,200

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

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

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

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

Credit underwriting must be in compliance with Federal Housing Administration (the “FHA”), the Veterans Administration (the “VA”), the USDA Rural Development (formerly the Rural Housing and Community Development Service) (“USDA Rural Development”) and/or mortgage industry accepted underwriting standards. For loans which are not insured or guaranteed by FHA, VA or USDA Rural Development, the Agency requires Fannie Mae, Freddie Mac or private mortgage insurance standards as defined in the Manual.

Certain borrowers may be eligible for assistance for entry costs and/or monthly principal and interest payments, if needed for borrower qualification. See “Homeownership Assistance Fund Loans” and “HOME Homeowner Entry Loan Program Loans” below.

***Program Loans***

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

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

**Qualified Real Property**

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

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Series Bonds maximum purchase prices for both one and two-family homes currently are as follows:

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

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

### **Special Assistance Programs**

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

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

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development/Fannie Mae/Freddie Mac and/or mortgage industry accepted underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits described 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 it for a six-month period. During the set-aside period, Lenders designated by the unit of local government may reserve Program Loans for specific cases for a specific term in accordance with the Manual. Should any funds remain unreserved at the end of the six-month set-aside period, remaining funds are then to be available for Program Loans to be reserved by any other participating units of local government for an additional two-month period. At the end of the two-month period, any unreserved funds are available to the Agency for general program purposes.

All Program Loans originated pursuant to Agency bond issuance on behalf of units of local government are to be qualified Program Loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development/Fannie Mae/Freddie Mac and/or mortgage industry accepted underwriting standards. In addition, 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 the Alternative Loan Fund within the Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a junior lien loan made by the Agency to the Mortgagor for one of two purposes: (i) to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home and/or (ii) to assist in the payment of monthly principal and interest on the Program Loan.

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

Assistance for monthly principal and interest payments is also available to Mortgagors under the Community Activity Set Aside Program at the program income limits previously noted. Monthly assistance payments are made in increments of \$75 during year one; \$50 during year two and \$25 during year three. The aggregate amount of such monthly assistance payments is \$1,800, and payments cease after year three. In making a Program Loan, the monthly assistance payments are taken into account in determining the ability of the Mortgagor to pay principal of and interest on the Program Loan over its term. Mortgagors whose housing payments are greater than 30% of their total income may receive monthly payment assistance under the Agency's Community Activity Set Aside Program.

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

Program Loans made or purchased from the proceeds of a series of Bonds may or may not include Homeownership Assistance. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on the Bonds. Amounts on deposit in the Alternative Loan Fund are available for the payment of principal of or interest on the Bonds and other debt of the Agency, but are not pledged to payment of the Bonds or other debt.

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

## **HOME Homeowner Entry Loan Program Loans (HOME HELP)**

The Agency has established a HOME HELP program created with federal HOME funds received by the Agency. A HOME HELP loan is a junior lien loan made by the Agency to the Mortgagor to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home.

Mortgagors who meet Federal HOME and program requirements, including but not limited to income, house price, lead-based paint, Uniform Relocation Act disclosure, and environmental review, are eligible for amounts of \$5,000, \$10,000 or \$14,999. Mortgagors receive the loan amount that brings their housing ratio closest to but not below 30%.

The HOME HELP loan is an interest free, deferred loan with a repayment agreement that recaptures 100% of the loan amount for the first five years and 30% of the loan amount after year five. Recapture occurs upon maturity of the Community Activity Set Aside Program first mortgage, upon voluntary or involuntary sale of the property, or the property is no longer owner occupied.

HOME HELP loans are available only to Mortgagors participating in the Agency's Community Activity Set-Aside first mortgage program. Program participants choose between the use of Homeownership Assistance Funds described above or HOME HELP funds.

## **Target Areas**

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

## **Servicing**

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

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

## **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, 2008, the Agency had outstanding loans receivable of \$1,521,930,000 gross, from the proceeds of Bonds. As of March 31, 2008, excluding the proceeds of short-term bonds and notes, there were no uncommitted proceeds from previous bond sales available for commitment. Not all loan commitments result in the purchase of a mortgage loan. The ability of the Agency to recommit funds depends on market conditions at the time a loan commitment expires without a loan closing.

Certain information relating to mortgage insurance and delinquency and foreclosure statistics for the mortgage loan portfolio funded by Bonds is contained in Appendix K.

## **HOME IMPROVEMENT PROGRAM**

The Agency's Program provides funds for Program Loans to finance home improvements ("Home Improvement Program Loans"). Under its Program, which is subject to change from time to time as provided in the Bond Resolution and any applicable series resolution., the Agency intends to reimburse itself for its purchase of, or to purchase, Home Improvement Program Loans at varying terms and interest rates. The interest rates are established from time to time and are estimated to cover anticipated costs of funding the Home Improvement

Program Loans, servicing the Home Improvement Program Loans, and defraying a portion of other Program expenses, which include compensation to home improvement lenders and Agency operation costs and expenses. Under the Community Fix-up Fund Program, reduced interest rates on loans are available for individuals or families with gross annual household incomes equal to or less than the current home improvement loan program income limit. Non-prime loans are available at higher interest rates.

As of March 31, 2008, the Agency had outstanding home improvement loans receivable of \$121,878,000 gross from the proceeds of the Agency's Residential Housing Finance Bonds, 2002 Series H (Taxable) (\$15,000,000 principal amount Outstanding as of March 31, 2008) and the Home Improvement Endowment Fund. As of July 1, 2007, all home improvement loans were transferred to the Alternative Loan Fund.

## OTHER PROGRAMS

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

For example, as of March 31, 2008, the Single Family Mortgage Bond Fund, which has a more extensive history than the Residential Housing Finance Bond Fund, had outstanding loans receivable of \$265,069,000 gross, from the proceeds of the Agency's single family mortgage bonds. As of June 30, 2008, no additional mortgage loans were being processed for purchase with moneys on deposit in the Single Family Mortgage Bond Fund. As of June 30, 2008, there were no uncommitted proceeds from previous bond sales available for commitment. *None of the mortgage loans credited to the Single Family Mortgage Bond Fund secure or are available for the payment of principal of or interest on the Bonds.*

## TAX EXEMPTION AND RELATED CONSIDERATIONS

### General

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

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

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

The Agency has included provisions in the Resolutions, the Manual and other relevant documents, and has established procedures (including receipt of certain affidavits and warranties from Lenders, Mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the requirements of the Code

that 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 2008 Series B Bonds and the 2008 Series C Bonds, but not the 2008 Series A Bonds, will be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2008 Series A Bonds will be included in adjusted current earnings for purposes of computing federal alternative minimum taxes imposed on corporations.*

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the 2008 Series B Bonds and the 2008 Series C Bonds, but not the 2008 Series A 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 owner'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 BONDOWNERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

### **Certain State Tax Legislation**

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates

and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of such interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any such court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so-called 'private-activity,' 'industrial-revenue,' or 'conduit' bonds... used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

The Series Bonds are "private activity bonds" even though they finance individual residential mortgages, not projects by private entities. Since the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the Agency cannot predict the outcome of any such challenge. If Minnesota's treatment of such bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

#### **LEGAL MATTERS**

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

#### **FINANCIAL ADVISOR**

CSG Advisors Incorporated (the "Financial Advisor") is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series Bonds and provided other advice to the Agency. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

#### **UNDERWRITERS**

RBC Capital Markets Corporation and Piper Jaffray & Co. (collectively, the "Underwriters") will purchase the Series Bonds. RBC Capital Markets is the name under which RBC Capital Markets Corporation will be performing underwriting services in connection with the Series Bonds.

The Underwriters are to be paid a fee of \$542,510.28 with respect to the purchase of the Series Bonds. The Underwriters may offer and sell such Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

RBC Capital Markets Corporation, an underwriter of the Series Bonds, is a subsidiary of Royal Bank of Canada.

**ADDITIONAL COMPUTATIONAL INFORMATION**

Certain additional computational information regarding projected average lives of certain of the maturities of the 2008 Series AB Bonds, including a description of the methodology and certain assumptions used in deriving such average lives, is available through the Agency upon request.

**MISCELLANEOUS**

This Official Statement is submitted in connection with the offering of the Series Bonds and may not be reproduced or used, as a whole or in part, for any other purposes. Any statement made or incorporated in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or owners 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 17, 2008.

**APPENDIX A**

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

## **DISCLAIMER**

**The following information with respect to the General Reserve and Residential Housing Finance Fund (the “Funds”) as of March 31, 2008 and for the nine-month period then ended 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 as of March 31, 2008 and for the nine-month period then ended, subject to year-end adjustments. 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 these financial statements.**

**STATEMENTS OF NET ASSETS**  
**(for specified funds)**  
**(unaudited)**



As of  
 March 31, 2008  
 (unaudited)

(in thousands)

	<u>General Reserve</u>	<u>Residential Housing Finance</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 70,142	\$ 330,076
Investment securities	46,939	331,262
Loans receivable, net	-	1,839,971
Interest receivable on loans	-	8,832
Interest receivable on investments	755	12,609
FHA/VA insurance claims	-	2,056
Real estate owned	-	4,847
Unamortized bond issuance costs	-	10,374
Capital assets, net	3,183	-
Other assets	1,070	20
Total assets	\$ 122,089	\$ 2,540,047
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Bonds payable, net	\$ -	\$ 1,951,905
Interest payable	-	22,297
Accounts payable and other liabilities	3,513	3,121
Interfund payable (receivable)	3,794	(27,874)
Funds held for others	88,435	-
Total liabilities	95,742	1,949,449
Net Assets:		
Restricted by bond resolution	23,164	128,629
Restricted by covenant	-	461,969
Invested in capital assets	3,183	-
Total net assets	26,347	590,598
Total liabilities and net assets	\$ 122,089	\$ 2,540,047

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
(for specified funds)  
(unaudited)**



For Nine Months Ended  
March 31, 2008  
(unaudited)  

---

  
(in thousands)

	<u>General Reserve</u>	<u>Residential Housing Finance</u>
<b>Revenues:</b>		
Interest earned on loans	\$ -	\$ 73,544
Interest earned on investments	980	26,859
Administrative reimbursement	17,803	-
Fees earned and other income	6,833	850
Unrealized gains/(losses) on securities, net	30	6,966
Total revenues	25,646	108,219
<b>Expenses:</b>		
Interest	-	67,032
Loan administration and trustee fees	-	4,143
Administrative reimbursement	-	9,505
Salaries and benefits	12,225	-
Other general operating	6,284	2,980
Reduction in carrying value of certain low interest rate deferred loans	-	11,532
Provision for loan losses	-	5,165
Total expenses	18,509	100,357
Revenues over expenses	7,137	7,862
<b>Other charges:</b>		
Non-operating transfer of assets between funds	(26,800)	26,800
Change in net assets	(19,663)	34,662
Total net assets, beginning of year	46,010	555,936
Total net assets, end of year	\$ 26,347	\$ 590,598

**STATEMENTS OF CASH FLOWS**  
**(for specified funds)**  
**(unaudited)**



	For Nine Months Ended March 31, 2008 (unaudited)	
	(in thousands)	
	<u>General Reserve</u>	<u>Residential Housing Finance</u>
Cash flows from operating activities:		
Principal repayments on loans	\$ -	\$ 67,484
Investment in loans	-	(377,080)
Interest received on loans	-	72,609
Other operating	-	(2,980)
Fees and other income received	7,005	860
Salaries, benefits and vendor payments	(17,003)	(4,264)
Administrative reimbursement from funds	17,214	(8,390)
Interest transferred to funds held for others	(2,795)	-
Deposits into funds held for others	24,173	-
Disbursements made from funds held for others	(15,983)	-
Interfund transfers and other assets	(506)	(1,029)
Net cash provided(used) by operating activities	<u>12,105</u>	<u>(252,790)</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds	-	506,141
Principal repayment on bonds	-	(456,725)
Interest paid on bonds and notes	-	(80,538)
Financing costs paid related to bonds issued	-	(2,454)
Interest paid/received between funds	-	1,477
Principal paid/received between funds	-	650
Transfer of cash between funds	(22,278)	22,278
Net cash used by noncapital financing activities	<u>(22,278)</u>	<u>(9,171)</u>
Cash flows from investing activities:		
Investment in real estate owned	-	(454)
Interest received on investments	3,807	18,151
Proceeds from sale of mortgage insurance claims/real estate owned	-	7,210
Proceeds from maturity, sale, or transfer of investment securities	53,795	217,109
Purchase of investment securities	(9,088)	(215,228)
Net cash (used) provided by investing activities	<u>48,514</u>	<u>26,788</u>
Net increase(decrease) in cash and cash equivalents	38,341	(235,173)
Cash and cash equivalents:		
Beginning of year	31,801	565,249
End of year	<u>\$ 70,142</u>	<u>\$ 330,076</u>

**STATEMENTS OF CASH FLOWS (continued)**  
**(for specific funds)**  
**(unaudited)**



	For Nine Months Ended March 31, 2008 (unaudited)	
	(in thousands)	
	<u>General Reserve</u>	<u>Residential Housing Finance</u>
Revenues over expenses	<u>\$ 7,137</u>	<u>\$ 7,862</u>
Adjustments to reconcile revenues over expenses to net cash provided(used) by operating activities:		
Amortization of premiums and fees on loans	-	1,680
Depreciation	1,532	
Realized gains on securities, net	(7)	(517)
Unrealized gains on securities, net	(30)	(6,966)
Provision for loan losses	-	5,165
Reduction in carrying value of certain low interest rate deferred loans	-	11,532
Capitalized interest on loans and real estate owned	-	(780)
Interest earned on investments	(973)	(30,426)
Interest expense on bonds and notes	-	67,032
Changes in assets and liabilities:		
Increase in loans receivable, excluding loans transferred between funds	-	(309,596)
Increase in interest receivable on loans	-	(1,835)
Increase in arbitrage rebate liability	-	4,084
Interest transferred to funds held for others	(2,795)	-
Increase(decrease) in accounts payable	37	(111)
(Decrease)increase in interfund payable, affecting operating activities only	(649)	66
Increase in funds held for others	8,190	-
Other	(337)	20
Total adjustments	<u>4,968</u>	<u>(260,652)</u>
Net cash provided (used) by operating activities	<u>\$ 12,105</u>	<u>\$ (252,790)</u>

**CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES**  
**(for specific funds)**  
**(unaudited)**



Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair market value and are composed of the following at March 31, 2008 (in thousands):

<u>Funds</u>	<u>Deposits</u>	<u>Money Market Funds/ Repurchase Agreements, and Commercial Paper</u>	<u>Investment Agreements</u>	<u>Combined Totals</u>
General Reserve	\$ -	\$ 70,142	\$ -	\$ 70,142
Residential Housing Finance	1,770	75,654	252,652	330,076

Investment Securities

Investment securities are recorded at fair market value and are composed of the following at March 31, 2008 (in thousands):

<u>Funds</u>	<u>US Treasuries, Agencies, Certificates of Deposit, Commercial Paper, and Corporate Notes at Amortized Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Appreciation/ (Depreciation) in Fair Market Value</u>	<u>Estimated Market Value</u>
General Reserve	\$ 46,455	\$ 484	\$ 46,939	
Residential Housing Finance	325,845	5,417	331,262	

**LOANS RECEIVABLE, NET**  
**(for specific funds)**  
**(unaudited)**



Loans receivable, net at March 31, 2008 consist of (in thousands):

<u>Funds</u>	<u>Outstanding Principal</u>	<u>Allowance for Loan Losses</u>	<u>Unamortized Discounts and Fees</u>	<u>Loans Receivable, Net</u>
General Reserve	\$ -	\$ -	\$ -	\$ -
Residential Housing Finance	1,918,216	(82,580)	4,335	1,839,971

Included in the table above, are certain loans residing in Pool 3 that are originated at interest rates ranging from 0% to 5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination most are fully reserved resulting in a net carrying value of zero. The outstanding principal of those loans is \$91,186,000.

**BONDS PAYABLE, NET  
(for specific funds)  
(unaudited)**



Bonds payable, net at March 31, 2008 are as follows (in thousands):

<u>Funds</u>	<u>Outstanding Principal</u>	<u>Net Unamortized Premium</u>	<u>Bonds Payable, Net</u>
General Reserve	\$ -	\$ -	\$ -
Residential Housing Finance	1,942,860	9,045	1,951,905

**BONDS PAYABLE, NET (continued)**  
**(for specific funds)**  
**(unaudited)**



Residential Housing Finance

Outstanding principal of bonds payable at March 31, 2008 are as follows (in thousands):

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Par Bonds Outstanding</u>
2002 Series A	4.75% to 5.30%	2019	\$ 14,035	\$ 3,990
2002 Series B	4.60% to 5.65%	2033	59,650	16,755
2002 Series A-1	4.20% to 4.90%	2019	6,860	4,990
2002 Series B-1	3.80% to 5.35%	2033	25,760	17,885
2002 Series E	4.30% to 5.00%	2020	12,805	8,505
2002 Series F	3.95% to 5.40%	2032	52,195	28,510
2002 Series H	4.48% to 4.93%	2012	20,000	15,000
2003 Series A	2.50% to 4.30%	2034	40,000	25,435
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	3.25% to 5.25%	2035	25,000	14,910
2003 Series J	Variable	2033	25,000	22,780
2004 Series A	3.20% to 4.25%	2018	22,480	19,455
2004 Series B	2.75% to 5.00%	2033	94,620	62,900
2004 Series C	4.70%	2035	14,970	13,110
2004 Series E-1	4.10% to 4.60%	2016	5,110	4,415
2004 Series E-2	4.40% to 4.60%	2016	6,475	5,600
2004 Series F-1	3.90% to 4.50%	2012	4,600	1,085
2004 Series F-2	3.70% to 5.25%	2034	36,160	29,940
2004 Series G	Variable	2032	50,000	44,470
2005 Series A	2.75% to 4.125%	2018	14,575	12,630
2005 Series B	4.75% to 5.00%	2035	20,425	18,765
2005 Series C	Variable	2035	25,000	22,820
2005 Series G	4.25% to 4.30%	2018	8,950	8,865
2005 Series H	3.60% to 5.00%	2036	51,050	46,400
2005 Series I	Variable	2036	40,000	37,000
2005 Series J	3.625% to 4.00%	2015	11,890	11,730
2005 Series K	3.30% to 4.40%	2028	41,950	37,265
2005 Series L	4.75% to 5.00%	2036	48,165	44,875
2005 Series M	Variable	2036	60,000	55,595
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	3.70% to 5.00%	2036	65,490	61,870
2006 Series A	3.30% to 4.00%	2016	13,150	11,895
2006 Series B	4.60% to 5.00%	2037	43,515	42,470
2006 Series C	Variable	2037	28,335	27,240
2006 Series F	3.60% to 4.25%	2016	11,015	10,135
2006 Series G	4.85% to 5.50%	2037	58,985	58,420
2006 Series H	5.85%	2036	15,000	14,045
2006 Series I	3.90% to 5.75%	2038	95,000	92,820
2006 Series J	6.00% to 6.51%	2038	45,000	43,960
2006 Series L	3.45% to 3.95%	2016	6,740	6,740
2006 Series M	4.625% to 5.75%	2037	35,260	35,120
2006 Series N	5.19% to 5.76%	2037	18,000	17,675
2007 Series C	3.45% to 3.95%	2017	12,515	12,515
2007 Series D	4.60% to 5.50%	2038	62,485	62,485
2007 Series E	Variable	2038	25,000	24,860
2007 Series F	3.68%	2008	22,010	22,010
2007 Series G	3.73%	2008	79,830	79,830
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.70% to 5.50%	2038	100,270	99,800
2007 Series J	Variable	2038	37,500	37,500
2007 Series K	3.78%	2008	98,440	98,440
2007 Series L	3.70% to 5.50%	2048	105,000	105,000
2007 Series M	6.345%	2038	70,000	69,965
2007 Series N	3.30%	2008	36,000	36,000
2007 Series O	3.35%	2008	64,000	64,000
2007 Series P	3.50% to 3.90%	2017	4,305	4,305
2007 Series Q	3.70% to 5.50%	2038	42,365	42,365
2007 Series R	4.41% to 4.76%	2013	2,840	2,840
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	37,160
Total			\$ 2,133,650	\$ 1,917,860
Limited Obligation Bonds (Draw Down)	Variable	2010	\$ 25,000	\$ 25,000

**BONDS PAYABLE, NET (continued)**  
**(for specific funds)**  
**(unaudited)**



Residential Housing Finance

Using interest rates in effect on March 31, 2008 and assuming those interest rates remain the same over the term of the bonds of that series, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, (in thousands), are as follows. As rates vary, variable rate bond interest payments and net swap payments will vary.

Variable Rate Bonds  
(in thousands)

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swaps, Net</u>	<u>Total</u>
2009	\$ 7,220	\$ 7,550	\$ 5,638	\$ 20,408
2010	890	6,130	6,093	13,113
2011	930	6,108	5,785	12,823
2012	980	6,085	5,428	12,493
2013	1,035	6,061	5,080	12,176
2014-2018	14,755	29,654	20,912	65,321
2019-2023	46,740	27,128	14,457	88,325
2024-2028	85,385	21,541	8,040	114,966
2029-2033	103,875	13,594	3,600	121,069
2034-2038	75,150	5,300	1,363	81,813
2039-2043	9,580	1,215	19	10,814
2044-2048	6,105	522	-	6,627
2049-2053	755	9	-	764

**GASB Statement No. 45  
(unaudited)**

***GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (GASB 45)***

Effective for the Fiscal Year ending June 30, 2008, the Agency will be adopting and implementing GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB 45). This Statement addresses how public entities should account for and report their costs and obligations related to postemployment healthcare and other non-pension benefits. Collectively, these benefits are commonly referred to as “other post-employment benefits” (“OPEB”). GASB 45 generally requires that public entity employers account for and report the annual cost of OPEB, and the outstanding obligations and commitments related to OPEB, in essentially the same manner as they currently do for pensions. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans.

