

## NOTICE

\$157,910,000

Minnesota Housing Finance Agency

\$19,830,000 Residential Housing Finance Bonds, 2009 Series D (Non-AMT)

\$103,960,000 Residential Housing Finance Bonds 2009 Series E (Non-AMT)

\$34,120,000 Residential Housing Finance Bonds 2009 Series F (AMT))

Official Statement, dated November 6, 2009,

The Official Statement, dated November 6, 2009, 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.

**NEW ISSUE**

**RATINGS:** 2009 Series DE Bonds: Moody's: Aa1  
S&P: AA+

2009 Series F Bonds: Moody's: Aa1/VMIG 1  
S&P: AA+/A-1+  
(See "Ratings" herein.)

*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.*



**\$157,910,000**  
**Minnesota Housing Finance Agency**  
**\$19,830,000 Residential Housing Finance Bonds, 2009 Series D (Non-AMT)**  
**\$103,960,000 Residential Housing Finance Bonds, 2009 Series E (Non-AMT)<sup>†</sup>**  
**\$34,120,000 Residential Housing Finance Bonds, 2009 Series F (AMT)**

**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 31-33 herein for additional information, including further information on the application of federal and state alternative minimum tax provisions to each series of the Series Bonds.
<i>Redemption</i>	The Series Bonds are subject to redemption as described on pages 13-15 and 17 herein. The 2009 Series D Bonds and the 2009 Series E Bonds are subject to mandatory tender at par, and the 2009 Series F Bonds are subject to optional and mandatory tender at par, as described on pages 15-18 herein.
<i>Security</i>	The Series Bonds are secured, on a parity with outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Obligations, Investment Obligations, Revenues and other assets held under the Bond Resolution. The Series Bonds are also 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 2009 Series F 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 20-24 herein.
<i>Interest Payment Dates</i>	January 1 and July 1, commencing July 1, 2010 for the 2009 Series D and 2009 Series E Bonds, and January 1, 2010 for the 2009 Series F Bonds, and any redemption date or mandatory tender date.
<i>Denominations</i>	For the 2009 Series D Bonds and the 2009 Series E Bonds, \$5,000 or any integral multiple thereof; for the 2009 Series F Bonds, \$100,000 or any integral multiple of \$5,000 in excess thereof.
<i>Closing/Settlement</i>	December 1, 2009 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 E hereto.

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

**RBC Capital Markets**

**Piper Jaffray & Co.**

The date of this Official Statement is November 6, 2009.

RBC Capital Markets Corporation is the initial Remarketing Agent for the 2009 Series F Bonds.

<sup>†</sup>Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax (see "TAX EXEMPTION AND RELATED CONSIDERATIONS" herein).

## MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

### 2009 SERIES D BONDS (NON-AMT)

#### \$16,470,000 Serial Bonds

Due	Principal Amount	Interest Rate	CUSIP*	Due	Principal Amount	Interest Rate	CUSIP*
January 1, 2011	\$1,780,000	1.200%	60415N4K5	July 1, 2017	\$ 895,000	3.650%	60415N5C2
July 1, 2011	1,800,000	1.250	60415N4M1	January 1, 2018	1,435,000	3.875	60415N4S8
January 1, 2012	1,820,000	1.600	60415N4L3	July 1, 2018	1,425,000	3.875	60415N5D0
July 1, 2012	1,840,000	1.750	60415N4Q2	January 1, 2019	450,000	3.950	60415N4T6
January 1, 2013	1,865,000	2.000	60415N4N9	July 1, 2019	615,000	3.950	60415N5E8
July 1, 2013	1,000,000	2.050	60415N5B4	July 1, 2020	1,545,000	4.050	60415N5F5

#### Price of Serial Bonds — 100%

**\$3,360,000 4.00% Term Bonds Due January 1, 2020 at 100% (CUSIP 60415N4U3<sup>†</sup>)**

### 2009 SERIES E BONDS (NON-AMT)<sup>†</sup>

#### \$12,225,000 Serial Bonds

Due	Principal Amount	Interest Rate	CUSIP*	Due	Principal Amount	Interest Rate	CUSIP*
July 1, 2013	\$ 895,000	2.050%	60415N4W9	July 1, 2015	\$1,505,000	3.000%	60415N5J7
January 1, 2014	1,920,000	2.500	60415N4V1	January 1, 2016	585,000	3.375	60415N5K4
July 1, 2014	1,950,000	2.550	60415N4P4	January 1, 2021	1,670,000	4.150	60415N5L2
January 1, 2015	1,985,000	2.950	60415N5H1	July 1, 2021	1,715,000	4.200	60415N5M0

#### Price of Serial Bonds — 100%

**\$11,315,000 4.55% Term Bonds Due July 1, 2024 at 100% (CUSIP 60415N4X7<sup>†</sup>)**

**\$22,700,000 4.90% Term Bonds Due July 1, 2029 at 100% (CUSIP 60415N4Y5<sup>†</sup>)**

**\$23,170,000 5.05% Term Bonds Due July 1, 2034 at 100% (CUSIP 60415N4Z2<sup>†</sup>)**

**\$34,550,000 5.10% Term Bonds Due January 1, 2040 at 100% (CUSIP 60415N5G3<sup>†</sup>)**

### 2009 SERIES F BONDS (AMT)

**\$34,120,000 Variable Rate Demand Term Bonds Due July 1, 2031 (CUSIP 60415N5A6<sup>†</sup>)**

**(The initial interest rate on the 2009 Series F Bonds shall be set forth  
in a certificate of the Remarketing Agent delivered to the Trustee at closing.)**

#### Price of 2009 Series F Bonds — 100%

\*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. A CUSIP number for a specific maturity may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

<sup>†</sup>Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax (see “TAX EXEMPTION AND RELATED CONSIDERATIONS” herein).

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**  
**\$157,910,000**  
**MINNESOTA HOUSING FINANCE AGENCY**  
**RESIDENTIAL HOUSING FINANCE BONDS,**  
**2009 SERIES D, 2009 SERIES E**  
**AND 2009 SERIES F**

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, 2009 Series D (the "2009 Series D Bonds"), 2009 Series E (the "2009 Series E Bonds" and, collectively with the 2009 Series D Bonds, the "2009 Series DE Bonds"), and 2009 Series F (the "2009 Series F Bonds," and collectively with the 2009 Series DE Bonds, the "Series Bonds"), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial owners of the Series Bonds.

The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted as amended and restated on August 24, 1995, as heretofore or hereafter further amended and supplemented (the "Bond Resolution"), and two series resolutions of the Agency adopted on October 22, 2009 (with respect to the 2009 Series DE Bonds, the "2009 Series DE Resolution," with respect to the 2009 Series F Bonds, the "2009 Series F Resolution" and, collectively, the "2009 Series Resolutions"). (The Bond Resolution and the 2009 Series Resolutions are herein sometimes called the "Resolutions.")

The Residential Housing Finance Bonds Outstanding in the aggregate principal amount of \$1,680,995,000 as of August 31, 2009, 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 A.

The Agency has traditionally purchased "whole loans" (i.e., the Agency directly purchased single family mortgage loans from Lenders) and financed such purchases with proceeds of Bonds. The Agency recently

determined to change its Program to acquire mortgage-backed securities guaranteed as to timely payment of principal and interest by GNMA, Fannie Mae or Freddie Mac (as defined in the Resolutions, “Program Securities”) instead of acquiring mortgage loans. For commitments made on or after September 1, 2009, the Agency expects to purchase Program Securities backed by qualifying mortgage loans instead of directly purchasing Program Loans. Because of the transition period to the revised Program, certain proceeds of the Series Bonds will be used to acquire Program Loans and certain proceeds will be used to acquire Program Securities. (See “Estimated Sources and Uses of Funds.”) For a further description of the Program Loans and Program Securities expected to be acquired with proceeds of the Series Bonds, see “Program Obligations To Be Financed from Series Bonds.”