**BONDS PAYABLE, NET**  
(for specified funds)  
(unaudited)

**Swap Disclosure**

*Objective of Swaps*

Since 2003 the Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds. The Agency has used swaps to create synthetic fixed rate debt at an interest rate lower than that achievable from long-term fixed rate bonds and to further the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

*Terms of Swaps*

The terms of the swaps, including the fair values and the credit ratings of the three counterparties thereto as of March 31, 2008, are contained in the three tables below. The initial notional amounts of the swaps match the original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps, the Agency has also purchased the cumulative right, based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to correspond to the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, and 2004G swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Associated Bond Series	Counterparty Credit Rating	03/31/08 Notional Amounts	Effective Date	Fixed Rate Payable	Variable Rate Payable	03/31/08 Fair Value (1)	Swap Maturity Date
RHFB 2003B	Aa1**/AA-*** (2)	\$ 25,000,000	July 23, 2003	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (215,301)	January 1, 2033
RHFB 2003J		22,780,000	October 15, 2003	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(1,701,235)	July 1, 2033
RHFB 2005C		22,820,000	March 2, 2005	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(915,628)	January 1, 2035

**BONDS PAYABLE, NET**  
(for specified funds)  
(unaudited)

Associated Bond Series	Counterparty Credit Ratings	03/31/08 Notional Amounts	Effective Date	Fixed Rate Payable	Variable Rate Payable	03/31/08 Fair Value (1)	Swap Maturity Date
RHFB 2006C		27,240,000	March 21, 2006	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(1,610,473)	January 1, 2037
RHFB 2007S		18,975,000	December 19, 2007	4.340%	100% of SIFMA*** Index plus 0.06% per annum	(543,038)	July 1, 2038
RHFB 2007T (Taxable)		37,160,000	December 19, 2007	4.580%	100% of 1 month LIBOR*	(1,890,712)	July 1, 2026
Counterparty	Total	<u>\$153,975,000</u>				<u>\$ (6,876,387)</u>	
RHFB 2004G	Aaa**/AA-***	44,470,000	July 22, 2004	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	(3,074,691)	January 1, 2032
RHFB 2007E (Taxable)		24,860,000	March 7, 2007	5.738%	100% of 1 month LIBOR*	(2,081,085)	July 1, 2038
RHFB 2007J (Taxable)		37,500,000	May 17, 2007	5.665%	100% of 1 month LIBOR*	(3,010,823)	July 1, 2038
Counterparty	Total	<u>\$106,830,000</u>				<u>\$ (8,166,599)</u>	

**BONDS PAYABLE, NET**  
(for specified funds)  
(unaudited)

Associated Bond Series	Counterparty Credit Ratings	03/31/08 Notional Amounts	Effective Date	Fixed Rate Payable	Variable Rate Payable	03/31/08 Fair Value (1)	Swap Maturity Date
RHFB 2005I	Aa1**/AA*** (3)	\$ 37,000,000	June 2, 2005	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	\$ (1,567,273)	January 1, 2036
RHFB 2005M		55,595,000	August 4, 2005	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(1,807,377)	January 1, 2036
Counterparty Total		<u>\$ 92,595,000</u>				<u>\$ (3,374,650)</u>	
Combined Totals		<u>\$353,400,000</u>				<u>\$ (18,417,636)</u>	

(1) A positive fair value represents money due to the Agency by the counterparty upon an assumed termination on March 31, 2008. A positive fair value represents the amount due the Agency by the counterparty upon termination of the swap while a negative fair value represents the amount payable by the Agency.

(2) Moody's Investors Services, Inc. has placed the "Aa1" rating of this counterparty (UBS AG) on negative watch and Standard & Poor's Ratings Services has given the "AA-" rating of this counterparty (UBS AG) a negative outlook.

(3) Moody's Investors Services, Inc. has given the "Aa1" rating of this counterparty (Citibank, N.A.) a negative outlook and Standard & Poor's Ratings Services has placed the "AA" rating of this counterparty (Citibank, N.A.) on negative watch.

\* London Inter-Bank Offered Rate

\*\* Moody's Investor Service, Inc.

\*\*\* Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies

\*\*\*\* Securities Industry and Financial Markets Association

**BONDS PAYABLE, NET**  
**(for specified funds)**  
**(unaudited)**

*Swap Valuation*

The fair values presented in the foregoing tables were estimated by the Agency's counterparties to the swaps and approximate the termination payments that would have been due had the swaps been terminated as of March 31, 2008. A positive fair value represents the amount due the Agency by the counterparty upon termination of the swap while a negative fair value represents the amount payable by the Agency.

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current credit exposure to the swap counterparty upon a termination event. As of March 31, 2008, the Agency did not have a net credit risk exposure to each of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. The swap agreements contain varying collateral requirements based upon the Agency's and the counterparties' credit ratings and the fair values of the swaps. These bilateral requirements are established to mitigate potential credit risk exposure. As of March 31, 2008, neither the Agency nor any counterparty had been required to post collateral.

*Amortization Risk*

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within most of the outstanding swaps to enable the Agency to manage outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

*Basis Risk*

The Agency has incurred the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts payable by the counterparty under the associated swap. This basis risk exists because the variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percent of the one-month, taxable LIBOR rate or the SIFMA rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of March 31, 2008, the interest rate on the Agency's variable rate tax-exempt debt ranged from 2.30% to 2.50% per annum while the variable interest rate on the variable rate taxable debt was 4.10% per annum while the variable interest rates on the corresponding swaps were 2.68% to 3.12% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap has been based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate BMA rate (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

**BONDS PAYABLE, NET**  
**(for specified funds)**  
**(unaudited)**

*Tax Risk*

The structure of the variable interest rate payments the Agency receives from its swap contracts relating to tax-exempt variable rate bonds are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it has not been economically favorable to transfer to the swap counterparties.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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**\MINNESOTA HOUSING FINANCE AGENCY**  
**Annual Financial Report as of and for the year ended June 30, 2007**

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## MINNESOTA HOUSING FINANCE AGENCY

### Commissioner's Report

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In my 2006 report I foreshadowed the work the Agency would be undertaking to develop a strategy management system as a tool to update the Agency Strategic Plan and develop the 2008-2009 Affordable Housing Plan which serves as the Agency's program budget. This work allowed, and will continue to allow, the Agency to be clear about its strategy, its priorities, and its objectives, and have measures in place to track our progress. In June, after months of intense work, the Agency formally adopted an updated Strategic Plan including a strategy map, and balanced scorecard that aligns our financial, program, and policy objectives.

An important element of our strategy management was the review of Agency sustainable financial policies which resulted in a significant financial restructuring following the close of fiscal year 2007. This restructuring allows the Agency to be more focused about the resources necessary to support the Agency's sustainable lending functions and the resources that may be deployed to expand housing programs requiring deferred loans and grants. As a result of the restructuring and the Agency's strong financial performance, we identified significantly more internal resources to allocate to the 2008-2009 Affordable Housing Plan. In addition, the state's long-term and bipartisan commitment to affordably house its citizens resulted in legislative approval of the Governor's request for Minnesota Housing to receive a 62% increase in state appropriated biennial budget to a total of \$114 million. This included the largest base budget ever of almost \$90 million. Consequently, Minnesota Housing proposed a \$1.6 billion Affordable Housing Plan for 2008-2009, which is the largest ever and a \$350 million increase over the current plan.

The Agency continues to make significant progress on the strategic priorities identified in our updated Strategic Plan:

- Finance new affordable housing opportunities;
- Preserve existing affordable housing;
- End long-term homelessness; and
- Increase emerging market homeownership.

Our progress on the Business Plan to End Long-Term Homelessness continues as we again exceeded production benchmarks (1,091 housing opportunities against a goal of 1,000). The Business Plan has been "recalibrated" to reflect the first three years of implementation and to guide the next phase of our work.

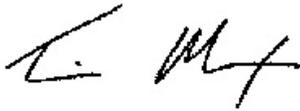
We continue to be actively involved in the Emerging Markets Homeownership Initiative (EMHI), the nonprofit organization established to coordinate implementation of the state-wide plan to increase minority homeownership, as well as increasing our own efforts to increase emerging market penetration with Minnesota Housing homeownership financing products.

A summary of overall program highlights are set forth in the annual program assessment report, which can be viewed on our web site at [www.mnhousing.gov](http://www.mnhousing.gov). In program year 2006 (beginning October 1, 2005 and ending September 30, 2006) the Agency provided more than \$717 million in housing assistance, which reflects continued strong program demand. Homeownership programs within the Agency's Single Family Division experienced record volume, with the Agency providing \$452.8 million in assistance to more than 16,000 homeowners and homebuyers. This accounts for the bulk of the increased assistance the Agency provided in this program year. Our Multifamily programs provided \$264 million in assistance during the 2006 program year, providing assistance to sponsors or tenants of more than 41,000 units of affordable rental housing. As of the end of the 2007 fiscal year, the Agency oversaw a portfolio of more than 42,000 mortgages and deferred loans for homeownership, and home improvement and 314 first mortgage loans for rental housing as well as administering the federal tax credit program.

Key to our programmatic accomplishments and housing policy success is strong financial performance in fiscal year 2007 with General Reserve and bond fund net asset growth of \$31 million to total net assets of \$751 million. As pleased as we are with our performance this past year and the increased resources available under the Affordable Housing Plan, we know that there will be challenges to confront this coming year. As with many states, Minnesota is experiencing a dramatic increase in foreclosures of "sub-prime" adjustable rate/adjustable payment homeowner mortgages with projections that delinquencies and foreclosures will continue to increase. Minnesota Housing's

primary loan programs offer fixed interest rate/fixed payment financing that has not exhibited the same high risk characteristics recently associated with some “sub-prime” variable or adjustable rate and adjustable payment loan products. Although the performance of our first mortgage homeownership portfolio remains very strong, this situation affects Minnesota families and communities, and Minnesota Housing has and will continue to play a role with other stakeholders to developing and implement appropriate responses. In addition, in August of 2007, Southeastern Minnesota experienced record rainfalls resulting in flash floods. Hundreds of homes have been destroyed or damaged and seven counties have been declared presidential disaster areas. Minnesota Housing is now working with affected communities and stakeholders to develop and implement a rebuilding plan.

I am confident that Minnesota Housing, our stakeholders and the broader community will confront successfully these and other challenges the coming year will bring. Our programmatic expertise, our policy leadership, and our financial strength provide us the capacity to advance our affordable housing mission and enhance Minnesota’s quality of life.

A handwritten signature in black ink, appearing to read "T. Marx". The signature is stylized and cursive.

Timothy E. Marx, Commissioner

Minnesota Housing

August 31, 2007

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Agency's 2006 financial statements and, in our report dated August 18, 2006, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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



**LarsonAllen LLP**

Minneapolis, Minnesota

September 26, 2007

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# **MINNESOTA HOUSING FINANCE AGENCY**

## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

### **Introduction**

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. 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. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. Minnesota Housing also receives funds appropriated by the federal government for similar purposes.

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

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

The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and one ex-officio member (the State Auditor).

### **Discussion of Financial Statements**

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

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

The basic financial statements also include comparative totals as of and for the year ended June 30, 2006. Although not required, these comparative totals are intended to facilitate an enhanced understanding of Minnesota

Housing's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year.

### **Discussion of Individual Funds**

During fiscal year 2007 Minnesota Housing maintained the Home Improvement Endowment Fund, Homeownership Endowment Fund, and Multifamily Endowment Fund (Endowment Funds) as sub-funds of the Residential Housing Finance Fund. Effective July 1, 2007 Minnesota Housing terminated these three Endowment Funds held under the Residential Housing Finance bond resolution and transferred the assets therein to the Housing Investment Fund and Housing Affordability Fund (also referred to as Pool 2 and Pool 3, respectively). By Board resolution, the Agency also changed its net asset requirements and investment guidelines for the Housing Endowment Fund (also referred to as Pool 1), Pool 2, and Pool 3, effective as of July 1, 2007. Please see Notes To Financial Statements, Subsequent Events for additional information.

#### *General Reserve*

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

#### *Rental Housing*

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

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

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

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

#### *Residential Housing Finance*

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the bond resolution restricted Home Improvement, Homeownership, and Multifamily Endowment Funds, and the restricted by covenant Alternative Loan Fund consisting of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3).

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans and some related entry cost housing assistance loans, and home improvement unsecured or subordinated mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD).

This bond resolution is the principal source of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2007.

The Home Improvement Endowment Fund was the principal source of financing for Minnesota Housing's home improvement loan programs. Loan repayments were utilized to finance new loan activity for home improvement loan programs during fiscal year 2007.

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

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

The Housing Investment Fund (Pool 2) held in the Alternative Loan Fund is currently invested in amortizing interest-bearing multifamily and single family housing loans and may also be used to advance funds to retire high-rate debt and to warehouse loans.

The Housing Affordability Fund (Pool 3) held in the Alternative Loan Fund includes a housing administration contingency fund, consisting of cash, investments, and amortizing interest-bearing single family housing loans, for future administrative costs and other funds that may be used as a source of funding for bond sale contributions, multifamily first and subordinated mortgage loans, including zero-percent deferred loans, and other below-market rate loans with higher than ordinary risk factors. It may also be used to advance funds to retire high-rate debt and to warehouse loans.

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

#### *Single Family*

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

The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

Funds in excess of bond resolution requirements may be budgeted for and used to redeem bonds, to fund housing programs and for Agency operations.

#### *State and Federal Appropriated Funds*

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

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

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

### **General Overview**

Minnesota Housing financial statements are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds. The Agency defines the term "major funds" to include: General Reserve, Rental Housing, Residential Housing Finance, Single Family, State Appropriated, and Federal Appropriated. The combined Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board. 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 set forth in their respective bond resolutions and are pledged for the primary benefit of the respective bondholders and swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General

Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

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

Public funds directly appropriated to Minnesota Housing by the State of Minnesota or made available to Minnesota Housing from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated funds are not pledged or available to support bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

In addition to its audited annual financial statements, Minnesota Housing publishes unaudited quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. These disclosure reports can be found on Minnesota Housing's web site at [www.mnhousing.gov](http://www.mnhousing.gov).

# 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			Combined General Reserve and Bond Funds			Combined State and Federal Appropriations Funds		
		6/30/07	6/30/06	Change	6/30/07	6/30/06	Change	6/30/07	6/30/06	Change
		\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>	Cash and Investments	1,260,244	1,103,132	157,112	1,188,099	990,408	197,691	72,145	112,724	(40,579)
	Loans receivable, Net	2,091,381	1,805,094	286,287	2,059,822	1,776,736	283,086	31,559	28,358	3,201
	Interest Receivable	16,919	12,065	4,854	16,105	11,443	4,662	814	622	192
	<b>Total Assets</b>	<b>3,394,421</b>	<b>2,942,903</b>	<b>451,518</b>	<b>3,289,465</b>	<b>2,800,117</b>	<b>489,348</b>	<b>104,956</b>	<b>142,786</b>	<b>(37,830)</b>
<b>Liabilities</b>	Bonds Payable	2,398,988	1,946,091	452,897	2,398,988	1,946,091	452,897	-	-	-
	Interest Payable	47,593	38,086	9,507	47,593	38,086	9,507	-	-	-
	Funds Held for Others	81,404	82,368	(964)	79,404	80,555	(1,151)	2,000	1,813	187
	<b>Total Liabilities</b>	<b>2,542,782</b>	<b>2,120,329</b>	<b>422,453</b>	<b>2,538,475</b>	<b>2,080,230</b>	<b>458,245</b>	<b>4,307</b>	<b>40,099</b>	<b>(35,792)</b>
<b>Net Assets</b>	Restricted by Bond Resolution	423,358	406,548	16,810	423,358	406,548	16,810	-	-	-
	Restricted by Covenant	323,247	309,654	13,593	323,247	309,654	13,593	-	-	-
	Restricted by Law	100,649	102,687	(2,038)	-	-	-	100,649	102,687	(2,038)
	<b>Total Net Assets</b>	<b>851,639</b>	<b>822,574</b>	<b>29,065</b>	<b>750,990</b>	<b>719,887</b>	<b>31,103</b>	<b>100,649</b>	<b>102,687</b>	<b>(2,038)</b>

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

		Agency-wide Total			Combined General Reserve and Bond Funds			Combined State and Federal Appropriations Funds		
		2007	2006	Change	2007	2006	Change	2007	2006	Change
		\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>	Interest Earned	165,200	141,502	23,698	160,834	137,954	22,880	4,366	3,548	818
	Appropriations Received	210,797	206,367	4,430	-	-	-	210,797	206,367	4,430
	Fees and Reimbursements	11,012	11,956	(944)	28,568	27,109	1,459	745	745	-
	<b>Total Revenues (1)</b>	<b>406,367</b>	<b>369,777</b>	<b>36,590</b>	<b>189,997</b>	<b>159,440</b>	<b>30,557</b>	<b>216,370</b>	<b>210,337</b>	<b>6,033</b>
<b>Expenses</b>	Interest Expense	101,349	87,115	14,234	101,349	87,115	14,234	-	-	-
	Appropriations Disbursed	186,690	181,598	5,092	-	-	-	186,690	181,598	5,092
	Fees and Reimbursements	5,938	5,961	(23)	20,524	18,697	1,827	3,715	3,162	553
	Payroll, Gen. & Admin.	24,469	23,492	977	23,433	22,556	877	1,036	936	100
	Loan Loss/Value Adjust's	40,555	33,494	7,061	13,588	8,377	5,211	26,967	25,117	1,850
	<b>Total Expenses (1)</b>	<b>377,302</b>	<b>347,558</b>	<b>29,744</b>	<b>158,894</b>	<b>136,745</b>	<b>22,149</b>	<b>218,408</b>	<b>210,813</b>	<b>7,595</b>
	Revenues over Expenses	29,065	22,219	6,846	31,103	22,695	8,408	(2,038)	(476)	(1,562)
Beginning Net Assets	822,574	800,355	22,219	719,887	697,192	22,695	102,687	103,163	(476)	
Ending Net Assets	851,639	822,574	29,065	750,990	719,887	31,103	100,649	102,687	(2,038)	

(1) Agency-wide totals include interfund amounts.

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# MINNESOTA HOUSING FINANCE AGENCY

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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### 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 2007 Financial Report.

#### General Reserve and Bond Funds — Statement of Net Assets

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

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families. Loans receivable, net increased 16% to \$2,060 million at June 30, 2007 as a result of new loan purchases and originations net of repayments, prepayments, and loss reserves. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing (referred to as the homeownership portfolio). The majority of growth in loans receivable during fiscal year 2007 was attributed to the homeownership portfolio. The reserve for loan loss requirements of the homeownership loan portfolio increased due to the continued growth of the portfolio and an increase in homeownership loan delinquency rates as displayed in the following delinquency data. Minnesota Housing also has active amortizing and installment payment home improvement and rental rehabilitation loan programs which offer low interest and market rate loans that may be secured with second or subordinate mortgages, or may be unsecured (referred to as the home improvement loan portfolio). The reserve for loan loss requirements of the home improvement loan portfolio increased primarily as a result of increased loan delinquency rates also displayed in the following delinquency data. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in the delinquency rate and the aggregate loan receivable balance. The reserve for loan loss requirements of the multifamily portfolio were relatively unchanged during fiscal year 2007. Minnesota Housing's primary loan programs offer fixed interest rate/fixed payment financing that has not exhibited the same high risk characteristics recently associated with some "sub-prime" variable or adjustable interest rate and adjustable payment loan products.

### Homeownership Loan Portfolio Delinquency

Actual Loan Count

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
Current	17,088	96.5%	15,600	97.2%
60-89 days past due	247	1.4%	158	1.0%
90-119 days past due	115	0.6%	110	0.7%
120+ days past due	268	1.5%	186	1.1%
Total count	<u>17,718</u>		<u>16,054</u>	
Total past due	630	3.5%	454	2.8%

### Home Improvement Loan Portfolio Delinquency

Actual Loan Count

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
Current	10,020	95.5%	10,351	97.1%
60-89 days past due	87	0.8%	47	0.4%
90-119 days past due	32	0.3%	18	0.2%
120+ days past due	352	3.4%	242	2.3%
Total count	<u>10,491</u>		<u>10,658</u>	
Total past due	471	4.5%	307	2.9%

Delinquency rates of the Minnesota Housing homeownership loan portfolio through June 2007 approximated the delinquency rates of similar loan data available from the Minnesota Mortgage Bankers Association.

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, comparable delinquency data is not available from other sources.

Mortgage insurance claims receivable consist of non-performing homeownership loans that are FHA or VA insured. These loans are reclassified as claims receivable at the time the Agency files a claim. Mortgage insurance claims receivable increased 149% to \$1.837 million at June 30, 2007 as a result of increased delinquency rates within the homeownership portfolio.

Real estate owned consists of homeownership loans that have been foreclosed and multifamily property carrying costs where the Agency is in the process of acquiring certain properties or the Agency has acquired title to the real property. Real estate owned increased 93% to \$2.727 million at June 30, 2007 also as a result of increased delinquency concluding in foreclosure within the homeownership portfolio.

While there has been some increase in delinquency rates and foreclosures of the Agency's loans receivable during fiscal year 2007, as evident by increases in mortgage insurance claims and real estate owned, the combined total of mortgage insurance claims and real estate owned remains immaterial compared to total loans receivable at 6/30/07, being less than .22% of total net loans receivable. Management believes that reserves for loan losses are adequate to assure the proper valuation of the loan assets based on the current assessment of asset quality.

There are no loan assets in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to assure adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 20% to \$1,188 million at June 30, 2007 primarily due to increased debt issuance.

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 41% to \$16.105 million at June

30, 2007. The average balance of loans receivable and combined investments, cash and cash equivalents were higher in fiscal year 2007 than in the previous year.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending that supports Minnesota Housing's mission. Bonds payable increased 23% to \$2,399 million at June 30, 2007 resulting from new debt issuance, redemptions, and bond maturities.

The companion category of interest payable increased 25% to \$47.593 million at June 30, 2007 as a result of higher average cost of new bonds issued, including an increasing principal amount of taxable bonds, and higher average bonds payable outstanding during the fiscal year.

There is no debt issued in General Reserve. General Reserve does recognize a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to the loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain operating expenditures. Funds held for others in General Reserve decreased 1% to \$79.404 million at June 30, 2007 as multifamily escrow reserves decreased slightly.

Accounts payable and other liabilities decreased 16% to \$12.999 million at June 30, 2007 primarily as a result of arbitrage liability payments made net of general and administrative expenses payable. The largest component of accounts payable continues to be arbitrage liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury and yield compliance liability. Minnesota Housing obtains from independent valuation specialists annual calculations of its arbitrage rebate liability.

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

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency shall use the money in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and shall accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to provide financial security for the Agency's bondholders. Net assets increased 4% to \$750.990 million at June 30, 2007 as a result of strong financial performance of the bond funds.

#### **General Reserve and Bond Funds — Revenues Over Expenses**

Revenues over expenses of General Reserve and bond funds increased 8% from fiscal year 2006 after considering the net effect of unrealized gains and losses that result from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues increased 15% while total expenses increased 16% compared to the prior year. Minnesota Housing experienced strong positive revenue growth during fiscal year 2007 from its business activities.

The largest revenue component, interest earned, increased significantly during the year. Combined interest revenues of General Reserve and bond funds from loans and investments increased 17% to \$160.834 million compared to the prior year. Loan interest revenue increased 13% in fiscal year 2007 as new loan purchases and originations were made and net loans outstanding were higher throughout the year. Investment interest revenue increased 25% in fiscal year 2007 as investment yields increased and the average balance of investments, cash, and cash equivalents was higher compared to fiscal year 2006.

Administrative reimbursements to General Reserve from bond funds were \$14.596 million in fiscal year 2007 compared to \$12.776 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state appropriated housing programs. General Reserve received overhead reimbursements of \$4.522 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2007 compared to \$3.954 million during the prior fiscal year. Overhead expenses of \$1.111 million to administer state appropriated housing programs during fiscal year 2007 were not reimbursed as the investment earnings available for this use within the State Appropriated fund were insufficient.

Other fee income to General Reserve and bond funds decreased 9% to \$9.450 million compared to the prior year. The primary components of other fee income continue to be federal low income housing tax credit program fees, Section 8 contract administration fees, federal Housing Assistance Payments administration fees, and various loan related fees.

Minnesota Housing recorded \$.595 million of unrealized gains on investment securities during fiscal year 2007, compared to \$5.623 million of unrealized losses during the prior year, for a combined change of \$6.218 million. As investment securities acquired in prior periods at lower yields matured, the unrealized losses previously recognized to adjust them to lower market values were reversed.

Interest expense of the bond funds increased 16% to \$101.349 million compared to the prior year as a result of higher interest rates and increasing debt outstanding during fiscal year 2007.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 10% to \$20.524 million compared to the prior year. It should be noted that \$14.596 million of the total administrative reimbursement revenue in General Reserve were interfund charges of the bond funds which were eliminated for purposes of financial reporting in the Agency-wide financial statements.

Operating expenses increased in fiscal year 2007. Salaries, benefits, and other general operating expenses in General Reserve and bond funds increased 4% to \$23.433 million compared to the prior year.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 57% to \$10.062 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 81% to \$3.526 million. The provision for loan loss expense for the homeownership loan portfolio has increased due to continued growth of the portfolio and increased loan delinquency rates. The provision for loan loss expense for the home improvement loan portfolio has increased primarily as a result of increased loan delinquency rates. The provision for loan loss expense for the multifamily loan portfolio was relatively unchanged. Please refer to the loans receivable comments in the Financial Highlights section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

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

Combined revenues over expenses including unrealized gains and losses for General Reserve and the bond funds increased \$8.408 million to \$31.103 million compared to the prior year. After considering the effects of \$6.218 million of changes to unrealized gains and losses that adjust certain investment asset values to market conditions, the combined revenues over expenses increased 8% or \$2.190 million during fiscal year 2007. This level of net revenues over expenses demonstrates improved financial performance of General Reserve and the bond funds during fiscal year 2007, primarily attributable to growth of the homeownership loan portfolio. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund requirement are transferred periodically either to the Housing Investment Fund (Pool 2) or the Housing Affordability Fund (Pool 3) in the Residential Housing Finance Fund for use in housing programs.

Total combined net assets of General Reserve and bond funds increased 4% to \$750.990 million as of June 30, 2007 as a result of revenues over expenses for fiscal year 2007. The net assets of each individual bond fund and General Reserve increased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds.

#### **State and Federal Appropriated Funds — Statement of Net Assets**

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

Investments, cash, and cash equivalents are the largest category of assets in the appropriated funds. The June 30, 2007 combined balance decreased 36% to \$72.145 million as a result of combined disbursements for programs,

loans and expenses being greater than the combined appropriations received and revenues in the current year. The State Appropriated fund received its fiscal year 2007 appropriation of \$35.235 million on June 30, 2006 which was recorded as deferred revenue (liability) since this amount could not be disbursed prior to July 1, 2006, causing the comparable cash balance to be substantially higher at the previous fiscal year end. This is the main component of the year-to-year decrease in cash and cash equivalents.

Certain state appropriations are expended as housing loans with below market interest rates, resulting in loans receivable. At June 30, 2007 State Appropriated fund loans receivable increased 11% to \$31.559 million reflecting higher current year net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2007 increased 31% to \$.814 million primarily as a result of higher average investment yields.

There was no deferred revenue at fiscal year end 2007. Deferred revenue was recorded in the State Appropriated fund when it received its fiscal year 2007 appropriation of \$35.235 million on June 30, 2006 since this amount could not be disbursed prior to July 1, 2006.

Accounts payable and other liabilities represent amounts payable for the U.S. Department of Housing and Urban Development (HUD) Section 236 interest reduction payments, HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2007 was \$1.798 million compared to \$2.990 million at June 30, 2006. The decrease in accounts payable and other liabilities is largely attributable to decreases in accrued program disbursements payable.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries due to Minnesota Housing. At June 30, 2007 the combined net interfund payable was \$.509 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, 2007 the balance of funds held for the federal government was \$2.000 million.

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to support the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds declined to \$100.649 million as of June 30, 2007 compared to June 30, 2006, reflecting combined disbursements and expenses in excess of revenues during fiscal year 2007.

### **State and Federal Appropriated Funds — Revenues Over Expenses**

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from \$206.367 million at June 30, 2006 to \$210.797 at June 30, 2007. Federal appropriations received increased by \$4.223 million while state appropriations received increased by \$.207 million.

In a special session, the state legislature appropriated \$18 million to the Agency in September 2007 (which will be recognized as revenue in fiscal year 2008) to provide disaster relief for households and communities affected by the August 2007 flood in southeastern Minnesota.

Interest income from investments increased throughout the year as investment yields in general were above the previous levels while the average balance of investment assets was similar to the prior year. The combined interest income increased 22% to \$4.291 million at June 30, 2007.

Loan interest income from State Appropriations loan assets continues to be minimal at \$.075 million as relatively few loans are interest bearing.

Private donations to support state housing programs in the amount of \$.745 million were recognized as other income in the State Appropriated fund during the year ending June 30, 2007.

Unrealized gains on investments are recorded to reflect valuation adjustments to current market conditions for investments, and may be reversed over time as the investments are held. Combined unrealized gains of \$.462 were recorded at June 30, 2007 compared to a \$.323 million unrealized loss at June 30, 2006.

Administrative reimbursements to General Reserve of overhead expenses increased 19% to \$3.705 million compared to the prior year. The Agency incurs the overhead expense in its General Reserve of administering certain State Appropriated fund programs. The General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent that investment earnings are sufficient. However, during fiscal year 2007 investment earnings in the State Appropriated fund were insufficient to fully reimburse \$1.111 million of overhead expenses incurred by General Reserve.

Combined appropriations disbursed increased 3% to \$186.690 million compared to the prior year, reflecting increased State Appropriations disbursed of \$11.902 million and increased federal appropriations disbursed of \$174.788 million 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. Net reductions of carrying value increased 6% to \$26.435 million compared to the prior year, as a result of making more fully reserved deferred loans for low- and moderate-income housing.

Other general operating expenses represent fees for professional and technical support to implement and administer certain state housing programs. Other general operating expense increased 11% to \$1.036 million at June 30, 2007.

Combined expenditures exceeded combined revenues of the appropriated funds by \$2.038 million at June 30, 2007, reflecting current year disbursements of appropriations that were received in prior years. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing.

### **Significant Long-Term Debt Activity**

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2007 long-term bonds totaling \$1,909.075 million and short-term bonds totaling \$484.115 million. Bond proceeds and related revenues are held by a trustee, who is responsible for administration of bond resolution requirements including payment of debt service. At June 30, 2007, amounts held by the trustee in principal, interest and redemption accounts represented full funding of debt service requirements as of that date. The bond resolutions also require funding of debt service reserve accounts and may require funding of insurance reserve accounts. At June 30, 2007, amounts held by the trustee in such reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes different financing and debt management techniques to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while responding to changing capital markets. During the 2007 fiscal year, Minnesota Housing completed the issuance of 24 series of bonds and notes aggregating to \$1,008.800 million. This is compared to the issuance of 18 series totaling \$605.495 million the previous year. The increase in long-term debt is attributable to increased demand for Minnesota Housing's homeownership first-mortgage loans. Long-term bonds are issued as capital is needed for program purposes and as opportunities to economically refund older bonds occur. Short-term bonds are issued to preserve tax-exempt bonding authority for future program use.

A total of \$560.095 million in principal payments and \$87.321 million of interest payments were made during the year. Of the total principal payments, \$162.380 million were made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-

exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

Purchases of homeownership first mortgage loans have increased annually since 2003 when the Agency replaced its seasonal lending program with a continual, year-round program. While most of the agency's bonds are tax-exempt, taxable bonds are increasingly issued to supplement limited tax-exempt authority in order to meet increased demand for mortgage loans. Taxable bonds may also be used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps are an increasing component of Minnesota Housing's financings, enabling the Agency to provide below-market mortgage financing at fixed interest rates. Interest-rate swaps have generally been used to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process Minnesota Housing follows to issue and manage bonds. State statute limits total outstanding debt of Minnesota Housing to \$3.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service continue to affirm issuer ratings for Minnesota Housing of "AA+" and "Aa1," respectively. Minnesota Housing's bond ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency as evidenced by frequent communications during the structuring of bond issues as well as periodic discussions with the rating agencies about such topics as the structure of the Agency's funds, changes to programs, financial performance and results of long-term financial studies.

### **Significant Factors That May Affect Financial Condition and/or Operations**

#### *Legislative Actions*

The Governor recommended a 62% increase in state appropriations for Minnesota Housing and the Legislature largely adopted the recommendations in appropriating a total of \$114.557 million to Minnesota Housing. Of that amount, \$89.916 million is base funding; this compares to a base of \$70.470 million for the previous biennium and is the highest base budget ever appropriated for Minnesota Housing, while \$24.641 million in non-base funds were appropriated. The budget includes a restoration of the base for the entry cost assistance program, a doubling of the Family Homeless Prevention and Assistance program from \$7.430 million to \$14.930 million, funding for the preservation of public housing, and a \$15 million non-base increase to the Economic Development and Housing Challenge program, the largest and most flexible of the state appropriated programs and a program that is used for new construction and rehabilitation of both owner occupied and rental housing. State appropriations are used for specific programs and are not available to pay for Minnesota Housing operations expenses or debt service. Changes in state and federal laws governing administration, funding objectives, housing policy, and fiscal policy pose a potential risk to Minnesota Housing's attainment of mission and financial objectives.

### **Additional Information**

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

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**MINNESOTA HOUSING FINANCE AGENCY****Agency-wide Financial Statements****Statement of Net Assets (in thousands)****As of June 30, 2007 (with comparative totals as of June 30, 2006)**

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	<b>Agency-wide Total As Of June 30, 2007</b>	<b>Agency-wide Total As Of June 30, 2006</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 783,102	\$ 848,238
Investment securities	477,142	254,894
Loans receivable, net	2,091,381	1,805,094
Interest receivable on loans	9,979	8,295
Interest receivable on investments	6,940	3,770
Mortgage insurance claims receivable	1,837	738
Real estate owned	2,727	1,414
Unamortized bond issuance costs	15,206	13,794
Capital assets, net	4,385	3,685
Other assets	1,722	2,981
	<hr/>	<hr/>
Total assets	<b>\$ 3,394,421</b>	<b>\$ 2,942,903</b>
	<hr/>	<hr/>
<b>Liabilities</b>		
Bonds payable, net	\$ 2,398,988	\$ 1,946,091
Interest payable	47,593	38,086
Deferred revenue	-	35,235
Accounts payable and other liabilities	14,797	18,549
Funds held for others	81,404	82,368
Total liabilities	<hr/>	<hr/>
	<b>2,542,782</b>	<b>2,120,329</b>
	<hr/>	<hr/>
Commitments and contingencies		
<b>Net Assets</b>		
Restricted by bond resolution	423,358	406,548
Restricted by covenant	323,247	309,654
Restricted by law	100,649	102,687
Invested in capital assets	4,385	3,685
Total net assets	<hr/>	<hr/>
	<b>851,639</b>	<b>822,574</b>
	<hr/>	<hr/>
Total liabilities and net assets	<b>\$ 3,394,421</b>	<b>\$ 2,942,903</b>
	<hr/>	<hr/>

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Agency-wide Financial Statements**  
**Statement of Activities (in thousands)**  
**Year ended June 30, 2007 (with comparative totals for the**  
**year ended June 30, 2006)**

	<b>Agency-wide Total For The Year Ended June 30, 2007</b>	<b>Agency-wide Total For The Year Ended June 30, 2006</b>
<b>Revenues</b>		
Interest earned on loans	\$ 110,905	\$ 97,863
Interest earned on investments	54,295	43,639
Appropriations received	210,797	206,367
Administrative reimbursement	817	832
Fees earned and other income	10,195	11,124
Unrealized gains (losses) on securities	1,057	(5,946)
	<hr/>	<hr/>
Total revenues	388,066	353,879
<b>Expenses</b>		
Interest	101,349	87,115
Loan administration and trustee fees	5,938	5,961
Salaries and benefits	14,937	14,054
Other general operating	9,532	9,438
Appropriations disbursed	186,690	181,598
Reduction in carrying value of certain low interest rate deferred loans	36,497	31,390
Provision for loan losses	4,058	2,104
	<hr/>	<hr/>
Total expenses	359,001	331,660
Revenues over expenses	29,065	22,219
Change in net assets	29,065	22,219
<b>Net Assets</b>		
Total net assets, beginning of year	822,574	800,355
Total net assets, end of year	<u>\$ 851,639</u>	<u>\$ 822,574</u>

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Fund Financial Statements**  
**Statement of Net Assets (in thousands)**  
**Proprietary Funds**  
**As of June 30, 2007 (with comparative totals as of June 30, 2006)**

	Bond Funds				Appropriated Funds		Total As Of June 30, 2007	Total As Of June 30, 2006
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated		
<b>Assets</b>								
Cash and cash equivalents	\$ 31,801	\$ 51,936	\$ 565,249	\$ 115,549	\$ 9,501	\$ 9,066	\$ 783,102	\$ 848,238
Investment securities	90,639	3,922	325,211	3,792	49,193	4,385	477,142	254,894
Loans receivable, net	-	224,476	1,558,339	277,007	31,559	-	2,091,381	1,805,094
Interest receivable on loans	-	1,408	6,997	1,574	-	-	9,979	8,295
Interest receivable on investments	917	843	4,260	106	730	84	6,940	3,770
Mortgage insurance claims receivable	-	-	1,095	742	-	-	1,837	738
Real estate owned	-	-	2,217	510	-	-	2,727	1,414
Unamortized bond issuance costs	-	2,383	9,917	2,906	-	-	15,206	13,794
Capital assets, net	4,385	-	-	-	-	-	4,385	3,685
Other assets	1,259	4	20	1	245	193	1,722	2,981
<b>Total assets</b>	<b>\$ 129,001</b>	<b>\$ 284,972</b>	<b>\$ 2,473,305</b>	<b>\$ 402,187</b>	<b>\$ 91,228</b>	<b>\$ 13,728</b>	<b>\$ 3,394,421</b>	<b>\$ 2,942,903</b>
<b>Liabilities</b>								
Bonds payable, net	\$ -	\$ 191,691	\$ 1,904,487	\$ 302,810	\$ -	\$ -	\$ 2,398,988	\$ 1,946,091
Interest payable	-	3,700	35,850	8,043	-	-	47,593	38,086
Deferred revenue	-	-	-	-	-	-	-	35,235
Accounts payable and other liabilities	3,666	3,568	1,482	4,283	1,222	576	14,797	18,549
Interfund payable (receivable)	(79)	-	(24,450)	24,020	370	139	-	-
Funds held for others	79,404	-	-	-	-	2,000	81,404	82,368
<b>Total liabilities</b>	<b>82,991</b>	<b>198,959</b>	<b>1,917,369</b>	<b>339,156</b>	<b>1,592</b>	<b>2,715</b>	<b>2,542,782</b>	<b>2,120,329</b>
Commitments and contingencies								
<b>Net Assets</b>								
Restricted by bond resolution	-	86,013	274,314	63,031	-	-	423,358	406,548
Restricted by covenant	41,625	-	281,622	-	-	-	323,247	309,654
Restricted by law	-	-	-	-	89,636	11,013	100,649	102,687
Invested in capital assets	4,385	-	-	-	-	-	4,385	3,685
<b>Total net assets</b>	<b>46,010</b>	<b>86,013</b>	<b>555,936</b>	<b>63,031</b>	<b>89,636</b>	<b>11,013</b>	<b>851,639</b>	<b>822,574</b>
<b>Total liabilities and net assets</b>	<b>\$ 129,001</b>	<b>\$ 284,972</b>	<b>\$ 2,473,305</b>	<b>\$ 402,187</b>	<b>\$ 91,228</b>	<b>\$ 13,728</b>	<b>\$ 3,394,421</b>	<b>\$ 2,942,903</b>

See accompanying notes to financial statements.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Fund Financial Statements**  
**Statement of Revenues, Expenses and Changes in Net Assets (in thousands)**  
**Proprietary Funds**  
**Year ended June 30, 2007 (with comparative totals for the year ended**  
**June 30, 2006)**

	Bond Funds				Appropriated Funds		Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated		
<b>Revenues</b>								
Interest earned on loans	\$ -	\$ 13,181	\$ 78,214	\$ 19,435	\$ 75	\$ -	\$ 110,905	\$ 97,863
Interest earned on investments	1,956	4,092	37,752	6,204	3,726	565	54,295	43,639
Appropriations received	-	-	-	-	36,256	174,541	210,797	206,367
Administrative reimbursement	19,118	-	-	-	-	-	19,118	16,730
Fees earned and other income	8,160	789	501	-	745	-	10,195	11,124
Unrealized gains (losses) on securities	226	586	(232)	15	441	21	1,057	(5,946)
<b>Total revenues</b>	<b>29,460</b>	<b>18,648</b>	<b>116,235</b>	<b>25,654</b>	<b>41,243</b>	<b>175,127</b>	<b>406,367</b>	<b>369,777</b>
<b>Expenses</b>								
Interest	-	10,773	70,648	19,928	-	-	101,349	87,115
Loan administration and trustee fees	-	176	4,696	1,056	10	-	5,938	5,961
Administrative reimbursement	-	1,819	10,192	2,585	3,705	-	18,301	15,898
Salaries and benefits	14,937	-	-	-	-	-	14,937	14,054
Other general operating	6,899	-	1,597	-	1,036	-	9,532	9,438
Appropriations disbursed	-	-	-	-	11,902	174,788	186,690	181,598
Reduction in carrying value of certain low interest rate deferred loans	-	25	10,037	-	26,435	-	36,497	31,390
Provision for loan losses	-	(85)	3,472	139	532	-	4,058	2,104
<b>Total expenses</b>	<b>21,836</b>	<b>12,708</b>	<b>100,642</b>	<b>23,708</b>	<b>43,620</b>	<b>174,788</b>	<b>377,302</b>	<b>347,558</b>
Revenues over (under) expenses	7,624	5,940	15,593	1,946	(2,377)	339	29,065	22,219
<b>Other changes</b>								
Non-operating transfer of assets between funds	(1,280)	197	1,083	-	-	-	-	-
Change in net assets	6,344	6,137	16,676	1,946	(2,377)	339	29,065	22,219
<b>Net Assets</b>								
Total net assets, beginning of year	39,666	79,876	539,260	61,085	92,013	10,674	822,574	800,355
Total net assets, end of year	\$ 46,010	\$ 86,013	\$ 555,936	\$ 63,031	\$ 89,636	\$ 11,013	\$ 851,639	\$ 822,574

See accompanying notes to financial statements.

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds

Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	Bond Funds				Appropriated Funds		Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated		
<b>Cash flows from operating activities</b>								
Principal repayments on loans	\$ -	\$ 17,398	\$ 99,149	\$ 43,721	\$ 5,619	\$ -	\$ 165,887	\$ 204,051
Investment in loans	-	(9,384)	(463,814)	-	(31,476)	-	(504,674)	(502,583)
Interest received on loans	-	14,225	77,274	18,730	75	-	110,304	97,791
Deferred revenue	-	-	-	-	-	-	-	35,235
Other operating	-	-	(1,597)	-	(1,028)	-	(2,625)	(2,721)
Fees and other income received	8,285	789	450	-	745	-	10,269	10,682
Salaries, benefits and vendor payments	(20,617)	(209)	(6,450)	(1,061)	(43)	-	(28,380)	(25,976)
Appropriations received	-	-	-	-	1,021	175,185	176,206	205,462
Appropriations disbursed	-	-	-	-	(11,607)	(175,413)	(187,020)	(180,621)
Administrative reimbursement from funds	18,143	(1,837)	(9,631)	(2,578)	(3,211)	-	886	837
Interest transferred to funds held for others	(3,505)	-	-	-	-	(158)	(3,663)	(3,161)
Deposits into funds held for others	29,354	-	-	-	-	7,068	36,422	33,480
Disbursements made from funds held for others	(31,402)	-	-	-	-	(6,881)	(38,283)	(30,490)
Interfund transfers and other assets	(1,899)	-	218	(45)	334	-	(1,392)	(2,924)
Net cash provided (used) by operating activities	(1,641)	20,982	(304,401)	58,767	(39,571)	(199)	(266,063)	(160,938)
<b>Cash flows from noncapital financing activities</b>								
Proceeds from sale of bonds	-	9,480	1,005,160	-	-	-	1,014,640	608,615
Principal repayment on bonds	-	(19,055)	(479,895)	(61,145)	-	-	(560,095)	(691,510)
Interest paid on bonds and notes	-	(9,059)	(58,941)	(19,321)	-	-	(87,321)	(78,147)
Financing costs paid related to bonds issued	-	(145)	(4,820)	-	-	-	(4,965)	(4,298)
Interest paid/received between funds	-	(2,934)	4,449	(1,515)	-	-	-	-
Principal paid/received between funds	-	(18,643)	19,248	(605)	-	-	-	-
Premium paid on redemption of bonds	-	(48)	-	-	-	-	(48)	(236)
Agency contribution to program funds	-	197	(197)	-	-	-	-	-
Transfer of cash between funds	205	-	(205)	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	205	(40,207)	484,799	(82,586)	-	-	362,211	(165,576)
<b>Cash flows from investing activities</b>								
Investment in real estate owned	-	-	(496)	(384)	-	-	(880)	(840)
Interest received on investments	4,992	4,006	30,235	5,255	2,566	697	47,751	39,752
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,879	2,956	-	-	9,835	5,849
Proceeds from maturity, sale or transfer of investment securities	63,280	47,278	34,197	2,000	73,217	1,000	220,972	219,591
Purchase of investment securities	(47,827)	(11,251)	(312,825)	(1,996)	(61,188)	(3,875)	(438,962)	(157,225)
Purchase of loans between funds	-	(28,830)	34,358	-	(5,528)	-	-	-
Net cash provided (used) by investing activities	20,445	11,203	(207,652)	7,831	9,067	(2,178)	(161,284)	107,127
Net increase (decrease) in cash and cash equivalents	19,009	(8,022)	(27,254)	(15,988)	(30,504)	(2,377)	(65,136)	(219,387)
<b>Cash and cash equivalents</b>								
Beginning of year	12,792	59,958	592,503	131,537	40,005	11,443	848,238	1,067,625
End of year	\$ 31,801	\$ 51,936	\$ 565,249	\$ 115,549	\$ 9,501	\$ 9,066	\$ 783,102	\$ 848,238

See accompanying notes to financial statements.

(continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Fund Financial Statements

### Statement of Cash Flows (in thousands)

#### Proprietary Funds (continued)

Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	Bond Funds				Appropriated Funds		Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated		
<b>Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:</b>								
Revenues over (under) expenses	\$ 7,624	\$ 5,940	\$ 15,593	\$ 1,946	\$ (2,377)	\$ 339	\$ 29,065	\$ 22,219
<b>Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:</b>								
Amortization of premiums (discounts) and fees on loans	-	(61)	1,275	(796)	-	-	418	(306)
Depreciation	1,202	-	-	-	-	-	1,202	816
Realized losses (gains) on sale of securities, net	20	(563)	384	-	3	-	(156)	(663)
Unrealized losses (gains) on securities, net	(226)	(586)	232	(15)	(441)	(21)	(1,057)	5,946
Provision for loan losses	-	(85)	3,472	139	532	-	4,058	2,104
Reduction in carrying value of certain low interest rate and/or deferred loans	-	25	10,037	-	26,435	-	36,497	31,390
Capitalized interest on loans and real estate owned	-	(84)	(567)	(206)	-	-	(857)	(470)
Interest earned on investments	(1,976)	(3,606)	(36,623)	(6,531)	(3,729)	(565)	(53,030)	(46,356)
Interest expense on bonds and notes	-	10,773	70,648	19,928	-	-	101,349	87,115
<b>Changes in assets and liabilities:</b>								
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	8,014	(364,665)	43,721	(25,857)	-	(338,787)	(298,532)
Decrease (increase) in interest receivable on loans	-	(217)	(1,648)	176	-	-	(1,689)	(772)
Increase (decrease) in arbitrage rebate liability	-	1,483	(1,513)	448	-	-	418	4,856
Increase (decrease) in deferred revenue	-	-	-	-	(35,235)	-	(35,235)	35,235
Interest transferred to funds held for others	(3,505)	-	-	-	-	(158)	(3,663)	(3,161)
Increase (decrease) in accounts payable	194	(33)	(1,785)	(5)	303	(278)	(1,604)	120
Increase (decrease) in interfund payable, affecting operating activities only	(922)	(19)	342	(38)	795	(347)	(189)	(374)
Increase (decrease) in funds held for others	(2,048)	-	-	-	-	187	(1,861)	2,990
Other	(2,004)	1	417	-	-	644	(942)	(3,095)
Total	<u>(9,265)</u>	<u>15,042</u>	<u>(319,994)</u>	<u>56,821</u>	<u>(37,194)</u>	<u>(538)</u>	<u>(295,128)</u>	<u>(183,157)</u>
Net cash provided (used) by operating activities	<u>\$ (1,641)</u>	<u>\$ 20,982</u>	<u>\$ (304,401)</u>	<u>\$ 58,767</u>	<u>\$ (39,571)</u>	<u>\$ (199)</u>	<u>\$ (266,063)</u>	<u>\$ (160,938)</u>

See accompanying notes to financial statements.

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

Year ended June 30, 2007

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### Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. 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. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified non-bond-financed programs. The Agency also receives funds from the federal government or through other entities for similar purposes.

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

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

#### *General Reserve*

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

#### *Rental Housing*

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

The Rental Housing bond resolution 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.

#### *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 bonds outstanding were issued from time to time in various series to fund purchases of single family first mortgage loans and some related entry cost housing assistance loans, and home improvement unsecured or subordinated loans. Assets of the bonds issued and outstanding under the resolution and of the three endowment funds described below are pledged to the repayment of Residential Housing Finance bonds. (As of July 1, 2007, the three endowment funds were closed and their assets transferred to the Alternative Loan Fund, which is not pledged to the payment of the Residential Housing Finance bonds. For more information, see Subsequent Events below.)

#### *Home Improvement Endowment Fund*

This fund was a principal source of funding for home improvement loans. Home improvement loans in excess of \$10.0 thousand are generally secured by a second mortgage while loans in a lesser principal amount could be unsecured. All loans purchased after April 2007 were secured.

#### Homeownership Endowment Fund

This fund was a source of funding for bond sale contributions, entry cost housing assistance programs for first-time homebuyers, below-market interim financing during construction and/or rehabilitation of single family housing and for warehousing loans.

#### Multifamily Endowment Fund

This fund was a source of funding for multifamily programs that are not candidates for bond financing such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

#### Alternative Loan Fund

An Alternative Loan Fund has been established in Residential Housing Finance and residing therein are the subfunds, Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve under the applicable bond resolution. 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, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

The Housing Investment Fund is currently invested in amortizing interest-bearing loans and investment securities and may also be used to advance funds to retire high-rate debt and to warehouse loans.

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

The Residential Housing Finance bond resolution 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.

#### *Single Family*

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

The Single Family bond resolution 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 pledged or 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 pledged or available to support the bondholders or creditors of the Agency.

### **Summary of Significant Accounting Policies**

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

### *Basis of Accounting*

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

### *Generally Accepted Accounting Principles*

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

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

### *New Accounting Pronouncements*

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. GASB Statement No. 45 is effective for the Agency's fiscal year ending June 30, 2008. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received from selling an interest in expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. This Statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. GASB Statement No. 48 is effective for the Agency's fiscal year ending June 30, 2008. The adoption of this Statement will not affect the Agency's financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. It requires that when any one of five specified obligating events occurs, a government is required to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Obligating events include the following:

- The government is compelled to take pollution remediation action because of an imminent endangerment.
- The government violates a pollution prevention–related permit or license.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.
- The government commences or legally obligates itself to commence pollution remediation.

GASB Statement No. 49 is required to be effective for the Agency's fiscal year ending June 30, 2009. The adoption of this Statement will not affect the Agency's financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*. This Statement amends GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, by requiring

disclosure in the notes to the financial statements of pension plans and certain employer governments of the current funded status of the plan as of the most recent actuarial valuation date. It also requires governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate. In addition, it requires disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contribution rate is determined. GASB Statement No. 50 is effective for the Agency's fiscal year ending June 30, 2008. The adoption of this Statement will not affect the Agency's financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. It requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. It also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement also establishes guidance on amortization of intangible assets. The provisions of this Statement generally are required to be applied retroactively. GASB Statement No. 51 is required to be effective for the Agency's fiscal year ending June 30, 2010. The adoption of this Statement will not affect the Agency's financial statements.

#### *Cash and Cash Equivalents*

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

#### *Investment Securities*

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

#### *Loans Receivable, Net*

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

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

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

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

Actual losses incurred are charged against the allowance for loan losses; recoveries are added to the allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2007.

Premiums, discounts or fees resulting from the purchase of homeownership mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Estimated loan prepayments are taken into account in determining the life of homeownership mortgage loans for purposes of such amortization. Premiums or discounts resulting from the purchase of home improvement loans are amortized straight-line over the average loan life. Premiums, discounts or fees resulting from the origination of multifamily development loans are amortized using the effective interest method over the term of the loan. The amount amortized is included in interest earned on loans.

#### *Interest Receivable on Loans*

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

#### *Mortgage Insurance Claims Receivable*

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

#### *Real Estate Owned*

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

#### *Unamortized Bond Issuance Costs*

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

#### *Bonds Payable, Net*

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

#### *Deferred Revenue*

State appropriations revenues are approved by the State of Minnesota on a biennial basis, and are typically designated by the state for use by the Agency in specific fiscal years. Accordingly, deferred revenue was recorded in the State Appropriated fund in fiscal 2006 when it received its fiscal 2007 appropriation of \$35.235 million on June 30, 2006.

#### *Interfund Payable (Receivable)*

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous, funds advanced for loan warehousing, administrative fees receivable and payable between funds, and certain mortgage payments received but not yet transferred to their respective funds.

#### *Funds Held for Others*

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds pending disbursement to HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

#### *Restricted by Bond Resolution*

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

#### *Restricted by Covenant*

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that would otherwise be available to be transferred to General Reserve under the applicable bond resolution. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing

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

#### *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, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2006 are for comparative purposes only.

#### *Administrative Reimbursement*

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

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of \$.817 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$18.301 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

#### *Fees Earned and Other Income*

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

#### *Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans*

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

#### *Other Changes*

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

#### *Non-operating Transfer of Assets Between Funds*

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

bond resolution requirements and periodic transfers from the bond funds of assets in excess of the bond resolution requirements.

*Non-Cash Activities*

Transfers from loans receivable to mortgage insurance claims receivable and real estate owned for fiscal year 2007 were \$8.50 million and \$2.80 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 received final payment during fiscal 2007 on the outstanding advances made in fiscal year 1997 for the purpose of optionally redeeming bonds in Rental Housing. In addition to the Rental Housing advance, in fiscal year 2006 an advance was made to optionally redeem bonds in Single Family. The advances were made in order to take advantage of economically favorable conditions for redeeming the bonds. The advance to Single Family continues to be repaid according to the original debt repayment schedules. The advance is recorded in Interfund Payable (Receivable).

*Reclassifications*

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

*Income Taxes*

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

*Rebateable Arbitrage*

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

**Cash, Cash Equivalents and Investment Securities**

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

Cash and Cash Equivalents are stated at cost which approximates market and are composed of the following at June 30, 2007 (in thousands):

<b>Cash and Cash Equivalents</b>					
<b>Funds</b>	<b>Deposits</b>	<b>Money Market Fund</b>	<b>Repurchase Agreements</b>	<b>Investment Agreements</b>	<b>Combined Totals</b>
General Reserve	\$ 546	\$ -	\$31,255	\$ -	\$ 31,801
Rental Housing	-	14,377	-	37,559	51,936
Residential Housing Finance	1,825	112,906	-	450,518	565,249
Single Family	1,089	12,371	-	102,089	115,549
State Appropriated	184	-	9,317	-	9,501
Federal Appropriated	2,013	7,053	-	-	9,066
Agency-wide Totals	<u>\$5,657</u>	<u>\$146,707</u>	<u>\$40,572</u>	<u>\$590,166</u>	<u>\$783,102</u>

Deposits may consist of commercial paper (purchased within 90 days of maturity) for General Reserve, State Appropriated and Federal Appropriated and cash awaiting investment for the remainder of the funds. The commercial paper is held by the Agency's agent. Cash awaiting investment consists of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

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

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial intermediaries with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond funds. As of June 30, 2007, all the investment agreement providers have a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "Aa3" or higher. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. On July 23, 2007, the Agency was notified that the credit ratings for Depfa Bank plc were downgraded by Standard & Poor's Ratings Services from "AA-/A-1+" to "A+/A-1." As of June 30, 2007, the Agency had five investment agreements with Depfa Bank plc in Residential Housing Finance Bonds totaling \$98.131 million. Please see Subsequent Events below for additional information.

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2007 (in thousands):

<b>Investment Securities</b>			
<b>Funds</b>	<b>Amortized Cost</b>	<b>Unrealized Appreciation (Depreciation) in Fair Market Value</b>	<b>Estimated Fair Market Value</b>
General Reserve	\$ 91,132	\$ (493)	\$ 90,639
Rental Housing	3,705	217	3,922
Residential Housing Finance	326,308	(1,097)	325,211
Single Family	3,638	154	3,792
State Appropriated	49,243	(50)	49,193
Federal Appropriated	4,372	13	4,385
Agency-wide Totals	<u>\$478,398</u>	<u>\$(1,256)</u>	<u>\$477,142</u>

US treasury, US agency, corporate notes, commercial paper and certificates of deposit in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. US treasury and US agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name. US agency investments (Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Farm Credit Bank, and Resolution Funding Corporation) had a Standard & Poor's rating of "AAA" and a Moody's rating of "Aaa" as of June 30, 2007. Of the Agency's investments in corporate notes as of June 30, 2007, \$7.076 million were rated "AA/Aa1," \$8.303 million were rated "AA-/Aa2," \$2.522 million were rated "AA-/Aa3," \$3.229 million were rated "A+/Aa3," \$6.958 million were rated "A/A2" and \$7.953 million were rated "A/A3." The corporate notes rated "A/A3" as of June 30, 2007 were downgraded to "A-/Baa3" during August 2007. The issuer of the \$3.800 million certificate of deposit had an issuer rating of "A+ /Aa2" as of June 30, 2007.

Examining the weighted average maturities of the Agency's debt securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of \$1.256 million and net discounts of \$2.339 million), along with the weighted average maturities as of June 30, 2007, consisted of the following (in thousands):

**Cash, Cash Equivalents and Investment Securities**

Type	Par Value	Weighted Average Maturity, in Years					
		General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated
Deposits	\$ 2,669	-	-	-	-	-	-
Commercial paper	25,989	0.1	-	-	-	0.3	-
Money market fund	146,707	-	-	-	-	-	-
Repurchase agreements	40,572	-	-	-	-	-	-
Investment agreements	590,166	-	-	-	-	-	-
US Agencies	399,428	0.9	8.0	1.6	12.1	0.5	0.9
US Treasuries	18,385	-	-	12.9	-	-	10.4
Certificates of deposit	3,800	-	-	-	-	0.3	-
Corporate notes	36,123	0.8	-	-	-	0.7	-
Agency-wide Totals	<u>\$1,263,839</u>						
Weighted Average Maturity		0.6	0.7	0.8	0.4	0.4	0.6

Investments in any one issuer, excluding investments issued or explicitly guaranteed by the U.S. Government, that represent 5 percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2007 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank	\$276,665
Wells Fargo, investment agreements	162,275
Rabobank, investment agreements	120,319
Depfa Bank plc, investment agreements	98,131
FSA Capital Management Services, investment agreements	59,174
Bayerische Landesbank, investment agreements	55,792

The Agency maintained certain deposits and investments throughout the year that were subject to custodial credit risk. As of June 30, 2007, those amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$146,707 in a money market fund and \$40,571 in repurchase agreements)	\$189,947
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	333,121
Agency-wide Total	<u>\$523,068</u>

Net realized gain on sale of investment securities of \$.156 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2007 were as follows (in thousands):

Funds	Amount
Rental Housing	\$20,606
Residential Housing Finance	42,072
Single Family	17,332
Totals	<u>\$80,010</u>

## Loans Receivable, Net

Loans receivable, net at June 30, 2007 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	234,564	(8,706)	(1,382)	224,476
Residential Housing Finance	1,566,850	(12,236)	3,725	1,558,339
Single Family	279,836	(89)	(2,740)	277,007
State Appropriated	32,704	(1,145)	-	31,559
Federal Appropriated	-	-	-	-
Agency-wide Totals	<u>\$2,113,954</u>	<u>\$(22,176)</u>	<u>\$ (397)</u>	<u>\$2,091,381</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. The majority of the loans in the Single Family fund and homeownership first mortgage loans in the Residential Housing Finance fund (see following table) have either FHA insurance or a VA or RD guarantee. Insurance minimizes, but does not completely eliminate, loan losses. Losses on mortgage loans in the Single Family fund are also secured by an insurance reserve fund established under the bond resolution therefor.

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 more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During the fiscal year ended June 30, 2007, the amount of these loans originated was \$4.428 million in the Housing Affordability Fund, \$3.274 million in the Homeownership Endowment Fund, \$2.359 million in the Multifamily Endowment Fund and \$29.668 million in State Appropriated. These loans are excluded from the tables above and below, as they are fully reserved.

Loans receivable, net in Residential Housing Finance at June 30, 2007 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount
<b>Home Improvement Endowment Fund:</b>	
Home Improvement loans, generally secured by a second mortgage	\$ 121,977
<b>Homeownership Endowment Fund:</b>	
Homeownership, first mortgage loans	3,854
Other homeownership loans, generally secured by a second mortgage	17,830
<b>Multifamily Endowment Fund:</b>	
Multifamily, subordinated mortgage loans reserved at 100%	-
<b>Residential Housing Finance Bonds:</b>	
Homeownership, first mortgage loans	1,265,966
Other homeownership loans, generally secured by a second mortgage	2,423
<b>Alternative Loan Fund, Housing Investment Fund (Pool 2):</b>	
Homeownership, first mortgage loans	5,301
Multifamily, first mortgage loans	14,697
<b>Alternative Loan Fund, Housing Affordability Fund (Pool 3):</b>	
Multifamily, first mortgage loans	115,004
Multifamily, subordinated mortgage loans reserved at 100%	-
Homeownership, first mortgage loans	11,287
Residential Housing Finance Totals	<u>\$1,558,339</u>

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

**Other Assets**

Other assets, including receivables, at June 30, 2007 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	\$1,249	\$ 10	\$1,259
Rental Housing	-	4	4
Residential Housing Finance	-	20	20
Single Family	-	1	1
State Appropriated	-	245	245
Federal Appropriated	193	-	193
Agency-wide Totals	\$1,442	\$280	\$1,722

**Bonds Payable, Net**

Bonds payable, net at June 30, 2007 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	\$ 194,880	\$ -	\$(3,189)	\$ 191,691
Single Family	302,810	-	-	302,810
Residential Housing Finance	1,895,500	8,987	-	1,904,487
Totals	\$2,393,190	\$8,987	\$(3,189)	\$2,398,988

Summary of bond activity from June 30, 2006 to June 30, 2007 (in thousands):

Funds	June 30, 2006 Par Bonds Outstanding		June 30, 2007 Par Bonds Outstanding
	Par Issued	Par Repaid	
Rental Housing	\$ 204,455	\$ 9,480	\$ 194,880
Single Family	363,955	-	302,810
Residential Housing Finance	1,376,075	999,320	1,895,500
Totals	\$1,944,485	\$1,008,800	\$2,393,190

Par bonds payable at June 30, 2007 were as follows (in thousands):

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
<b>Rental Housing Bonds</b>				
1995 Series C-2	5.40% to 5.95%	2015	\$ 38,210	\$ 11,150
1995 Series D	5.45% to 6.00%	2022	234,590	12,450
1997 Series A	5.10% to 5.875%	2028	4,750	4,090
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	3,090
1998 Series C	4.50% to 5.20%	2029	2,865	2,490
1999 Series A	4.35% to 5.10%	2024	4,275	3,520
1999 Series B	5.20% to 6.15%	2025	3,160	2,420
2000 Series A	5.35% to 6.15%	2030	9,290	7,000

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
2000 Series B	5.90%	2031	\$ 5,150	\$ 4,660
2001 Series A	4.50% to 5.35%	2033	4,800	4,485
2002 Series A	2.75% to 4.05%	2014	27,630	19,525
2003 Series A	4.55% to 4.95%	2045	12,770	12,495
2003 Series B	4.15% to 5.08%	2031	1,945	1,845
2003 Series C-1	4.35% to 5.20%	2034	2,095	2,020
2004 Series A	2.60% to 5.00%	2035	9,345	8,795
2004 Series B	4.00% to 4.85%	2035	3,215	3,140
2004 Series C	2.40% to 4.40%	2022	80,000	63,375
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,710
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,615
2006 Series B	4.89%	2037	5,020	5,020
2006 Series C-1	4.96%	2037	2,860	2,860
2006 Series C-2	4.21%	2007	1,200	1,200
2007 Series A-1	4.65%	2038	3,775	3,775
2007 Series A-2	3.95%	2008	1,645	1,645
			476,615	194,880

#### Residential Housing Finance Bonds

1995 Series A	5.15% to 5.85%	2017	53,645	3,880
2002 Series A	4.75% to 5.30%	2019	14,035	4,460
2002 Series B	4.40% to 5.65%	2033	59,650	19,055
2002 Series A-1	4.20% to 4.90%	2019	6,860	6,730
2002 Series B-1	3.50% to 5.35%	2033	25,760	19,935
2002 Series E	4.30% to 5.00%	2020	12,805	9,870
2002 Series F	3.60% to 5.40%	2032	52,195	32,655
2002 Series H	3.88% to 4.93%	2012	20,000	20,000
2003 Series A	2.15% to 4.30%	2034	40,000	30,090
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	2.80% to 5.25%	2035	25,000	17,320
2003 Series J	Variable	2033	25,000	23,605
2004 Series A	3.20% to 4.25%	2018	22,480	20,115
2004 Series B	2.35% to 5.00%	2033	94,620	71,675
2004 Series C	4.70%	2035	14,970	13,420
2004 Series E-1	4.10% to 4.60%	2016	5,110	4,715
2004 Series E-2	4.40% to 4.60%	2016	6,475	5,980
2004 Series F-1	3.20% to 4.50%	2012	4,600	1,625
2004 Series F-2	3.20% to 5.25%	2034	36,160	33,385
2004 Series G	Variable	2032	50,000	47,250
2005 Series A	2.60% to 4.125%	2018	14,575	13,865
2005 Series B	4.75% to 5.00%	2035	20,425	19,775
2005 Series C	Variable	2035	25,000	24,125
2005 Series G	4.25% to 4.30%	2018	8,950	8,930
2005 Series H	3.10% to 5.00%	2036	51,050	49,590
2005 Series I	Variable	2036	40,000	38,950
2005 Series J	3.625% to 4.00%	2015	11,890	11,730
2005 Series K	3.10% to 4.40%	2028	41,950	40,075
2005 Series L	4.75% to 5.00%	2036	48,165	46,920
2005 Series M	Variable	2036	60,000	58,550
2005 Series O	3.90% to 4.20%	2015	4,510	4,510

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
2005 Series P	3.45% to 5.00%	2036	\$ 65,490	\$ 64,335
2006 Series A	3.30% to 4.00%	2016	13,150	13,150
2006 Series B	4.60% to 5.00%	2037	43,515	43,370
2006 Series C	Variable	2037	28,335	28,100
2006 Series F	3.45% to 4.25%	2016	11,015	10,820
2006 Series G	4.85% to 5.50%	2037	58,985	58,925
2006 Series H	5.85%	2036	15,000	14,900
2006 Series I	3.80% to 5.75%	2038	95,000	95,000
2006 Series J	6.00% to 6.51%	2038	45,000	45,000
2006 Series K	3.62%	2007	120,000	120,000
2006 Series L	3.45% to 3.95%	2016	6,740	6,740
2006 Series M	4.625% to 5.75%	2037	35,260	35,260
2006 Series N	5.23% to 5.76%	2037	18,000	18,000
2006 Series O	3.53%	2018	26,140	14,235
2006 Series P	3.58%	2029	131,340	78,040
2006 Series Q	3.53%	2018	12,230	12,230
2006 Series R	3.58%	2038	57,770	57,770
2007 Series A	3.65%	2008	36,000	36,000
2007 Series B	3.70%	2008	64,000	64,000
2007 Series C	3.45% to 3.95%	2017	12,515	12,515
2007 Series D	4.60% to 5.50%	2038	62,485	62,485
2007 Series E	Variable	2038	25,000	25,000
2007 Series F	3.68%	2008	22,010	22,010
2007 Series G	3.73%	2008	79,830	79,830
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.65% to 5.50%	2038	100,270	100,270
2007 Series J	Variable	2038	37,500	37,500
			<u>2,155,690</u>	<u>1,895,500</u>