The Series Bonds are being issued to refund certain outstanding qualified mortgage bonds of the Agency (the “Refunded Bonds”) and thereby provide money for the Agency 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 purchasing Program Securities backed by qualifying mortgage loans, by depositing certain amounts, if any, into the Debt Service Reserve Fund and by paying certain costs of issuance of the Series Bonds. As a result of the refunding of the Refunded Bonds, certain Program Loans allocable to certain of the Refunded Bonds (the “Transferred Program Loans”) and certain other transferred assets will become allocated to the Series Bonds, and certain funds will be made available for the purchase of additional Program Loans or Program Securities. See “Estimated Sources and Uses of Funds.”

The 2009 Series F Bonds will bear interest at a rate determined weekly (the “Weekly Mode”), unless 2009 Series F Bonds are converted to a different interest-rate-setting mode (a “Mode”) as described herein. Except as otherwise provided herein, so long as the 2009 Series F Bonds are in the Weekly Mode, the owners of any 2009 Series F Bonds are entitled to demand purchase of such 2009 Series F 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 2009 Series F 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 2009 Series F Bonds (the “Remarketing Agent”). See “Description of the Series Bonds – Remarketing of 2009 Series F Bonds.”

The Agency will provide a liquidity facility (the “Liquidity Facility”) to be in effect for the period from the date of delivery of the 2009 Series F Bonds until the date, if any, when all 2009 Series F 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 2009 Series F 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 December 1, 2016, 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 2009 Series F Bonds, and will provide for the purchase by the Initial Liquidity Provider on the terms and conditions specified therein of tendered 2009 Series F 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 2009 Series F 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 2009 Series F Bonds and the Remarketing Agent will be entitled to suspend its efforts to remarket 2009 Series F Bonds.** (See “Description of the Series Bonds—Optional and Mandatory Tender of Certain 2009 Series F Bonds—Agency Not Responsible to Bondowners for Initial Liquidity Provider’s Failure to Purchase 2009 Series F Bonds” herein, and “Appendix K – 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 2009 Series F 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 2009 Series F 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 2009 Series F 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) is expected to be executed with Royal Bank of Canada as counterparty, in connection with the issuance of the 2009 Series F Bonds, effective on the anticipated date of delivery of the 2009 Series F Bonds. (See “The Series Bonds — Interest on the 2009 Series F Bonds” herein.)

The Series Bonds are secured, on a parity with Bonds heretofore and hereafter issued under the Bond Resolution (except as otherwise expressly provided thereunder), by a pledge of all Program Obligations, Investment Obligations, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution. Under the Bond Resolution, the Agency is authorized to acquire Program Obligations in connection with Housing, which is defined to 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. The Program Obligations acquired with the proceeds of Bonds have primarily consisted of Program Loans comprising single family housing loans secured by first or subordinate mortgages. In addition, to date, home improvement loans have been financed as Program Obligations under the Bond Resolution. The proceeds of the Series Bonds are expected to be applied to acquire Program Loans comprising single family housing loans secured by first mortgages and Program Securities backed by qualifying single family first mortgage loans. The Agency does not currently anticipate that future Series of Bonds issued under the Bond Resolution will finance Program Obligations other than home improvement loans or Program Securities backed by single family loans. See “Security for the Bonds” and “Appendix C – Summary of Certain Provisions of the Bond Resolution.”

The Series Bonds are also 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 from such appropriations 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 2013, 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

There is currently one vacancy due to the recent resignation of a member.

## **Staff**

The staff of the Agency presently consists of approximately 211 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 Commissioner of Finance.