#### Single Family Mortgage Bonds

1992 Series D-2	5.85% to 5.95%	2017	26,740	4,660
1993 Series D	6.40%	2027	17,685	1,740
1993 Series F	6.25%	2020	9,500	815
1994 Series E	5.00% to 5.90%	2025	31,820	12,775
1994 Series T	5.65% to 6.125%	2017	16,420	1,170
1995 Series G	8.05%	2012	8,310	340
1995 Series H	6.40%	2027	19,240	1,905
1995 Series I	6.35%	2018	7,450	740
1995 Series M	5.20% to 5.875%	2017	32,025	4,785
1996 Series A	6.375%	2028	34,480	3,565
1996 Series B	6.35%	2019	7,990	1,815
1996 Series C	5.65% to 6.10%	2015	12,345	1,390
1996 Series D	5.60% to 6.00%	2017	23,580	1,610
1996 Series E	6.25%	2023	14,495	1,715
1996 Series F	6.30%	2028	18,275	2,165
1996 Series G	6.25%	2028	41,810	4,575
1996 Series H	6.00%	2021	13,865	1,520
1996 Series I	7.32% to 8.00%	2017	14,325	1,095
1996 Series J	5.60%	2021	915	150

Series	Interest Rate	Final Maturity	Original Par	Par Bonds Outstanding as of June 30, 2007
1996 Series K	4.70% to 5.40%	2017	\$ 9,280	\$ 1,695
1997 Series A	5.40% to 5.95%	2017	22,630	2,735
1997 Series B	6.20%	2021	9,180	1,840
1997 Series C	6.25%	2029	27,740	2,110
1997 Series D	5.80% to 5.85%	2021	15,885	3,785
1997 Series E	5.90%	2029	23,495	3,230
1997 Series F	7.25%	2007	11,620	65
1997 Series G	5.35% to 6.00%	2018	40,260	470
1997 Series I	5.50%	2017	9,730	2,860
1997 Series K	5.75%	2029	22,700	6,670
1997 Series L	6.80%	2007	9,550	75
1998 Series A	4.65% to 5.20%	2017	5,710	1,420
1998 Series B	4.85% to 5.50%	2029	17,030	2,820
1998 Series C	4.60% to 5.25%	2017	21,775	4,650
1998 Series E	5.40%	2030	30,500	10,195
1998 Series F-1	4.75% to 5.45%	2017	10,650	1,955
1998 Series G-1	5.60%	2022	6,150	1,735
1998 Series H-1	5.65%	2031	14,885	4,200
1998 Series F-2	4.90% to 5.70%	2017	11,385	3,490
1998 Series G-2	6.00%	2022	6,605	3,005
1998 Series H-2	6.05%	2031	15,965	7,280
1999 Series B	5.00% to 5.25%	2020	18,865	8,185
1999 Series C	4.60% to 4.90%	2024	21,960	1,210
1999 Series D	5.45%	2031	23,975	9,990
1999 Series H	5.30% to 5.80%	2021	16,350	4,975
1999 Series I	5.00% to 6.05%	2031	34,700	7,265
1999 Series J	5.00%	2017	4,745	2,725
1999 Series K	3.95% to 5.35%	2033	44,515	23,845
2000 Series A	5.25% to 5.85%	2020	18,650	7,740
2000 Series B	5.55%	2024	16,580	2,660
2000 Series C	6.10%	2032	30,320	11,290
2000 Series F	Variable	2031	20,000	15,155
2000 Series G	4.25% to 5.40%	2025	39,990	21,305
2000 Series H	4.40% to 5.50%	2023	32,475	11,825
2000 Series I	5.05% to 5.80%	2019	20,185	7,790
2000 Series J	5.40% to 5.90%	2030	29,720	12,880
2001 Series A	5.35% to 5.45%	2022	14,570	7,290
2001 Series B	4.55% to 5.675%	2030	34,855	12,555
2001 Series E	2.35% to 4.90%	2035	23,000	19,310
			<u>1,139,450</u>	<u>302,810</u>
Combined Totals			<u>\$3,771,755</u>	<u>\$2,393,190</u>

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 the applicable series resolution.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2007, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Rental Housing Bonds</u>		<u>Residential Housing Finance Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 12,080	\$ 8,807	\$ 506,660	\$ 78,161
2009	13,145	8,381	22,630	64,469
2010	12,110	7,894	28,710	63,487
2011	12,720	7,391	24,715	62,428
2012	12,990	6,844	25,760	61,402
2013-2017	48,610	26,649	164,510	286,961
2018-2022	33,605	16,845	189,235	248,178
2023-2027	16,530	10,802	247,705	198,937
2028-2032	15,140	6,411	322,995	132,814
2033-2037	9,630	3,261	330,190	49,831
2038-2042	4,525	1,536	32,390	1,569
2043-2047	3,660	459	-	-
2048-2052	135	3	-	-
Totals	\$194,880	\$105,283	\$1,895,500	\$1,248,237

<u>Fiscal Year</u>	<u>Single Family Mortgage Bonds</u>		<u>Combined Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 6,735	\$ 16,427	\$ 525,475	\$ 103,395
2009	7,030	16,386	42,805	89,236
2010	7,885	16,015	48,705	87,396
2011	9,215	15,605	46,650	85,424
2012	9,405	15,119	48,155	83,365
2013-2017	56,275	67,099	269,395	380,709
2018-2022	59,575	50,897	282,415	315,920
2023-2027	73,370	32,781	337,605	242,520
2028-2032	65,930	10,695	404,065	149,920
2033-2037	7,390	549	347,210	53,641
2038-2042	-	-	36,915	3,105
2043-2047	-	-	3,660	459
2048-2052	-	-	135	3
Totals	\$302,810	\$241,573	\$2,393,190	\$1,595,093

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

The principal due for short-term notes is reflected in the year of maturity of the individual notes. In contrast to COBs, bonds issued as short-term notes may not be remarketed. Notes are secured either by investment contracts structured to provide liquidity at each debt service payment date or by US Agency securities scheduled to mature at each debt service payment date in the amounts required at that date.

Residential Housing Finance Bonds 2003 Series B and J, 2004 Series G, 2005 Series C, I and M, 2006 Series C and 2007 Series E (Taxable) and J (Taxable) accrue interest at a rate that changes each week, determined by a remarketing agent based on market conditions. Future interest due for these series, as displayed above in the annual debt service requirements table, is based upon the rate in effect on June 30, 2007. As rates vary, variable rate bond interest payments will vary. The associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the sum of the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate in effect on June 30, 2007. As rates vary, variable rate bond interest payments on this series of bonds will vary.

The income and assets of each of the bond funds are pledged for the payment of principal and interest on the bonds issued, and to be issued, by the respective programs. The bond resolutions contain covenants that govern the respective programs financed thereby and require the Agency to maintain certain reserves and meet certain reporting requirements. The Agency believes that as of June 30, 2007, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

The Agency called certain bonds for redemption effective after June 30, 2007. These called bonds are described under Subsequent Events.

### **Interest Rate Swaps**

#### *Objective of Swaps*

Since 2003 the Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds. The Agency has used swaps to create synthetic fixed rate debt at an interest rate lower than that achievable from long-term fixed rate bonds and to further the Agency's goal of lending to low- and moderate-income, first-time home buyers at below market, fixed interest rates.

#### *Swap Payments and Associated Debt*

Using rates as of June 30, 2007, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Interest Rate Swaps, Net</b>	<b>Total</b>
2008	\$ 5,065	\$ 11,467	\$ 39	\$ 16,571
2009	850	12,355	70	12,275
2010	890	12,303	102	13,295
2011	935	12,255	99	13,289
2012	985	12,204	92	13,281
2013-2017	8,870	60,091	312	69,273
2018-2022	36,655	56,031	375	93,061
2023-2027	78,875	44,517	(75)	123,317
2028-2032	102,035	27,207	(358)	128,884
2033-2037	66,820	8,458	(24)	75,254
2038-2042	6,100	325	3	6,428

#### *Terms of Swaps*

The terms of the swaps, including the fair values and the credit ratings of the three counterparties thereto as of June 30, 2007, are contained in the three tables below. The initial notional amounts of the swaps match the original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps, the Agency has

also purchased the cumulative right, based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to correspond to the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J and 2004G swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

#### Counterparty A

Credit Rating: Aaa\*\*/AA+\*\*\*

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2003B	\$ 25,000,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$1,789,281
RHFB 2003J	23,605,000	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(102,572)
RHFB 2005C	24,125,000	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	634,774
RHFB 2006C	28,100,000	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	406,882
Total Counterparty A	\$100,830,000					\$2,728,365

#### Counterparty B

Credit Rating: Aaa\*\*/AA-\*\*\*

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2004G	\$ 47,250,000	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	\$ (299,817)
RHFB 2007E (Taxable)	25,000,000	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	294,087
RHFB 2007J (Taxable)	37,500,000	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	656,436
Total Counterparty B	\$109,750,000					\$ 650,706

### Counterparty C

Credit Rating: Aaa\*\*/AA+\*\*\*

Associated Bond Series	Notional Amount as of June 30, 2007	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2007
RHFB 2005I	\$ 38,950,000	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	\$ 982,400
RHFB 2005M	58,550,000	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	2,026,940
Total Counterparty C	\$ 97,500,000					\$3,009,340
Combined Totals	\$308,080,000					\$6,388,411

\*London Interbank Offered Rate.

\*\*Moody's Investors Service, Inc.

\*\*\*Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies.

#### *Swap Valuation*

The fair values presented in the foregoing tables were estimated by the Agency's counterparties to the swaps and approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2007. A positive fair value represents the amount due the Agency by the counterparty upon termination of the swap while a negative fair value represents the amount payable by the Agency.

#### *Termination Risk*

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination, a payment is due to one party irrespective of causality based upon the fair value of the swap. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, bankruptcy and insolvency.

#### *Credit Risk*

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current credit exposure to the swap counterparty upon a termination event. As of June 30, 2007, the Agency did have a net credit risk exposure to each of its three counterparties because their respective combined swap positions had a positive net fair value, as set forth in the foregoing tables. The swap agreements contain varying collateral requirements based upon the Agency's and the counterparties' credit ratings and the fair values of the swaps. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2007, neither the Agency nor any counterparty had been required to post collateral.

#### *Amortization Risk*

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding amount of variable rate bonds to decline faster than the amortization of the swap. To ameliorate amortization risk, call options were structured within most of the outstanding swaps to enable the Agency to manage

the outstanding balances of variable rate bonds and notional swap amounts. Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

*Basis Risk*

The Agency has incurred the potential risk that the variable interest payments on its bonds will not equal the variable interest receipts payable by the counterparty under the associated swap. This basis risk exists because the variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percent of the one-month, taxable LIBOR rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2007, the interest rate on the Agency's variable rate tax-exempt debt ranged from 3.8% to 3.82% per annum while the variable interest rate on the associated swaps ranged from 3.66% to 3.69% per annum. As of June 30, 2007, the interest rate on the Agency's variable rate taxable debt was 5.32% per annum while the variable interest rate on the corresponding swap was 5.32% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap has been based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate BMA rate (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

*Tax Risk*

The structure of the variable interest rate payments the Agency receives from its swap contracts relating to tax-exempt variable rate bonds are based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency has chosen to assume this risk because it has not been economically favorable to transfer to the swap counterparties.

**Conduit Debt Obligation**

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis for a certain Minnesota non-profit corporation. The proceeds of the bonds were used by the corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2007, \$32.6 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Accounts Payable and Other Liabilities**

Accounts payable and other liabilities at June 30, 2007 consisted of the following (in thousands):

<b>Funds</b>	<b>Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability</b>	<b>Accrued Salaries, Compensated Absences and Employee Benefits</b>	<b>Other Liabilities and Accounts Payable</b>	<b>Total</b>
General Reserve	\$ -	\$2,508	\$1,158	\$ 3,666
Rental Housing	3,548	-	20	3,568
Residential Housing Finance	973	-	509	1,482
Single Family	4,221	-	62	4,283
State Appropriated	-	-	1,222	1,222
Federal Appropriated	-	-	576	576
Agency-wide Totals	\$8,742	\$2,508	\$3,547	\$14,797

The amount of arbitrage rebate and yield compliance payable that is not due within one year in Rental Housing is \$3.500 million, in Residential Housing Finance is \$.973 million and in Single Family is \$4.004 million, for a total of \$8.477 million.

## Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2007 consisted of the following (in thousands):

		Due from						Total
		General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	
Due to	General Reserve	\$ -	\$-	\$ -	\$ 7	\$672	\$139	\$ 818
	Rental Housing	-	-	-	-	-	-	-
	Residential Housing Finance	739	-	-	23,858	-	-	24,597
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	147	155	-	-	302
	Federal Appropriated	-	-	-	-	-	-	-
	Agency-wide Totals	\$739	\$-	\$147	\$24,020	\$672	\$139	\$25,717

The \$23.858 million due Residential Housing Finance reflects advances made to Single Family in fiscal 2006 and accrued interest on those advances. The advances were made to take advantage of economically favorable conditions for optionally redeeming bonds in Single Family. Repayment of the advances is made according to the original debt repayment schedule. The portion that will not be repaid within one year is \$22.465 million.

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

## Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2007 consisted of the following (in thousands):

		Transfer from						Total
		General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	
Transfer To	General Reserve-administrative reimbursement	\$ -	\$ 1,838	\$9,631	\$2,578	\$3,211	\$ 886	\$18,144
	Rental Housing	-	-	-	-	-	-	-
	Residential Housing Finance	105	50,407	-	2,120	5,529	-	58,161
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	13	44	-	751	808
	Federal Appropriated	-	492	-	-	475	-	967
Agency-wide Totals	\$105	\$52,737	\$9,644	\$4,742	\$9,215	\$1,637	\$78,080	

Interfund transfers recorded in Interfund Payable (Receivable) were used to pay off the \$21.577 million owed on the interfund loan made from Residential Housing Finance to Rental Housing, to move loan payments that were deposited for administrative convenience in a fund not holding the loans, to make payments for administrative reimbursements due the General Reserve from the other funds, to pay for loans transferred between funds including \$28.830 million of multifamily loans transferred from Residential Housing Finance to Rental Housing and \$5.528 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated, to move funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to move payments from Single Family to Residential Housing Finance due on outstanding loans between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2007, consisted of the following (in thousands):

		Transfer from						Total
		General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	
Transfer To	<b>Funds</b>							
	General Reserve	\$-	\$-	\$205	\$-	\$-	\$-	\$205
	Rental Housing	-	-	197	-	-	-	197
	Residential Housing Finance	-	-	-	-	-	-	-
	Single Family	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-
	Agency-wide Totals	\$-	\$-	\$402	\$-	\$-	\$-	\$402

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

#### Net Assets

##### *Restricted by Bond Resolution*

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

##### *Restricted by Covenant*

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

In order to provide financial security for the Agency's bondholders, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2007 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 and Pool 2 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
<b>Housing Endowment Fund (Pool 1), General Reserve</b>				
An amount equal to 2% of gross loans outstanding (excluding loans reserved 100% and appropriated loans) must be invested in short term, investment grade paper at market interest rates	\$ 41,625	\$ -	\$ -	\$ 41,625
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	(30)	30	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	41,625	(30)	30	41,625
<b>Housing Investment Fund (Pool 2), Residential Housing Finance</b>				
An amount equal to 5% of bonds outstanding less the Housing Endowment Fund (Pool 1) is invested in intermediate- to long-term, investment grade housing loans, as defined by the Agency, at interest rates which could be up to 3% below market	78,035	-	-	78,035
Unrealized depreciation in fair market value of investments	-	(318)	318	-
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	78,035	(318)	318	78,035
<b>Housing Affordability Fund (Pool 3), Residential Housing Finance</b>				
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	204,277	-	-	204,277
Unrealized appreciation in fair market value of investments	-	(342)	(348)	(690)
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	204,277	(342)	(348)	203,587
Agency-wide Total	\$323,937	\$(690)	\$ -	\$323,247

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

The \$323.247 million of net assets restricted by covenant are restricted by Minnesota Housing's enabling legislation.

By board resolution, the Agency changed its net asset requirements and investment guidelines for the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), effective July 1, 2007. See the Subsequent Events paragraph below for additional information.

In connection with self-insuring certain single family loans, the Agency has covenanted with bondholders to maintain General Reserve net assets of at least 125% of the Single Family Mortgage bond resolution insurance

reserve. The net assets requirement was \$10.310 million at June 30, 2007. General Reserve net assets at June 30, 2007 were \$46.010 million.

*Restricted by Law*

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$89.636 million of net assets restricted by law in the State Appropriated fund as of June 30, 2007 are restricted by Minnesota Housing’s enabling legislation.

**Defined Benefit Pension Plan**

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

Employees who retire at “normal” retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the “Rule of 90” (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the “step formula” for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the “level formula,” whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee’s five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The statutory pension contribution rates for the employee and employer (as a percentage of salary) are as follows.

Effective Date	Employee	Employer
Through 6/30/07	4.00%	4.00%
07/01/07	4.25	4.25
07/01/08	4.50	4.50
07/01/09	4.75	4.75
07/01/10	5.00	5.00

The Agency’s pension contribution to the System for the year ended June 30, 2007 was \$489 thousand.

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

**Schedule of Funding Progress**  
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/06	\$8,486,756	\$8,819,161	\$332,405	96.23%	\$2,016,588	16.48%
07/01/05	8,081,736	8,455,336	373,600	95.58	1,952,323	19.14
07/01/04	7,884,984	7,878,363	(6,621)	100.08	1,965,546	(0.34)

**Schedule of Employer Contributions**  
(dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2006	10.55%	\$2,016,588	\$85,379	\$127,371	\$82,645	64.88%
2005	9.33	1,952,323	83,101	99,051	80,312	81.08
2004	9.43	1,965,546	82,102	103,249	78,622	76.15

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

The information presented was as of July 1, 2006, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2006, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System web site at [www.msrs.state.mn.us](http://www.msrs.state.mn.us). The information contained in that web site is also available in alternative formats to individuals with disabilities. Please call 1-800-657-5757 or use the MN Relay Service at 1-800-627-3529.

### **Risk Management**

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

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

Type of coverage	Coverage Limit
Real and personal property loss	\$ 5,060,215
Business interruption/loss of use/extra expense	40,000,000
Bodily injury and property damage per person	300,000
Bodily injury and property damage per occurrence	1,000,000
Faithful performance/commercial crime	11,000,000
Employee dishonesty	250,000

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

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

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

### **Commitments**

As of June 30, 2007, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

<b>Funds</b>	<b>Amount</b>
General Reserve	\$ —
Rental Housing	1,935
Residential Housing Finance	188,358
Single Family	—
State Appropriated	47,228
Federal Appropriated	20,380
Agency-wide Totals	<u>\$257,901</u>

Beginning with fiscal year 2007, the Agency elected to include in the above table the Board-approved selections of future loans or other housing assistance for multifamily housing projects. Previous to this fiscal year, selection amounts were not included in the table above until the Board approved a subsequent formal commitment. This change recognizes that multifamily developers typically proceed with their projects based upon their selection by the Board and, therefore, a selection is now treated like a de facto commitment although it is merely a reservation of funds. The Agency maintains the unilateral discretion to cancel any reservation of funds that has not been formally and legally committed.

The Agency has cancelable lease commitments for office facilities and parking through May 2009. Lease expense for the fiscal year ended June 30, 2007 was \$1.097 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	<b>Fiscal Year</b>		
	<b>2008</b>	<b>2009</b>	<b>Total</b>
Amount:	\$1,138	\$1,070	\$2,208

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

<b>Beginning Balance</b>	<b>Draws</b>	<b>Repayments</b>	<b>Ending Balance</b>
\$0	\$0	\$0	\$0

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

### **Subsequent Events**

#### Board Approval of Bonds to be Issued

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of \$98.440 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series K were delivered on August 9, 2007.

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of \$105.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series L were delivered on August 9, 2007.

On July 19, 2007 the Board of the Agency approved a series resolution authorizing the issuance of \$70.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Residential Housing Finance bonds, 2007 Series M were delivered on August 9, 2007.

#### Redemption of Bonds

The Agency called for early redemption subsequent to June 30, 2007 the following bonds (in millions):

<u>Program Funds</u>	<u>Redemption Date</u>	<u>Par Value</u>
Residential Housing Finance	July 1, 2007	\$ 24.260
Single Family	July 1, 2007	23.465
Residential Housing Finance	August 13, 2007	137.275

*Restructuring Fund Structure and Change in Investment Guidelines*

By a Board resolution adopted on April 26, 2007, the Agency adopted certain amendments to the Residential Housing Finance Bond Resolution to become effective July 1, 2007. The purpose of the amendments is to permit the Agency to create a funds structure that clearly distinguishes the sustainable lending operation of the Agency from its mission-intensive efforts that do not result in net asset growth. The amendments would delete the Endowment Fund under the Residential Housing Finance Bond Resolution (and the three subfunds therein entitled the Home Improvement Endowment Fund, the Homeownership Endowment Fund and the Multifamily Endowment Fund) and authorize the transfer of the assets therein to the Alternative Loan Fund. The Endowment Fund was initially established to provide necessary capital to permit the issuance of Bonds under the Residential Housing Finance Bond Resolution. Other assets pledged to secure outstanding Bonds under that bond resolution now serve that purpose.

The Alternative Loan Fund is not pledged as security for outstanding Residential Housing Finance Bonds or other bonds of the Agency. The amendments to the Bond Resolution did not change the status of the Alternative Loan Fund, except as may otherwise be provided from time to time in a series resolution. The amendments were adopted pursuant to the provisions of the Residential Housing Finance Bond Resolution upon evidence from the rating agencies that the amendments would not result in a reduction of the ratings of the Residential Housing Finance Bonds or cause any such rating to be withdrawn.

By another Board resolution adopted April 26, 2007, the Agency changed its net asset requirements and investment guidelines for its General Reserve assets and Pool 2 and Pool 3, effective July 1, 2007. The new guidelines retain the liquidity reserve in the Housing Endowment Fund (Pool 1) but reduce its size to 1% of gross loans receivable (excluding loans credited to the Housing Affordability Fund (Pool 3)), and change the required size of the Housing Investment Fund (Pool 2) from the difference between 5% of the principal amount of bonds outstanding and the amount of Pool 1 to an amount that would cause the combined net assets in the General Reserve and trustee-held funds under bond resolutions (exclusive of Pool 3) to be the greater of \$615 million or the combined net assets of the same funds for the immediately preceding fiscal year (Pool 2 to consist of amortizing interest-bearing housing loans or investment grade securities held in bond funds). Pool 3 is retained for its current six purposes (generally investment in investment grade securities and for deferred, zero percent and low interest-rate loans). Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operation of the Agency, and Pool 3 represents the more mission-intensive operations of the Agency. As of July 1, 2007 the Agency is in compliance with the requirements of this Board resolution.