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

*Dan Bartholomay* — Commissioner. Mr. Bartholomay was appointed Commissioner effective November 10, 2008. From 1995 until he began his duties with the Agency, Mr. Bartholomay was the Program Director for the McKnight Foundation's Region and Communities and International programs. He set the strategic direction for the Foundation's grant making in neighborhoods and community development, affordable housing, regional growth management, open space preservation, and transportation. Mr. Bartholomay directed McKnight's \$12 million a year grants program for affordable housing. From 1990 to 1995, he was Executive Director of North End Area Revitalization in St. Paul, an organization with small business assistance, commercial real estate, and housing development programs. From 1989 to 1990, Mr. Bartholomay was the Coordinator of Planning and Special Projects for The Neighborhood Institute in Chicago, an affiliate of South Shore Bank. From 1987 to 1989 he served as the Economic Development Coordinator for Voice of the People in Uptown, an affordable housing developer. Mr. Bartholomay has a Bachelor of Arts degree in Urban Affairs with honors from Carleton College, Northfield, Minnesota.

*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.

*William Kapphahn* — Director of Finance of the Agency since September 2, 2008. Mr. Kapphahn has directed debt and investments for the Agency since September 2007. Previously Mr. Kapphahn was Controller for the Agency from November 1998 to September 2007. From June 1996 to October 1998, he was Director of Finance and Administration at Children’s Home Society and Family Services with responsibility for accounting, information systems, and facility management. Previous to that, he held various accounting positions of increasing responsibility at The Saint Paul Foundation, Amherst H. Wilder Foundation, Servomation Corporation, and Land O’ Lakes, Inc. Mr. Kapphahn holds a Masters degree in Business Administration with a concentration in Finance and a Bachelor of Arts degree in Business Administration from the University of St. Thomas, St. Paul, Minnesota.

*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>. No portion of the Agency’s web site is incorporated into this Official Statement.

### **Independent Auditors**

The financial statements of the Agency as of and for the year ended June 30, 2009, included in this Official Statement as Appendix A have been audited by LarsonAllen LLP, independent auditors, as stated in their report appearing herein.

The auditors have not performed any agreed-upon procedures in respect of any financial statements of the Agency after June 30, 2009.

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

The Agency financial statements included in this Official Statement as Appendix A as of and for the fiscal year ended June 30, 2009 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 (“GASB”). No more recent interim unaudited financial statements of the Agency are currently available.

The Agency makes allowances for future loan losses on delinquent loans based on management's evaluation of the loan portfolio and records losses from its “real-estate-owned” (“REO”) portfolio. The allowances affect both the statement of revenues and expenses (provision expense) and the statement of net assets (reserve for loan losses) of the Agency, as do losses from the REO portfolio. Given that the amount of loss per loan and the number of delinquent loans have continued to increase and the REO portfolio remains substantial, the Agency expects that additional allowances for loan losses and losses from the REO portfolio will be made or incurred in financial statements of the Agency during the current fiscal year and that such allowances and losses may be significant.

In addition, GASB Statement No. 53, which governs accounting and financial reporting for derivative instruments (and is further described in the notes to the financial statements of the Agency in Appendix A on page 32 therein), is applicable to the Agency's financial statements for the first time in the current fiscal year. The Agency has entered into several swap transactions relating to certain Bonds. GASB Statement No. 53 may require the Agency to recognize on its statement of revenues and expenses unrealized gains or losses on these derivative instruments as of the end of each financial reporting period. The Agency does not expect that any such unrealized gains or losses will be relevant to its financial operations, since it expects that such swap agreements will terminate at their stated maturities or that the Agency will exercise its options thereunder to terminate a swap agreement in whole or in part without payment of a termination amount. In either event, no gains or losses would be realized on the swap agreement. If a termination event otherwise occurs under a swap agreement, then the current amount of unrealized gain or loss on the swap agreement would approximate the amount of a termination payment payable to or by the Agency.

### **Disclosure Information**

The Agency will covenant for the benefit of the Beneficial Owners (as defined in Appendix B 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 ending June 30, 2010, with the Municipal Securities Rulemaking Board's internet repository named "Electronic Municipal Market Access" ("EMMA"). The notices of material events, if any, are to be filed with EMMA. (See "Appendix B — Summary of Continuing Disclosure Agreement.")

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 in "Appendix B — Summary of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). During the past five years, the Agency has not failed to comply in any material respect with any previous undertakings under the Rule.