*Downgrade of Investment Agreement Provider*

On July 23, 2007, the Agency was notified that the credit ratings for Depfa Bank plc, an investment agreement provider to the Agency, were downgraded by Standard & Poor's Rating Services from "AA-/A-1+" to "A+/A-1." . As of June 30, 2007, the Agency had five investment agreements with Depfa Bank plc totaling \$98.131 million. The Agency was not entitled to take any action under the terms of those agreements because the rating on the Agency's bonds was not adversely affected by the downgrade.

*Floods in Southeastern Minnesota during August 2007*

During August, 2007, seven counties in southeastern Minnesota were impacted by serious flooding. Efforts are underway by the Agency to determine the extent of the impact to its loan portfolio. The Agency believes its allowances for loan losses are adequate at this time. However, with that region in a state of economic recovery, the ultimate impact of the flooding may not be known for some time.

State legislation was adopted in September 2007 to provide relief for households and communities affected by the flood. \$18 million was appropriated to Minnesota Housing to provide disaster relief in that region.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Supplementary Information (Unaudited)**  
**General Reserve and Bond Funds**  
**Five Year Financial Summary (in thousands)**  
**Fiscal Years 2003 – 2007**

		2003	2004	2005	2006	2007
<b>Loans Receivable, net (as of June 30)</b>	Multifamily programs	\$ 348,196	\$ 362,870	\$ 350,881	\$ 350,661	\$ 348,974
	Homeownership programs	1,009,937	932,777	1,061,556	1,302,544	1,588,871
	Home improvement programs	92,345	89,157	101,657	123,531	121,977
	Total	<u>\$1,450,478</u>	<u>\$1,384,804</u>	<u>\$1,514,094</u>	<u>\$1,776,736</u>	<u>\$2,059,822</u>
<b>Bonds Payable, net <sup>(1)</sup> (as of June 30)</b>	Multifamily programs	\$ 246,701	\$ 216,928	\$ 201,200	\$ 200,744	\$ 191,691
	Homeownership programs	1,579,978	1,607,661	1,794,886	1,725,347	2,187,297
	Home improvement programs	20,000	20,000	20,000	20,000	20,000
	Total	<u>\$1,846,679</u>	<u>\$1,844,589</u>	<u>\$2,016,086</u>	<u>\$1,946,091</u>	<u>\$2,398,988</u>
<b>Loans purchased or originated during fiscal year</b>	Multifamily programs	\$ 58,607	\$ 50,509	\$ 20,056	\$ 29,534	\$ 19,306
	Homeownership programs	145,748	216,109	305,899	393,866	424,436
	Home improvement programs	35,391	34,981	44,279	51,119	29,456
	Total	<u>\$239,746</u>	<u>\$301,599</u>	<u>\$370,234</u>	<u>\$474,519</u>	<u>\$473,198</u>
<b>Net Assets (as of June 30)</b>	Total net assets	\$648,459	\$666,978	\$697,192	\$719,887	\$750,990
	Percent of total assets	24.6%	25.2%	24.5%	25.7%	22.8%
<b>Revenues over Expenses</b>	Revenues over expenses for the fiscal year	\$36,098	\$18,519	\$30,214	\$22,695	\$31,103

Notes:

(1) Amounts are net of unamortized bond issuance costs in 2003 through 2005.

**MINNESOTA HOUSING FINANCE AGENCY**  
**Supplementary Information (Unaudited)**  
**Statement of Net Assets (in thousands)**  
**General Reserve and Bond Funds**  
**As of June 30, 2007 (with comparative totals as of June 30, 2006)**

	<b>Bond Funds</b>				<b>General Reserve and Bond Funds Total As Of June 30, 2007</b>	<b>General Reserve and Bond Funds Total As Of June 30, 2006</b>
	<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Single Family</b>		
<b>Assets</b>						
Cash and cash equivalents	\$ 31,801	\$ 51,936	\$ 565,249	\$ 115,549	\$ 764,535	\$ 796,790
Investment securities	90,639	3,922	325,211	3,792	423,564	193,618
Loans receivable, net	-	224,476	1,558,339	277,007	2,059,822	1,776,736
Interest receivable on loans	-	1,408	6,997	1,574	9,979	8,295
Interest receivable on investments	917	843	4,260	106	6,126	3,148
Mortgage insurance claims receivable	-	-	1,095	742	1,837	738
Real estate owned	-	-	2,217	510	2,727	1,414
Unamortized bond issuance costs	-	2,383	9,917	2,906	15,206	13,794
Capital assets, net	4,385	-	-	-	4,385	3,685
Other assets	1,259	4	20	1	1,284	1,899
<b>Total assets</b>	<b>\$ 129,001</b>	<b>\$ 284,972</b>	<b>\$ 2,473,305</b>	<b>\$ 402,187</b>	<b>\$ 3,289,465</b>	<b>\$ 2,800,117</b>
<b>Liabilities</b>						
Bonds payable, net	\$ -	\$ 191,691	\$ 1,904,487	\$ 302,810	\$ 2,398,988	\$ 1,946,091
Interest payable	-	3,700	35,850	8,043	47,593	38,086
Accounts payable and other liabilities	3,666	3,568	1,482	4,283	12,999	15,559
Interfund payable (receivable)	(79)	-	(24,450)	24,020	(509)	(61)
Funds held for others	79,404	-	-	-	79,404	80,555
<b>Total liabilities</b>	<b>82,991</b>	<b>198,959</b>	<b>1,917,369</b>	<b>339,156</b>	<b>2,538,475</b>	<b>2,080,230</b>
Commitments and contingencies						
<b>Net Assets</b>						
Restricted by bond resolution	-	86,013	274,314	63,031	423,358	406,548
Restricted by covenant	41,625	-	281,622	-	323,247	309,654
Invested in capital assets	4,385	-	-	-	4,385	3,685
<b>Total net assets</b>	<b>46,010</b>	<b>86,013</b>	<b>555,936</b>	<b>63,031</b>	<b>750,990</b>	<b>719,887</b>
<b>Total liabilities and net assets</b>	<b>\$ 129,001</b>	<b>\$ 284,972</b>	<b>\$ 2,473,305</b>	<b>\$ 402,187</b>	<b>\$ 3,289,465</b>	<b>\$ 2,800,117</b>

**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, 2007 (with comparative totals for the year ended**  
**June 30, 2006)**

	<u>Bond Funds</u>				<u>General Reserve and Bond Funds Total For The Year Ended June 30, 2007</u>	<u>General Reserve and Bond Funds Total For The Year Ended June 30, 2006</u>
	<u>General Reserve</u>	<u>Rental Housing</u>	<u>Residential Housing Finance</u>	<u>Single Family</u>		
<b>Revenues</b>						
Interest earned on loans	\$ -	\$ 13,181	\$ 78,214	\$ 19,435	\$ 110,830	\$ 97,843
Interest earned on investments	1,956	4,092	37,752	6,204	50,004	40,111
Administrative reimbursement	19,118	-	-	-	19,118	16,730
Fees earned and other income	8,160	789	501	-	9,450	10,379
Unrealized gains (losses) on securities	226	586	(232)	15	595	(5,623)
<b>Total revenues</b>	<u>29,460</u>	<u>18,648</u>	<u>116,235</u>	<u>25,654</u>	<u>189,997</u>	<u>159,440</u>
<b>Expenses</b>						
Interest	-	10,773	70,648	19,928	101,349	87,115
Loan administration and trustee fees	-	176	4,696	1,056	5,928	5,921
Administrative reimbursement	-	1,819	10,192	2,585	14,596	12,776
Salaries and benefits	14,937	-	-	-	14,937	14,054
Other general operating	6,899	-	1,597	-	8,496	8,502
Reduction in carrying value of certain low interest rate deferred loans	-	25	10,037	-	10,062	6,427
Provision for loan losses	-	(85)	3,472	139	3,526	1,950
<b>Total expenses</b>	<u>21,836</u>	<u>12,708</u>	<u>100,642</u>	<u>23,708</u>	<u>158,894</u>	<u>136,745</u>
Revenues over expenses	7,624	5,940	15,593	1,946	31,103	22,695
<b>Other changes</b>						
Non-operating transfer of assets between funds	(1,280)	197	1,083	-	-	-
Change in net assets	6,344	6,137	16,676	1,946	31,103	22,695
<b>Net Assets</b>						
Total net assets, beginning of year	39,666	79,876	539,260	61,085	719,887	697,192
Total net assets, end of year	<u>\$ 46,010</u>	<u>\$ 86,013</u>	<u>\$ 555,936</u>	<u>\$ 63,031</u>	<u>\$ 750,990</u>	<u>\$ 719,887</u>

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information (Unaudited)

### Statement of Cash Flows (in thousands)

#### General Reserve and Bond Funds

Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	Bond Funds				Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
	General Reserve	Rental Housing	Residential Housing Finance	Single Family		
<b>Cash flows from operating activities</b>						
Principal repayments on loans	\$ -	\$ 17,398	\$ 99,149	\$ 43,721	\$ 160,268	\$ 196,442
Investment in loans	-	(9,384)	(463,814)	-	(473,198)	(474,519)
Interest received on loans	-	14,225	77,274	18,730	110,229	97,771
Other operating	-	-	(1,597)	-	(1,597)	(1,777)
Fees and other income received	8,285	789	450	-	9,524	10,182
Salaries, benefits and vendor payments	(20,617)	(209)	(6,450)	(1,061)	(28,337)	(25,936)
Administrative reimbursement from funds	18,143	(1,837)	(9,631)	(2,578)	4,097	3,752
Interest transferred to funds held for others	(3,505)	-	-	-	(3,505)	(3,098)
Deposits into funds held for others	29,354	-	-	-	29,354	31,939
Disbursements made from funds held for others	(31,402)	-	-	-	(31,402)	(29,933)
Interfund transfers and other assets	(1,899)	-	218	(45)	(1,726)	(3,108)
Net cash provided (used) by operating activities	(1,641)	20,982	(304,401)	58,767	(226,293)	(198,285)
<b>Cash flows from noncapital financing activities</b>						
Proceeds from sale of bonds	-	9,480	1,005,160	-	1,014,640	608,615
Principal repayment on bonds	-	(19,055)	(479,895)	(61,145)	(560,095)	(691,510)
Interest paid on bonds and notes	-	(9,059)	(58,941)	(19,321)	(87,321)	(78,147)
Financing costs paid related to bonds issued	-	(145)	(4,820)	-	(4,965)	(4,298)
Interest paid/received between funds	-	(2,934)	4,449	(1,515)	-	-
Principal paid/received between funds	-	(18,643)	19,248	(605)	-	-
Premium paid on redemption of bonds	-	(48)	-	-	(48)	(236)
Agency contribution to program funds	-	197	(197)	-	-	-
Transfer of cash between funds	205	-	(205)	-	-	-
Net cash provided (used) by noncapital financing activities	205	(40,207)	484,799	(82,586)	362,211	(165,576)
<b>Cash flows from investing activities</b>						
Investment in real estate owned	-	-	(496)	(384)	(880)	(840)
Interest received on investments	4,992	4,006	30,235	5,255	44,488	37,257
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	6,879	2,956	9,835	5,849
Proceeds from maturity, sale or transfer of investment securities	63,280	47,278	34,197	2,000	146,755	146,557
Purchase of investment securities	(47,827)	(11,251)	(312,825)	(1,996)	(373,899)	(87,920)
Purchase of loans between funds	-	(28,830)	34,358	-	5,528	2,859
Net cash provided (used) by investing activities	20,445	11,203	(207,652)	7,831	(168,173)	103,762
Net increase (decrease) in cash and cash equivalents	19,009	(8,022)	(27,254)	(15,988)	(32,255)	(260,099)
<b>Cash and cash equivalents</b>						
Beginning of year	12,792	59,958	592,503	131,537	796,790	1,056,889
End of year	\$ 31,801	\$ 51,936	\$ 565,249	\$ 115,549	\$ 764,535	\$ 796,790

(continued)

# MINNESOTA HOUSING FINANCE AGENCY

## Supplementary Information (Unaudited)

### Statement of Cash Flows (in thousands)

#### General Reserve and Bond Funds

Year ended June 30, 2007 (with comparative totals for the year ended June 30, 2006)

	General Reserve	Bond Funds			Total For The Year Ended June 30, 2007	Total For The Year Ended June 30, 2006
		Rental Housing	Residential Housing Finance	Single Family		
<b>Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities</b>						
Revenues over (under) expenses	\$ 7,624	\$ 5,940	\$ 15,593	\$ 1,946	\$ 31,103	\$ 22,695
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:						
Amortization of premiums (discounts) and fees on loans	-	(61)	1,275	(796)	418	(306)
Depreciation	1,202	-	-	-	1,202	816
Realized losses (gains) on sale of securities, net	20	(563)	384	-	(159)	(694)
Unrealized losses (gains) on securities, net	(226)	(586)	232	(15)	(595)	5,623
Provision for loan losses	-	(85)	3,472	139	3,526	1,950
Reduction in carrying value of certain low interest rate and/or deferred loans	-	25	10,037	-	10,062	6,427
Capitalized interest on loans and real estate owned	-	(84)	(567)	(206)	(857)	(470)
Interest earned on investments	(1,976)	(3,606)	(36,623)	(6,531)	(48,736)	(42,797)
Interest expense on bonds and notes	-	10,773	70,648	19,928	101,349	87,115
Changes in assets and liabilities:						
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	8,014	(364,665)	43,721	(312,930)	(278,077)
Decrease (increase) in interest receivable on loans	-	(217)	(1,648)	176	(1,689)	(772)
Increase (decrease) in arbitrage rebate liability	-	1,483	(1,513)	448	418	4,856
Interest transferred to funds held for others	(3,505)	-	-	-	(3,505)	(3,098)
Increase (decrease) in accounts payable	194	(33)	(1,785)	(5)	(1,629)	235
Increase (decrease) in interfund payable, affecting operating activities only	(922)	(19)	342	(38)	(637)	(1,035)
Increase (decrease) in funds held for others	(2,048)	-	-	-	(2,048)	2,006
Other	(2,004)	1	417	-	(1,586)	(2,759)
Total	<u>(9,265)</u>	<u>15,042</u>	<u>(319,994)</u>	<u>56,821</u>	<u>(257,396)</u>	<u>(220,980)</u>
Net cash provided (used) by operating activities	<u>\$ (1,641)</u>	<u>\$ 20,982</u>	<u>\$ (304,401)</u>	<u>\$ 58,767</u>	<u>\$ (226,293)</u>	<u>\$ (198,285)</u>

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## Other Information

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### Board of Directors

Michael Finch, Ph.D., Chair  
Member

Marina Muñoz Lyon, Vice Chair  
Member

The Honorable Rebecca Otto  
Ex-officio member  
State Auditor, State of Minnesota

Lee Himle  
Member

Betty Lou Berg  
Member

Paul Gaston  
Member

Joseph Johnson III  
Member

### Legal and Financial Services

*Bond Trustee*  
Wells Fargo Bank, National Association

*Bond Paying Agent*  
Wells Fargo Bank, National Association

*Bond Counsel*  
Dorsey & Whitney LLP, Minneapolis

*Financial Advisor*  
Caine Mitter & Associates

*Underwriting Team*  
UBS Investment Bank (UBS Securities LLC)  
RBC Capital Markets (RBC Dain Rauscher Inc.)

*Certified Public Accountants*  
LarsonAllen® LLP

### Location

Minnesota Housing is located at 400 Sibley Street, Suite 300, Saint 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.mnhousing.gov](http://www.mnhousing.gov)

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

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

## APPENDIX C

### SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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

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

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

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

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

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

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule; provided, however, that in the event the Securities and Exchange Commission (“SEC”) amends the Rule to provide for an alternate or substitute national information depository system or entity for purposes of the Rule, the term “National Repository” as used herein shall include such system or entity in addition to, or in substitution of, the Nationally Recognized Municipal Securities Information Repository.

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

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the 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 ended June 30, 2008, provide to each Repository and to the Trustee, an Agency Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement.

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

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

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

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

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

**Reporting of Significant Events.**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Default.**

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

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

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

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

## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Terms defined in the following summaries are identical in all material respects with the definitions in the Bond Resolution.

#### Certain Defined Terms

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

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

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

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

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

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

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

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

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

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

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

- (a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America;
- (b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;
- (c) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least \$75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such Depository will not adversely affect the Rating of the Bonds;
- (d) Repurchase agreements and reverse repurchase agreements with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (a) and (b) of this definition;
- (e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a) or (b) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a) or (b) above;
- (f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and
- (g) Any other investment that will not adversely affect the Rating of the Bonds.

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

*Parity Certificate:* An Agency Certificate, giving effect to the action proposed to be taken in connection with the filing thereof, showing that (A) the sum of (i) the moneys, Investment Obligations and Cash Equivalents then credited to the Acquisition Accounts, the Revenue Fund, the Bond Fund Principal Account, the Bond Fund Interest Account and the Debt Service Reserve Fund, (ii) the unpaid principal amount of all Program Obligations credited to the Acquisition Accounts (other than any Acquisition Account funded with moneys transferred from the Alternative Loan Fund), and (iii) any other moneys, Investment Obligations and Cash Equivalents and the unpaid

principal amount of all Program Obligations otherwise specifically pledged to the payment of Outstanding Bonds by a Series Resolution, exceeds (B) an amount equal to 103% of the principal amount of Outstanding Bonds of all Series.

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

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

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

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

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

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

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

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

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

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

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

### **Series Accounts**

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

### **Cost of Issuance Accounts**

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

### **Acquisition Accounts**

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

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

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

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

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

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

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

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

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

## **Revenue Fund**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Bond Fund Interest Account and Bond Fund Principal Account**

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

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

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

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

### **Bond Redemption Fund**

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

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

## **Debt Service Reserve Fund**

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

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

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

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

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

In order better to secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 3 of the Act, the Agency shall cause the Chair annually, on or before December 1 of each year, to make and deliver to the Governor of the State the Chair's certificate stating the sum, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. All money received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 3 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund.

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

## **Insurance Reserve Fund**

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

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

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

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

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

### **Alternative Loan Fund**

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

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

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

### **Investment of Moneys Held by the Trustee**

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

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

redemption, sale and maturity thereof, and in the absence of any direction from the Agency, the Trustee shall not be required to invest such funds.

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

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

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

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

### **Cash Flow Certificates**

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

### **Creation of Liens**

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

### **Defeasance of Bonds**

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

## **Events of Default**

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

## **Acceleration; Annulment of Acceleration**

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

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

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

## **Additional Remedies and Enforcement of Remedies**

Upon the occurrence and continuance of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(1) suit upon all or any part of the Bonds; (2) suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners; (3) suit to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondowners; (4) enforcement of any other right of the Bondowners conferred by law or by the Bond Resolution; and (5) in the event that all Bonds are declared due and payable, by selling Program Obligations.

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

## **Amendments**

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

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

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

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

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

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

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

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

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

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

## APPENDIX 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 upon foreclosure (or other acquisition of possession) and conveyance of the mortgaged premises to the Department of Housing and Urban Development ("HUD").

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

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

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

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

#### **Veterans Administration Guaranty Program**

The Serviceman's Readjustment Act of 1944, as amended, permits a veteran (or, in certain instances, his or her spouse) to obtain a mortgage loan guaranteed by the Veterans Administration (the "VA") covering mortgage financing of the purchase of a one to four family dwelling unit at interest rates agreed upon by the purchaser and the mortgagee, as the VA may elect. The program has no mortgage loan limits (other than that the amount may not exceed the property's reasonable value as determined by the VA), requires no down payment from the purchaser and permits the guaranty of mortgage loans with terms of up to 30 years. The guaranty provisions for mortgage loans are as follows: (a) for home and condominium loans of \$45,000 or less, 50% of the loan is guaranteed (for loans with an original principal balance of \$45,000 and not more than \$56,250, the guaranty will not exceed \$22,500); (b)

for home and condominium loans of more than \$56,250 but less than or equal to \$144,000, 40% of the loan is guaranteed subject to a maximum guaranty of \$36,000; (c) for home and condominium loans of more than \$144,000, 25% of the principal amount of the loan is guaranteed subject to a maximum guarantee of \$50,750; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of \$20,000). The liability on the guaranty is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but in no event will the amount payable on the guaranty exceed the amount of the original guaranty. Notwithstanding the dollar and percentage limitations of the guaranty, a mortgage holder will ordinarily suffer a monetary loss only where the difference between the unsatisfied indebtedness and the proceeds of a foreclosure sale of a mortgaged premises is greater than the original guaranty as adjusted. The VA may, at its option and without regard to the guaranty, make full payment to a mortgage holder of unsatisfied indebtedness on a mortgage upon its assignment to the VA.

### **Rural Development (RD) Insured Program**

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

### **Private Mortgage Insurance Programs**

In accordance with the Series Resolutions, all Program Loans insured by a private mortgage insurance company are to be in any amount not exceeding the Market Value of the Home, provided that the Agency is issued a mortgage insurance policy under which the minimum insured percentage of any claim filed is at least equal to that percentage of the Market Value or sale price of the Home, whichever is less, by which the original principal amount of the mortgage exceeds 80% of such Market Value. Each private mortgage insurer insuring such Program Loans must be a company (a) that is licensed to do business in Minnesota; (b) that has ratings not less than “A2” from Moody’s Investors Service, Inc., and “AA” from Standard & Poor’s Ratings Services, or that is approved to insure mortgages purchased by Fannie Mae and Freddie Mac, 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 Program Loans; and (c) that, by insuring Program Loans financed by the Agency, does not cause the Rating on the Bonds to be adversely affected. Both Fannie Mae and Freddie Mac 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 Fannie Mae in determining whether to approve a private mortgage insurer currently 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 Fannie Mae’s requirements for audit and reports concerning changes in personnel, financial structure, qualifications, and rates.

Freddie Mac 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; (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.

Freddie Mac 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 Freddie Mac.

It is the present administrative policy of the Agency to require that any private mortgage insurance policy with respect to a Program Loan to be purchased with the proceeds of the Series Bonds contain provisions substantially as follows: (a) the private mortgage insurer must pay a claim, including unpaid principal, accrued interest and certain expenses, within sixty days of presentation of the claim by the mortgage lender; (b) for a mortgage lender to present a claim, the mortgage lender must have acquired, and tendered to the insurer, title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor; (c) when a claim is presented, the insurer will have the option of paying the claim in full, taking title to the property and arranging for its sale, or of paying the insured percentage of the claim (the Agency's exposure is to be limited to 70% or 75%, depending on the initial loan-to-value ratio of the mortgage loan) and allowing the insured lender to retain title to the property.

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

#### **Insurance Reserve Fund**

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

#### **State Laws Affecting Foreclosures**

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

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the sheriff's 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

#### General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each Series for each maturity in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., DTC’s partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds of a series, references herein to the Bondowners, Owners or registered owners of such Series Bonds shall mean Cede & Co. or such other nominee and shall not mean the Beneficial Owners(as hereinafter defined) 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 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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 the 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 series and 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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond 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, interest on and purchase price with respect to 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 Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the bond issuer or 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, interest and purchase price 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 Resolutions, 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.