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 (including the Bond Resolution) and a semiannual disclosure report for its multifamily bond resolution. Recent reports are available at the Agency's website at <http://www.mnhousing.gov/investors>, but no information on the Agency's website is incorporated into this Official Statement. 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 for 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 in Appendix A.

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 was 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, as amended by resolution adopted September 24, 2009, 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 and exclusive of all unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date) to be the greater of \$615 million or the combined net assets of the same funds for the immediately preceding fiscal year. Currently, this amount is \$668.2 million, representing the combined net assets of these funds as of June 30, 2009. 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 two most recent audited fiscal years of the Agency (in thousands):

	Fiscal Year Ended <u>June 30, 2009</u>	Fiscal Year Ended <u>June 30, 2008</u>
Revenues and other additions to restricted net assets:		
Fees earned <sup>(1)</sup>	\$ 8,805	\$8,757
Interest earned on investments	874	1,239
Unrealized gain on investment securities, net	--	30
Administrative reimbursement <sup>(2), (3)</sup>	<u>24,375</u>	<u>23,708</u>
Total revenues and other additions	34,054	33,734
Expenses and other reductions to restricted net assets:		
Transfer of assets between funds <sup>(4)</sup>	7,907	27,554 <sup>(5)</sup>
Salaries and benefits	17,743	16,582
Other general operating expenses	<u>8,601</u>	<u>8,745</u>
Total expenses and other reductions	34,251	52,881
Net changes in net assets	(197)	(19,147) <sup>(5)</sup>
Net assets beginning of period	<u>26,863</u>	<u>46,010</u>
Net assets end of period	<u>\$26,666</u>	<u>\$26,863</u>

(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 in fiscal year 2008 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. Most of the appropriations have been expended or committed by the Agency.

Over the past five years, appropriations to the Agency have totaled approximately \$322.6 million. For the biennium ending June 30, 2011, the Legislature has appropriated approximately \$86.7 million to the Agency. Because of estimated State budget deficits for the previous biennium ended June 30, 2009, the Governor, among other actions, reduced by executive action the Agency’s uncommitted and unexpended appropriations by \$4 million, reducing the Agency’s appropriations for that biennium to approximately \$129.6 million. To balance the budget in the current biennium, the Governor effected unallotments in the aggregate amount of \$695 million, including \$512,000 of funds otherwise appropriated to the Agency. Given additional potential State budget deficits for the current biennium, no assurance can be given as to the amount of appropriations the Agency may receive.

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 August 31, 2009:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds .....	23	2047	\$ 473,770	\$ 158,745
Residential Housing Finance Bonds .....	61	2048	2,033,370	1,680,995
Single Family Mortgage Bonds.....	55	2035	1,074,960	193,990
Total Debt Outstanding.....	139		\$3,582,100	\$2,033,730

\* Does not include the original principal amount of any bonds that had been, as of August 31, 2009, 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 has entered into certain liquidity facilities in respect of certain of its Outstanding Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to such liquidity facilities, including identification of providers and expiration dates, are included in Appendix H hereto. No representation is made as to the creditworthiness of any such provider.

The Agency issued its limited obligation notes from time to time in 2008 and 2009 for the purpose of preserving private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of bonds previously issued by the Agency or by issuing a new money obligation. As of September 30, 2009, two such limited obligation notes were outstanding in the aggregate principal amount of \$363,985,000. The notes were issued pursuant to separate resolutions of the Agency and funds representing prepayments and repayments of mortgage loans financed with the bonds refunded by the notes and proceeds of such new money obligation were deposited in separate note accounts established under the respective resolutions as security for payment of the notes. The notes are not general obligations of the Agency and are not secured by any assets or revenues pledged under the Bond Resolution to the payment of the Bonds. A principal amount of the notes in the approximate principal amount of the 2009 Series E Bonds is expected to be refunded by proceeds of the Series Bonds.