A Beneficial Owner shall give notice to elect to have its Series Bonds purchased or tendered, through its Participant, to the Tender Agent and the Remarketing Agent, and shall effect delivery of such Series Bonds by causing the Direct Participant to transfer the Participant's interest in the Series Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series Bonds to the Tender Agent's DTC account.

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, interest on or purchase price with respect to 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 Series Bonds; or (6) any consent given or other action taken by DTC as a Bondowner.*

### **Discontinuation of Book-Entry System**

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

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

**APPENDIX G**  
**FORMS OF OPINIONS OF BOND COUNSEL**

[To be dated the date of issuance of the Series 2008 Series A Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2008 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2008 Series A, in the aggregate principal amount of \$25,090,000 (the "2008 Series A Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2008 Series A Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2008 Series A Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented (the "Bond Resolution"), and the Series Resolution relating to the 2008 Series A Bonds adopted June 26, 2008 (the "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 2008 Series A Bonds in order that interest on the 2008 Series A Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond Resolution and Series Resolution.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2008 Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2008 Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2008 Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2008 Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in

taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2008 Series A Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates but will be included in the calculation of adjusted current earnings for purposes of calculating federal and State of Minnesota alternative minimum taxes imposed on corporations. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the 2008 Series A Bonds. All owners of 2008 Series A 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 2008 Series A Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2008 Series A Bonds and the Bond Resolution and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2008.

Respectfully yours,

[To be dated the date of issuance of the 2008 Series B Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2008 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2008 Series B, in the aggregate principal amount of \$34,910,000 (the "2008 Series B Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2008 Series B Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2008 Series B Bonds are subject to optional, mandatory and special redemption prior to maturity, including special redemption at par, and to mandatory tender for purchase at par, all as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented (the "Bond Resolution"), and the Series Resolution relating to the 2008 Series B Bonds adopted June 26, 2008 (the "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 2008 Series B Bonds in order that interest on the 2008 Series B Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond Resolution and Series Resolution.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2008 Series B 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 Resolution and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2008 Series B 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 2008 Series B 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 2008 Series B 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 2008 Series B 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, state or local tax consequences arising from the ownership or disposition of the 2008 Series B Bonds. All owners of 2008 Series B 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 2008 Series B Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2008 Series B Bonds and the Bond Resolution and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2008.

Respectfully yours,

[To be dated the date of issuance of the 2008 Series C Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2008 Series C

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Residential Housing Finance Bonds, 2008 Series C, in the aggregate principal amount of \$40,000,000 (the "2008 Series C Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.

The 2008 Series C Bonds are dated, mature on the date, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2008 Series C Bonds are subject to optional, mandatory and special redemption prior to maturity, including special redemption at par, and to optional and mandatory tender for purchase at par, all as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Amended and Restated Bond Resolution adopted August 24, 1995, as amended and supplemented (the "Bond Resolution", and the Series Resolution relating to the 2008 Series C Bonds adopted June 26, 2008 (the "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 2008 Series C Bonds in order that interest on the 2008 Series C Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond Resolution and Series Resolution.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2008 Series C Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2008 Series C Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2008 Series C Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2008 Series C Bonds is not includable in gross income of owners thereof for federal income tax purposes or in

taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2008 Series C Bonds will be treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and in calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal or state tax consequences arising from the ownership or disposition of the 2008 Series C Bonds. All owners of 2006 Series C Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2008 Series C Bonds.

The interest rate on all or a portion of the 2008 Series C Bonds may be converted from a variable rate mode to a different interest rate mode on a Conversion Date (as defined in the Series Resolution), subject to the terms and conditions set forth in the Series Resolution, including the requirement of delivery to the Agency and the Trustee of an opinion of nationally-recognized bond counsel to the effect that the change in interest rate period will not adversely affect the exemption of interest on the 2008 Series C Bonds from federal income taxation. We express no opinion as to the exemption from federal or State of Minnesota income taxation of interest on any 2008 Series C Bond on or after the initial Conversion Date, if and when it occurs.

The opinions expressed above are qualified only to the extent that the enforceability of the 2008 Series C Bonds and the Bond Resolution and Series Resolution may be limited by general principles of equity and by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting enforcement of creditor's rights heretofore or hereafter enacted.

Dated: \_\_\_\_\_, 2008.

Respectfully yours,

## APPENDIX H

### CERTAIN DEFINITIONS WITH RESPECT TO THE 2008 SERIES C BONDS

“*Alternate Liquidity Facility*” means any standby purchase agreement, line of credit, letter of credit or similar agreement (not including a Non-Conforming Liquidity Facility or Self-Liquidity Facility) providing liquidity for the Liquidity Facility Bonds or any portion thereof, delivered by the Agency in connection with a Mode Change to a Mode Period or in substitution for an existing Liquidity Facility pursuant to the terms of the Series Resolutions. The extension or renewal of an extant Liquidity Facility shall not be deemed an Alternate Liquidity Facility.

“*Bank*” means (i) with respect to the Initial Liquidity Facility for the 2008 Series C Bonds, the Federal Home Loan Bank of Des Moines, together with its successors and assigns; (ii) with respect to an Alternate Liquidity Facility or a Non Conforming Liquidity Facility, the provider thereof, together with its successors and assigns; and (iii) with respect to Self Liquidity, the Agency, together with its successors and assigns.

“*Bank Bonds*” means 2008 Series C Bonds purchased with funds provided by the Bank pursuant to a Liquidity Facility, other than Self Liquidity.

“*Bank Rate*” means the rate of interest, if any, on any Bank Bonds held by and payable to the Bank at any time as determined and calculated in accordance with the provisions of the Liquidity Facility.

“*Bank Purchase Date*” means any Purchase Date on which the Bank purchases 2008 Series C Bonds.

“*Business Day*” means any day which shall not be a Saturday, Sunday, legal holiday or a day on which banks in the City of New York, New York, or Minneapolis, Minnesota, are authorized or required by law or executive order to remain closed and which shall not be a day on which the New York Stock Exchange is closed.

“*Conversion Date*” means the Business Day on which the interest rate on any of the 2008 Series C Bonds is Converted to a Fixed Interest Rate or an Indexed Rate.

“*Convert,*” “*Converted*” or “*Conversion,*” as appropriate, means the conversion of the interest rate on any of the 2008 Series C Bonds to a Fixed Interest Rate or an Indexed Rate pursuant to the Series Resolutions.

“*Liquidity Expiration Event*” means either (i) the Agency has determined to terminate a Liquidity Facility in accordance with its terms, (ii) the Bank has delivered notice to the Trustee on or prior to 45 days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will not be extended or renewed or (iii) the Bank has not delivered notice to the Trustee on or prior to 45 days prior to the scheduled expiration of a Liquidity Facility that such Liquidity Facility will be extended or renewed.

“*Liquidity Facility*” means any instrument delivered pursuant to the terms of the 2008 Series C Resolution that provides liquidity support for the purchase of Liquidity Facility Bonds in accordance with the terms of the 2008 Series C Resolution, including the Initial Liquidity Facility and any Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self Liquidity.

“*Maximum Rate*” means (i) with respect to the 2008 Series C Bonds (other than Bank Bonds) 12% per annum, unless the Agency directs in writing that such rate be increased to a higher rate and delivers to the Trustee (a), with respect to the 2008 Series C Bonds, an opinion of Bond Counsel to the effect that such amendment will not adversely affect the exclusion of interest on the Series Bonds, including the 2008 Series C Bonds, from gross income of the owners thereof for federal income tax purposes, (b) an Agency Certificate to the Trustee to the effect that such increase will not impair the Ratings on the 2008 Series C Bonds by each Rating Agency; and (c) a certified copy of a resolution adopted by the Agency approving such increase in the Maximum Rate; and (ii) with respect to Bank Bonds, the meaning ascribed to such term in the Liquidity Facility; provided, however, that in no event shall the Maximum Rate, as described in (i) or (ii) above, exceed the lesser of (a) 12% or such higher rate as approved by the Agency’s governing body or specified for the Bank Bonds, or (b) the maximum rate permitted by applicable law, anything herein to the contrary notwithstanding.

“*Mode*” means the manner in which the interest rate on any of the 2008 Series C Bonds is determined, consisting of a Daily Rate, Weekly Rate, Monthly Rate, Quarterly Rate, or Semiannual Rate.

“*Mode Change*” means a change in Mode Period.

“*Mode Change Date*” means the date of effectiveness of a Mode Change.

“*Mode Period*” means each period beginning on the first Effective Rate Date for any of the 2008 Series C Bonds, or the first Effective Rate Date following a change from one Mode to another, and ending on the date immediately preceding the first Effective Rate Date following the next such change in Mode with respect to such 2008 Series C Bonds.

“*Non-Conforming Liquidity Facility*” means a liquidity facility delivered by the Agency pursuant to the 2008 Series C Resolution that does not meet the requirements for an Alternate Liquidity Facility.

“*Purchase Date*” means any date that 2008 Series C Bonds are to be purchased pursuant to the 2008 Series C Resolution.

“*Purchase Price*” means an amount equal to the principal amount of any 2008 Series C Bond tendered or deemed tendered for purchase as provided herein, plus, if the Purchase Date is not an Interest Payment Date, accrued interest from the previous Interest Payment Date to the day preceding the Purchase Date.

“*Record Date*” means, with respect to Variable Rate Bonds, the Business Day immediately prior to the applicable Interest Payment Date and, in all other cases, the fifteenth day preceding each Interest Payment Date; provided, however, that if the Record Date is not a Business Day, then such Record Date shall be deemed to be the first Business Day following such Record Date.

“*Remarketing Agreement*” means the Remarketing Agreement, between the Agency and RBC Capital Markets Corporation, with respect to the 2008 Series C Bonds, as the same may be amended in accordance with the terms thereof, and any similar agreement entered into between the Agency and any successor Remarketing Agent in respect of such 2008 Series C Bonds.

“*Self Liquidity*” means a liquidity facility provided by the Agency’s own funds pursuant to the 2008 Series C Resolution, other than a Non-Conforming Liquidity Facility.

“*SIFMA Index*” means the per annum rate equal to The Securities Industry and Financial Markets Association Municipal Swap Index (formerly the BMA Municipal Swap Index). The Securities Industry and Financial Markets Association Municipal Swap Index is an index based on the weekly interest rate resets of tax exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by The Securities Industry and Financial Markets Association.

“*Tender Agent*” means the Trustee appointed pursuant to the Bond Resolution.

“*Variable Rate Bonds*” means 2008 Series C Bonds during a Daily Mode Period, a Weekly Mode Period, a Monthly Mode Period, a Quarterly Mode Period, or a Semiannual Mode Period (whether or not in each case such 2008 Series C Bonds are Liquidity Facility Bonds or Unenhanced Variable Rate Bonds).

**APPENDIX I**

**SUMMARY OF CERTAIN PROVISIONS OF AND RELATING TO THE  
STANDBY BOND PURCHASE AGREEMENT**

The following is a summary of the provisions of the Initial Liquidity Facility to be entered into with the Federal Home Loan Bank of Des Moines (the “Bank”), which is in the form of a Standby Bond Purchase Agreement (copies of which are on file with the Trustee, the Tender Agent and the Agency). Any Alternate Liquidity Facility may have terms substantially different from those of the Initial Liquidity Facility. Various words or terms used in the following summary are defined in this Official Statement, the Initial Liquidity Facility or the Resolution and reference thereto is made for full understanding of their import. For further information regarding the Bank, the obligor under the Initial Liquidity Facility, see “APPENDIX J – CERTAIN INFORMATION RELATING TO THE LIQUIDITY PROVIDER.” See also “DESCRIPTION OF THE SERIES BONDS” in this Official Statement and “APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION.”

“Affiliate” means, with respect to a Person (as defined in the Initial Liquidity Facility), any Person (whether for-profit or not-for-profit), which “controls,” or is “controlled” by, or is under common “control” with such Person. For purposes of this definition, a Person “controls” another Person when the first Person possesses or exercises directly, or indirectly through one or more other affiliates or related entities, the power to direct the management and policies of the other Person, whether through the ownership of voting rights, membership, the power to appoint members, trustees or directors, by contract, or otherwise.

“Available Commitment” means on any day the sum of the Available Interest Commitment and the Available Principal Commitment on such day, initially \$42,485,479.45 for the 2008 Series C Bonds.

“Available Interest Commitment” initially means \$2,485,479.45 for the 2008 Series C Bonds of which initial amount equals 189 days’ interest on the initial amount of the Available Principal Commitment available for 2008 Series C Bonds in a Weekly Mode or Daily Mode based upon an assumed rate of interest of 12% per annum computed on the basis of a year of 365 days, and actual days elapsed, and thereafter means each such initial amount adjusted from time to time as follows: (a) downward by an amount that bears the same proportion to such initial amount as the amount of any reduction in the Available Principal Commitment, in accordance with clause (a), (b) or (c) of the definition in the Initial Liquidity Facility of Available Principal Commitment, bears to the initial Available Principal Commitment and (b) upward by an amount that bears the same proportion to such initial amount as the amount of any increase in the Available Principal Commitment, in accordance with clause (d) of the definition in the Initial Liquidity Facility of Available Principal Commitment, bears to the initial Available Principal Commitment. Any adjustments to the Available Interest Commitment pursuant to clauses (a) or (b) hereof shall occur simultaneously with the occurrence of the events described in such clauses.

“Available Principal Commitment” means, initially, the aggregate principal amount of the 2008 Series C Bonds Outstanding, \$40,000,000.00, and thereafter means each such initial amount adjusted from time to time as follows: (a) downward by the amount of any mandatory reduction of the Available Principal Commitment pursuant to the Initial Liquidity Facility (other than with respect to clause (c) of this definition); (b) downward by the principal amount of any 2008 Series C Bonds for the purchase of which funds are made available by the Bank to purchase 2008 Series C Bonds pursuant to the Initial Liquidity Facility; (c) downward by the principal amount of any 2008 Series C Bonds of which the interest rate borne by such 2008 Series C Bonds has been converted or changed to an Auction Period Rate (as defined in the 2008 Series C Resolution), the Fixed Interest Rate (as defined in the 2008 Series C Resolution) or an Indexed Rate (as defined in the 2008 Series C Resolution) or has been changed to a mode or rate not required by the 2008 Series C Resolution to be supported by a Liquidity Facility (as defined in the 2008 Series C Resolution) or for which an Alternate Liquidity Facility (as defined in the 2008 Series C Resolution), a Non-Conforming Liquidity Facility (as defined in the 2008 Series C Resolution), or Self Liquidity (as defined in the 2008 Series C Resolution) has become effective; and (d) upward by the principal amount of any 2008 Series C Bonds theretofore purchased by the Bank pursuant to the Initial Liquidity Facility which are remarketed by the Remarketing Agent and for which the Bank has received immediately available funds equal to the principal amount thereof and accrued interest thereon (or deemed to be remarketed pursuant to the Initial Liquidity Facility); provided, however, that the sum of (i) the Available Principal Commitment plus (ii) the aggregate principal amount of Bank Bonds shall never exceed \$40,000,000 for the 2008 Series C Bonds. Any adjustments to the Available Principal Commitment pursuant to clause (a), (b) or (d) hereof shall occur simultaneously with the occurrence of the events described in such clauses. Any adjustments to the Available Principal Commitment pursuant to clause (c) hereof shall occur at 5:00 p.m. Des Moines, Iowa time on the Business Day immediately following the occurrence of the events described in such clause.

“Default” means any occurrence, circumstance or event, or any combination thereof, which, with the lapse of time and/or giving of notice, would constitute an event of default under the Initial Liquidity Facility.

“Eligible Bonds” means 2008 Series C Bonds that bear interest at a Variable Rate during the Weekly Mode Period, as such capitalized term is defined in the 2008 Series C Resolution, or Daily Mode Period, as such capitalized term is defined in the 2008 Series C Resolution and which are not Bank Bonds or 2008 Series C Bonds owned by or held on behalf of, for the benefit of, or for the account of, the Agency or any Affiliate of the Agency and which are supported by the Initial Liquidity Facility.

“Investment Grade” means, with respect to a rating by Moody’s, a rating of “Baa3” (or its equivalent) or better, and, with respect to a rating by S&P, a rating of “BBB-” (or its equivalent) or better.

“Parity Debt” means other debt, including bonds (excluding the 2008 Series C Bonds) that is now or hereafter outstanding under the terms of the General Bond Resolution, provided that such debt is secured on a parity with the 2008 Series C Bonds pursuant to the General Bond Resolution.

“Related Documents” means the Initial Liquidity Facility, the 2008 Series C Bonds, the 2008 Series C Resolution, the General Bond Resolution, the Official Statement (as defined in the Initial Liquidity Facility), the Purchase Contract (as defined in the Initial Liquidity Facility) and the Remarketing Agreement (as defined in the 2008 Series C Resolution), as the same may be amended or modified from time to time in accordance with their respective terms and the terms of the Initial Liquidity Facility.

“Resolution” means, collectively, the General Bond Resolution and the 2008 Series C Resolution.

“Variable Rate” means the rate of interest payable on any Outstanding 2008 Series C Bonds which are required by the terms of the 2008 Series C Resolution to be covered by a Liquidity Facility (which is not an Alternate Liquidity Facility, Non-Conforming Liquidity Facility or Self-Liquidity).

## **The Initial Liquidity Facility**

*General.* The Agency will execute each Initial Liquidity Facility with the Bank, the Trustee and the Tender Agent (the “Tender Agent”) on the date of delivery of the 2008 Series C Bonds. Each Initial Liquidity Facility requires the Bank to provide funds for the purchase of the 2008 Series C Bonds outstanding as Eligible Bonds that have been tendered for purchase and not remarketed, subject to certain conditions described below. Any 2008 Series C Bonds so purchased shall constitute Bank Bonds under the terms of the Initial Liquidity Facility and the Resolution. Bank Bonds will bear interest at the Bank Rate, in accordance with the Initial Liquidity Facility, payable as set forth in the Initial Liquidity Facility.

*Expiration of the Initial Liquidity Facility.* The Bank is obligated to purchase the 2008 Series C Bonds which are Eligible Bonds pursuant to the Initial Liquidity Facility from the date of issuance of the 2008 Series C Bonds until the earliest to occur of the following dates and events (the “Commitment Period”): (1) the later of 5:00 p.m. Des Moines, Iowa time on August 7, 2015, and 5:00 p.m. Des Moines, Iowa time on the last day of any extension of such date pursuant to the Initial Liquidity Facility (or if such date is not a Business Day, the Business Day next preceding such day) (the “Expiration Date”); (2) the first date on which no Eligible Bonds are Outstanding; (3) 5:00 p.m. Des Moines, Iowa time on the Business Day immediately following (i) the first date on which the interest rate borne by all of the 2008 Series C Bonds has been converted or changed to an Auction Period Rate (as defined in the 2008 Series C Resolution), an Indexed Rate or a Fixed Interest Rate or (ii) the date of occurrence of an Unenhanced Variable Rate Bonds Change Date (as defined in the 2008 Series C Resolution) with respect to such Series; (4) 5:00 p.m. Des Moines, Iowa time on the thirtieth (30th) day following the date on which a “Notice of Termination Date” (defined below in paragraph (3) of “Remedies Upon Occurrence of an Event of Default”) is received by the Agency, the Trustee and the Tender Agent or, if such thirtieth (30th) day is not a Business Day, the next succeeding Business Day; (5) 5:00 p.m. Des Moines, Iowa time on the Business Day immediately following the date on which an Alternate Liquidity Facility, a Non-Conforming Liquidity Facility or Self-Liquidity (as defined in the 2008 Series C Resolution) has become effective with respect to all outstanding 2008 Series C Bonds; (6) 30 days after the Agency delivers a notice of voluntary termination of the Initial Liquidity Facility (or immediately upon delivery of such notice if the Bank has defaulted on any payment obligations under the Initial Liquidity Facility), provided that the Agency has made payment of all amounts owing to the Bank under

the Initial Liquidity Facility; and (7) the occurrence of an event of default described under “Remedies Upon Occurrence of an Event of Default” that allows the Bank to terminate its obligations under the Initial Liquidity Facility.

**In the event there is an occurrence of a “Termination Event” or “Suspension Event” as described below, the obligation of the Bank to purchase 2008 Series C Bonds immediately terminates or suspends without notice or demand to any person. In such event, holders of 2008 Series C Bonds will have no right to optionally tender the 2008 Series C Bonds and may be required to hold such 2008 Series C Bonds until the earlier of the redemption or maturity thereof.**

*Purchase of Eligible Bonds.* On each Purchase Date on which the 2008 Series C Bonds which are Eligible Bonds are to be purchased by the Tender Agent, by no later than 11 a.m., Des Moines, Iowa time, the Tender Agent shall give the Bank notice by telecopier and in writing of the aggregate Purchase Price of the tendered 2008 Series C Bonds which are Eligible Bonds required to be purchased by the Bank pursuant to the Initial Liquidity Facility, and the amount of principal and interest constituting such Purchase Price. Upon receipt of the notice set forth above, the Bank, unless it determines that its obligation to purchase pursuant to the Initial Liquidity Facility has been suspended or terminated in accordance therewith, shall, by no later than 1 p.m., Des Moines, Iowa time, on the same day (or not later than 1 p.m., Des Moines, Iowa time, on the next Business Day if the Bank receives such notice after 11 a.m. Des Moines, Iowa time), make available to the Tender Agent, in immediately available funds, such Purchase Price, to be deposited in accordance with the Resolution. As soon as such funds become available, the Tender Agent is required to purchase therewith, for the account of the Bank, that portion of the tendered 2008 Series C Bonds which are Eligible Bonds for the purchase of which immediately available funds are not otherwise then available for such purposes under the Resolution. Under the Initial Liquidity Facility, the Bank is obligated, with respect to the 2008 Series C Bonds which are Eligible Bonds and are Outstanding, to make available to the Tender Agent an amount equal to the Available Commitment.

*Events of Default Under the Initial Liquidity Facility.* The following events constitute events of default under the Initial Liquidity Facility.

1. Any principal of, or interest on, any 2008 Series C Bond (including any Bank Bond), shall not be paid when due; or

2. The Agency shall fail to pay any commitment fee to the Bank due under the Initial Liquidity Facility within fifteen (15) days after the same shall become due; or

3. Any representation or warranty made or deemed to be made to the Bank by or on behalf of the Agency in the Initial Liquidity Facility or in any Related Document or in any certificate or statement delivered under the Initial Liquidity Facility or under a Related Document shall be incorrect or untrue in any material respect when made or deemed to have been made; or

4. The Agency shall fail to observe or perform certain enumerated covenants, which shall constitute an event of default and without regard to any grace period; or

5. (a) The Agency shall default in the due performance or observance of any other term, covenant or agreement contained (or incorporated by reference) in the Initial Liquidity Facility or there is a Default in the Initial Liquidity Facility (other than those referred to in paragraphs (1) through (4) above) or (b) an event of default shall occur under any Related Documents (other than the Official Statement) and in each case (a) and (b) such default shall remain unremedied for a period of thirty (30) days after the Bank shall have given written notice thereof to the Agency; or

6. (a) The Agency shall commence any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Agency shall make a general assignment for the benefit of its creditors; or (b) there shall be commenced against the Agency any case, proceeding or other action of a

nature referred to in clause (a) above which (i) results in an order for such relief or in the appointment of a receiver or similar official or (ii) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (c) there shall be commenced against the Agency any case, proceeding or other action seeking issuance of a warrant of attachment, execution, rehabilitation, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (d) the Agency shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or (e) the Agency shall generally not, or shall be unable to, or so admit in writing its inability to, pay its debts; or (f) a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction shall have been declared (whether or not in writing) with respect to the Bonds or Parity Debt of the Agency by the Agency or the State of Minnesota (including, without limitation, any of the executive, legislative or judicial branches of government thereof) or any federal government agency or authority having jurisdiction over the Agency; or

7. (a) Any material provision of the Act, the Initial Liquidity Facility, the Resolution, the 2008 Series C Bonds, or any Parity Debt relating to the payment of the principal of or interest on the 2008 Series C Bonds (including any Bank Bonds) or any Parity Debt or the security therefor shall at any time and for any reason cease to be valid and binding on the Agency as a result of (i) holding or ruling, (ii) enactment or adoption of legislation, (iii) issuance of an executive order or (iv) entry of a judgment or decree, in each instance, by a governmental agency having appropriate jurisdiction over the Agency; or (b) the Agency shall have taken or permitted to be taken any official action which would adversely affect the enforceability of the Initial Liquidity Facility, the 2008 Series C Bonds, the Act, the Resolution or any Parity Debt relating to the payment of the principal or interest on the 2008 Series C Bonds (including any Bank Bonds), or any Parity Debt or the security therefor or results in a repudiation of its obligation to pay the 2008 Series C Bonds (including any Bank Bonds); or (c) the Agency (i) challenges the validity or enforceability of any provision of the Initial Liquidity Facility, the 2008 Series C Bonds, the Act, the Resolution or any Parity Debt relating to or otherwise affecting (A) the ability or obligation to pay the principal of or interest on the 2008 Series C Bonds, the Bank Bonds or any Parity Debt or (B) the security available for repayment of the principal of or interest on the 2008 Series C Bonds, the Bank Bonds or any Parity Debt or (ii) seeks an adjudication that any provision of the Initial Liquidity Facility, the Act, the Resolution, the 2008 Series C Bonds or any Parity Debt relating to or otherwise affecting (A) the Agency's ability or obligation to pay the principal of or interest on the 2008 Series C Bonds, the Bank Bonds or any Parity Debt or (B) the security available for repayment of the principal of or interest on the 2008 Series C Bonds the Bank Bonds or any Parity Debt is not valid and binding on the Agency; or

8. Each of Moody's and S&P shall have (a) reduced the long-term credit rating of the 2008 Series C Bonds or any unenhanced Parity Debt below Investment Grade; (b) withdrawn their long-term ratings of the 2008 Series C Bonds or any unenhanced Parity Debt for any credit-related reasons; or (c) suspended their long-term ratings of the 2008 Series C Bonds or any unenhanced Parity Debt for any credit-related reasons; or

9. The Agency shall fail to pay when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) any Parity Debt, or any interest or premium thereon, and such failure shall continue beyond any applicable period of grace specified in any underlying resolution, indenture, contract or instrument providing for the creation of or concerning such Parity Debt, or pursuant to the provisions of any such resolution, indenture, contract or instrument, the maturity of any Parity Debt shall have been or, as a result of a payment default of any nature, may be accelerated or shall have been, or, as a result of a payment default of any nature, may be required to be prepaid prior to the stated maturity thereof; or

10. A final nonappealable judgment or order for the payment of money that exceeds \$5,000,000 in aggregate shall have been rendered against the Agency and shall be payable from or attach to the revenues or other monies pledged to the payment of the 2008 Series C Bonds under the Resolution, and such judgment or order shall not have been satisfied within 60 days from the date on which such judgment was rendered; or

11. The issuance of a Proposed Determination by the Internal Revenue Service with respect to the 2008 Series C Bonds, which, if not terminated revoked or omitted, would adversely affect the exclusion from gross income of such interest on the 2008 Series C Bonds for purposes of the exemption of such interest from federal income taxes; or

12. The Agency's long-term rating shall be less than "BBB-1-" by S&P and "Baal" by Moody's, for a period of more than 30 days after the Liquidity Provider shall have given written notice thereof to the Agency.

*Remedies Upon Occurrence of an Event of Default.* Following the occurrence of the above-referenced events of default, the Bank may take any one or more of the following actions.

1. In the case of the occurrence of an event of default specified in paragraphs (1), (6)(a), (c), (d), (e) or (f), (7), (8), (9), or (10) above (each, a "Termination Event"), the Bank's Available Commitment and the obligations of the Bank under the Initial Liquidity Facility to purchase the 2008 Series C Bonds which are Eligible Bonds shall immediately terminate without notice or demand to any Person and, thereafter, the Bank shall be under no obligation to purchase the 2008 Series C Bonds which are Eligible Bonds. Promptly upon such event of default, the Bank shall give written notice of the same to the Agency, the Trustee, the Tender Agent and the Remarketing Agent, provided that the Bank shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the termination of the Bank's Available Commitment and the termination of the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds pursuant to the Initial Liquidity Facility. The Agency shall cause the Tender Agent to notify all Bondowners of the termination of the Bank's Available Commitment and of the termination of the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds.

2. In the case of the occurrence of a Default as specified in paragraph (6), clause (b)(i) or (b)(ii) above (each, a "Suspension Event"), the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds under the Initial Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the Bank shall be under no obligation to purchase 2008 Series C Bonds which are Eligible Bonds until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Bank shall give written notice of the same to the Agency, the Trustee, the Tender Agent and the Remarketing Agent, provided that the Bank shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or the suspension of its obligation to purchase 2008 Series C Bonds which are Eligible Bonds pursuant to the Initial Liquidity Facility.

Upon the commencement against the Agency of any involuntary case, proceeding or other action which has not yet resulted in an order for relief or in the appointment of a receiver or similar official as described in paragraph 6, clause (b)(i) above, the Bank's obligations to purchase 2008 Series C Bonds which are Eligible Bonds under the Initial Liquidity Facility shall immediately be suspended without notice or demand to any person and, thereafter, the Bank shall be under no obligation to purchase 2008 Series C Bonds which are Eligible Bonds until such case, proceeding or other action referred to therein is terminated. In the event such case, proceeding or action is terminated, then the Bank's obligations to purchase 2008 Series C Bonds which are Eligible Bonds under the Initial Liquidity Facility shall be reinstated and the terms of such Initial Liquidity Facility shall continue in full force and effect (unless the Initial Liquidity Facility shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. Notwithstanding the foregoing, if three (3) years after the effective date of the suspension of the obligations of the Bank as described in this paragraph, no order for relief has been issued or no receiver or similar official has been appointed, in either case, then the Available Commitment and the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds shall at such time terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase 2008 Series C Bonds which are Eligible Bonds.

Upon the occurrence of a Suspension Event described in paragraph 6, clause (b)(ii) above, the Bank's obligations to purchase 2008 Series C Bonds which are Eligible Bonds shall remain suspended until the case, proceeding or other action referred to therein is either (i) terminated or (ii) sixty (60) days shall have elapsed from the commencement of such case, proceeding or action, whichever is the first to occur. In the event that said Suspension Event shall have been terminated within the sixty (60) day period described therein, then the Available Commitment and the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds shall be reinstated and the terms of the Initial Liquidity Facility shall continue in full force and effect (unless the Initial Liquidity Facility shall have otherwise expired or been terminated in accordance with its terms) as if there had been no such suspension. In the event that said Suspension Event shall not have been terminated within such sixty (60) day period, then the Available Commitment and the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds shall at such time terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase 2008 Series C Bonds which are Eligible Bonds.

In the case of each Suspension Event, the Tender Agent shall immediately notify all Bondholders of the suspension and/or termination of both the Available Commitment and the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds. The Agency shall cause the Tender Agent to notify all Bondholders of the suspension and/or termination of the Available Commitment and of the suspension and/or termination of the obligation of the Bank to purchase 2008 Series C Bonds which are Eligible Bonds.

(3) In the case of the occurrence of any event of default described above (other than as specified in subsections (1) and (2) of this section entitled “Remedies Upon Occurrence of an Event of Default” above), the Bank may give written notice of such event of default and termination of the Initial Liquidity Facility (a “Notice of Termination Date”) to the Trustee, the Tender Agent, the Agency, and the Remarketing Agent requesting a mandatory tender of the 2008 Series C Bonds which are Eligible Bonds. The obligation of the Bank to purchase the 2008 Series C Bonds which are Eligible Bonds shall terminate on the thirtieth (30th) day (or if such day is not a Business Day, the next following Business Day) after such Notice of Termination Date is received by the Tender Agent and on such date the Available Commitment shall terminate and the Bank shall be under no obligation under the Initial Liquidity Facility to purchase 2008 Series C Bonds which are Eligible Bonds.

(4) Upon the occurrence of any event of default, the Bank may declare all accrued and unpaid amounts payable to it under the Initial Liquidity Facility immediately due and payable (other than payments of principal of and interest on Bank Bonds, acceleration rights which are governed by the Resolution), and the Bank shall have all remedies provided at law or equity, including, without limitation, specific performance; provided, however, the Bank agrees to purchase the 2008 Series C Bonds which are Eligible Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the occurrence of an event of default which does not terminate or suspend its obligation to purchase 2008 Series C Bonds which are Eligible Bonds under paragraphs (1), (2) or (3) above.

(5) The remedies described under paragraphs (1), (2), (3) and (4) above shall only be exclusive with respect to such events of default to the extent they are obtained by the Bank. If, for any reason whatsoever, the Bank is not able to obtain all such remedies, then the Bank reserves the right and shall have the right to pursue any other available remedies, whether provided by law, equity or the Initial Liquidity Facility.

*Extension of Commitment Period.* Upon written request of the Agency to the Bank, made not less than 90 days nor more than 120 days prior to the then current Expiration Date of an Initial Liquidity Facility or at such other time as is acceptable to the Bank, the then current Expiration Date of an Initial Liquidity Facility may be extended from time to time by agreement in writing between the Bank and the Agency (the period from the preceding Expiration Date to such new Expiration Date being herein sometimes called the “Extended Commitment Period”). The Extended Commitment Period may itself be extended in a like manner. The Bank has no obligation to agree to any Extended Commitment Period. If the Bank, in its sole discretion following such request by the Agency, agrees to extend any such period, the Bank shall give written notice of the election to extend to the Agency, the Tender Agent and the Remarketing Agent within thirty (30) days of such request. If the Bank does not so notify the Agency, the Expiration Date for such Initial Liquidity Facility shall not be extended.

**APPENDIX J**

**CERTAIN INFORMATION RELATING TO THE LIQUIDITY PROVIDER**

## **Information Concerning the Federal Home Loan Bank of Des Moines**

The Federal Home Loan Bank of Des Moines (the “Bank”) is a federally chartered corporation located in Des Moines, Iowa, and is one of 12 district Federal Home Loan Banks. The Bank serves the public by enhancing the availability of funds for residential mortgages and targeted community development. The Bank provides a readily available, low cost source of funds to its members and eligible housing associates in Iowa, Minnesota, Missouri, North Dakota and South Dakota. Regulated financial depositories and insurance companies engaged in residential housing finance also may apply for membership. State and local housing authorities that meet certain statutory criteria may also borrow from the Bank; while eligible to borrow, housing associates are not members of the Bank and, as such, are not required to hold capital stock.

The Bank is a cooperative. This means the Bank is owned by its customers, whom the Bank calls members. All members must purchase and maintain membership capital stock based on their total assets as a condition of membership in the Bank. Each member is also required to purchase and maintain activity-based capital stock to support certain business activities with the Bank. The Bank conducts business with its stockholders in the normal course of business.

The Bank’s current members own nearly all of the outstanding capital stock of the Bank. Former members own the remaining capital stock to support business transactions still carried on the Bank’s statements of condition. All stockholders, including current members and former members, may receive dividends on their investment. As of December 31, 2007, the Bank had total assets of \$60.8 billion.

Moody’s Investors Service, Inc. (“Moody’s”) currently rates the Bank’s long-term bank deposits as “Aaa” and short-term bank deposits as “P-1.” Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”) rates the Bank’s long-term counterparty credit as “AAA” and its short-term counterparty credit as “A-1+.” Further information with respect to such ratings may be obtained from Moody’s and S&P, respectively. No assurances can be given that the current ratings of the Bank and its instruments will be maintained.

The Bank is a reporting company under the Securities Exchange Act of 1934, as amended. Bank reports filed with or submitted to the Securities and Exchange Commission (SEC) may be viewed by accessing the following website: <http://www.sec.gov/edgar/searchedgar/companysearch.html>. The Bank will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Federal Home Loan Bank of Des Moines, Suite 200, 801 Walnut Street, Des Moines, Iowa 50309, Attention: Legal Department. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent, to its date.

**PAYMENTS OF THE PURCHASE PRICE OF THE 2008 SERIES C BONDS WILL BE MADE PURSUANT TO THE STANDBY BOND PURCHASE AGREEMENT IF REMARKETING PROCEEDS ARE NOT AVAILABLE. ALTHOUGH THE STANDBY BOND PURCHASE AGREEMENT IS A BINDING OBLIGATION OF THE BANK, THE 2008 SERIES C BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE FEDERAL HOME LOAN BANK OF DES MOINES AND ARE NOT GUARANTEED BY SUCH BANK. THE SERIES C BONDS ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY AND ARE SUBJECT TO CERTAIN INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED.**

The inclusion of the information herein shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Official Statement is correct as of any time subsequent to its date.

**APPENDIX K**

**CERTAIN INFORMATION RELATING TO THE  
RHF B MORTGAGE LOAN PORTFOLIO**

**RHFB Mortgage Loan Portfolio  
Delinquency and Foreclosure Statistics as of March 31, 2008**

**Payments Past Due as a Percentage of the Number of Loans Outstanding**

Bond Financed:	Number of Loans	Balance Outstanding	Payments Past Due as a Percentage of the Number of Loans Outstanding								
			30-59 Days		60-89 Days		90-119 Days		120 Days and Greater and Foreclosures <sup>1</sup>		Total <sup>2</sup>
			#	%	#	%	#	%	#	%	%
Retired	287	\$ 12,045,066	12	4.181	4	1.394	2	0.697	4	1.394	3.484
02AB	236	17,908,542	15	6.356	3	1.271	1	0.424	14	5.932	7.627
02AB-1	245	22,867,800	18	7.347	5	2.041	1	0.408	6	2.449	4.898
02EF	456	34,348,609	29	6.360	8	1.754	1	0.219	11	2.412	4.386
03AB	522	47,797,287	35	6.705	3	0.575	2	0.383	11	2.107	3.065
03IJ	378	35,210,023	22	5.820	-	-	-	-	8	2.116	2.116
04ABC	1,181	89,434,602	64	5.419	22	1.863	12	1.016	34	2.879	5.758
04EFG	764	80,742,154	31	4.058	5	0.654	5	0.654	19	2.487	3.796
05ABC	453	51,376,839	19	4.194	4	0.883	4	0.883	23	5.077	6.843
05GHI	761	88,764,229	39	5.125	6	0.788	5	0.657	24	3.154	4.599
05JKLM	1,333	142,463,461	76	5.701	18	1.350	12	0.900	48	3.601	5.851
05OP	581	66,444,306	25	4.303	9	1.549	8	1.377	26	4.475	7.401
06ABC	680	79,480,731	22	3.235	7	1.029	6	0.882	23	3.382	5.294
06FGH	615	73,976,771	19	3.089	7	1.138	4	0.650	12	1.951	3.740
06FGH-40 Year	50	8,214,305	3	6.000	1	2.000	1	2.000	4	8.000	12.000
06IJ	992	108,570,253	43	4.335	9	0.907	3	0.302	17	1.714	2.923
06IJ-40 Year	169	27,538,779	9	5.325	-	-	1	0.592	10	5.917	6.509
06LMN	412	48,038,629	16	3.883	-	-	1	0.243	4	0.971	1.214
06LMN-40 Year	74	11,724,803	5	6.757	4	5.405	1	1.351	3	4.054	10.811
07CDE	627	78,673,989	14	2.233	8	1.276	4	0.638	7	1.116	3.030
07CDE-40 Year	124	19,465,261	5	4.032	-	-	3	2.419	1	0.806	3.226
07HIJ	871	117,766,658	21	2.411	7	0.804	2	0.230	6	0.689	1.722
07HIJ-40 Year	178	29,469,706	6	3.371	-	-	2	1.124	2	1.124	2.247
07LM	1,091	138,922,674	18	1.650	4	0.367	1	0.092	2	0.183	0.642
07LM-40 Year	220	34,383,308	5	2.273	2	0.909	1	0.455	1	0.455	1.818
07PQRST	269	35,607,029	1	-	-	-	-	-	-	-	-
07PQRST-40 Year	132	20,694,020	-	-	1	0.758	-	-	-	-	0.758
<b>Total Bond Financed</b>	<b>13,701</b>	<b>\$ 1,521,929,834</b>	<b>572</b>	<b>4.175</b>	<b>137</b>	<b>1.000</b>	<b>83</b>	<b>0.606</b>	<b>320</b>	<b>2.336</b>	<b>3.941</b>

All loans are serviced by US Bank Home Mortgage.

**Comparative Statistics<sup>3</sup>**

RHFB Mortgage Loan Portfolio, at 3/31/08	<u>3.47 %</u>
Mortgage Bankers Association of America, Minnesota, at 3/31/08 <sup>4</sup>	<u>3.30 %</u>
Mortgage Bankers Association of America, National, at 3/31/08	<u>4.19 %</u>

<sup>1</sup>Included in "Foreclosures" are loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed, in addition to those customarily included in foreclosure statistics. See note 3 below.

<sup>2</sup>30-59 days delinquent not included in total.

<sup>3</sup>This table compares 60+ day delinquency and foreclosure statistics, where "foreclosures" include only those loans referred to an attorney and with the first legal documents filed, but not loans for which further proceedings in foreclosure have been taken. Thus, the percentage for the RHFB Mortgage Loan Portfolio differs from that in the table above.

<sup>4</sup>Mortgage Bankers Association of America average of 60+ days delinquency and foreclosure statistics adjusted by the Agency to reflect the proportions of insurance types in the Residential Housing Finance Bond Resolution mortgage loan portfolio.

**Mortgage Insurance for RHF B Mortgage Loan Portfolio  
as of March 31, 2008**

RHF B Series	FHA	VA	Rural Development	MGIC	Genworth	Other Private Mortgage Insurers*	Uninsured	Total
Retired	\$ 6,514,824	\$ 324,141	\$ 2,636,992	\$ 142,085	\$ 723,531	\$ 255,723	\$ 1,447,770	\$ 12,045,066
02AB	8,498,111	152,213	5,094,920	1,048,990	340,157	1,128,193	1,645,958	17,908,542
02AB-1	9,934,803	538,105	5,761,035	2,084,082	1,082,044	731,667	2,736,064	22,867,800
02EF	16,607,853	638,929	10,326,425	1,397,965	280,699	1,340,722	3,756,016	34,348,609
03AB	21,922,748	371,509	12,018,739	2,301,424	1,927,140	4,377,501	4,878,226	47,797,287
03IJ	15,591,276	885,043	9,264,210	1,515,597	1,399,612	3,882,746	2,671,539	35,210,023
04ABC	30,863,978	3,126,119	21,360,266	8,057,561	2,579,039	12,979,250	10,468,389	89,434,602
04EFG	16,811,717	1,519,084	23,688,930	18,964,017	3,787,748	5,188,721	10,781,937	80,742,154
05ABC	9,627,319	588,142	11,227,766	18,238,894	1,601,112	3,431,001	6,662,605	51,376,839
05GHI	15,050,425	1,061,996	25,115,566	24,578,488	3,786,271	8,378,044	10,793,439	88,764,229
05JKLM	37,068,478	1,796,493	35,112,298	27,183,767	5,851,362	17,116,331	18,334,732	142,463,461
05OP	16,090,316	990,769	14,761,219	10,731,492	2,927,527	11,394,720	9,548,263	66,444,306
06ABC	18,066,019	1,497,528	16,178,336	14,295,777	6,011,019	11,971,302	11,460,750	79,480,731
06FGH	14,244,631	1,605,130	19,421,553	8,145,860	4,732,573	13,709,903	12,117,121	73,976,771
06FGH-40 Year	-	-	-	1,910,846	222,756	4,485,935	1,594,768	8,214,305
06IJ	15,529,619	1,871,164	31,784,078	22,140,894	9,069,501	12,559,891	15,615,106	108,570,253
06IJ-40 Year	-	-	649,288	10,978,013	2,802,906	9,403,987	3,704,585	27,538,779
06LMN	3,676,644	949,328	9,700,961	14,936,289	8,008,415	5,165,605	5,601,387	48,038,629
06LMN-40 Year	-	-	-	5,581,918	2,407,085	2,176,477	1,559,323	11,724,803
07CDE	5,931,765	913,992	12,685,638	25,650,033	15,491,873	10,232,072	7,768,616	78,673,989
07CDE-40 Year	-	-	-	9,301,672	2,090,486	5,485,048	2,588,055	19,465,261
07HIJ	5,103,942	1,140,351	17,326,552	43,889,783	26,983,067	15,558,077	7,764,886	117,766,658
07HIJ-40 Year	-	-	-	15,371,295	3,848,264	5,919,783	4,330,364	29,469,706
07LM	11,406,760	1,578,772	19,993,133	40,679,497	32,454,136	21,717,523	11,092,853	138,922,674
07LM-40 Year	-	-	129,042	16,535,440	5,069,520	9,180,582	3,468,724	34,383,308
07PQRST	2,126,351	741,802	3,626,596	11,957,746	5,167,419	8,680,089	3,307,026	35,607,029
07PQRST-40 Year	-	-	-	11,563,984	4,076,840	3,425,368	1,627,828	20,694,020
<b>Total Bond Financed</b>	<b>\$ 280,667,579</b>	<b>\$ 22,290,610</b>	<b>\$ 307,863,543</b>	<b>\$ 369,183,409</b>	<b>\$ 154,722,102</b>	<b>\$ 209,876,261</b>	<b>\$ 177,326,330</b>	<b>\$ 1,521,929,834</b>
	18.44%	1.46%	20.23%	24.26%	10.17%	13.79%	11.65%	100.00%

\*Other Private Mortgage Insurers are:

Republic 6.63%, United 3.43%, PMI 2.04%, Guarantee Fund 0.71%, Commonwealth 0.49%, Triad 0.32%, Amerin 0.16%, GMAC 0.01%.