On October 8, 2009, the Agency issued \$13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. The bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

### **Impact of Disruptions in Mortgage and Financial Markets on Housing Finance Agencies and Policy Responses**

*General.* Over the last several years, significant dislocations in the housing and mortgage markets have negatively affected general capital markets conditions, including the municipal bond market. During 2008 market dislocations led to the failure of the auction rate securities market, widening of municipal bond spreads and failed remarketings of variable rate demand obligations as a result of credit downgrades among liquidity providers and lack of market liquidity. While conditions have improved in 2009, market uncertainty still remains in the current economic environment.

As a state housing finance agency, the Agency has relied on municipal bond markets operating efficiently to fund its Program. In the last half of 2008 and thus far in 2009, these markets have not performed well, based on historical market relationships. In early 2009, the federal government's responses to address the housing market crisis through purchases of mortgage-backed securities to lower mortgage rates made it very difficult for state housing finance agencies, such as the Agency, to fund their operations profitably through the housing bond market. It is anticipated that housing finance agencies may be able to compete more effectively in the market when mortgage rates rise and other mortgage market participants become less competitive.

*Impact of Recent Government Action.* In 2008 and 2009, the federal government initiated a range of actions designed to strengthen market stability, improve the strength of financial institutions, enhance market liquidity and stimulate the economy. These actions include, but are not limited to, the enactment of the Housing and Economic Recovery Act of 2008 ("HERA"), announcing a Federal Reserve program to purchase Fannie Mae and Freddie Mac mortgage-backed securities in the open market pursuant to its authority under HERA, the passage of the Economic Stabilization Act of 2008 and the completion of the American Recovery and Reinvestment Act of 2009 ("ARRA"), a \$787 billion economic stimulus package intended to lift the economy out of recession. In addition, the Treasury, Federal Reserve and Federal Deposit Insurance Corporation announced the establishment of public-private investment funds, designed to purchase tainted assets from bank balance sheets, expanded the term asset-backed securities lending facility to include a broader range of securities and announced other initiatives to resolve the banking crisis.

Actions have also been taken to address the housing crisis at the homeowner level. This includes the Homeowner Affordability and Stability Plan ("HASP") designed to (1) provide access to low-cost refinancing for responsible homeowners suffering from falling home prices, (2) create a homeowner stability initiative to reach up to three to four million at-risk homeowners, and (3) support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac. In addition, HERA, as amended by ARRA, authorized the first-time homebuyer tax credit to eligible first-time homebuyers in an amount equal to the lesser of 10% of the purchase price of a residence or \$8,000.

Furthermore, pursuant to the Helping Families Save Their Homes Act of 2009, the Federal Housing Administration (“FHA”) has implemented, effective August 15, 2009, additional loss mitigation authority for qualifying mortgagors whose delinquent mortgages are insured by FHA through the Home Affordable Modification Program (FHA-HAMP). Loss modifications include principal reduction (with the ability of the mortgagee to submit a partial claim to FHA) and reamortization of the modified mortgage payments over a new 30-year term and, effective October 23, 2009, reduction of the interest rate on the mortgage to a current market rate. While state housing finance agencies may apply to HUD for a variance if FHA-HAMP loan modifications would adversely impact the financial position of such agencies or contravene covenants made with bondholders, the Agency currently does not anticipate applying for a variance.

These measures, and additional measures and legislation which may be considered by the federal government or the Minnesota Legislature, may affect the Program, the Program Securities or the Bonds. While some of these measures may benefit the Program, no assurance can be given that the Program, the Bonds, the Program Securities or Program Loans or the Owners of such Bonds will not be adversely affected by such measures.

### **ESTIMATED SOURCES AND USES OF FUNDS**

Certain proceeds of the Series Bonds will be applied to refund the Refunded Bonds and, as a result, money will be made available to purchase Program Loans or Program Securities and certain mortgage loans financed by certain of the Refunded Bonds will become allocated to the Series Bonds. Upon giving effect to the foregoing transactions and the receipt of certain transferred money and mortgage loans, the estimated sources and uses of funds related to the Series Bonds are as follows:

#### *Sources*

Principal Amount of Series Bonds .....	\$157,910,000
Agency Contribution .....	<u>5,017,300</u>
Total Sources of Funds	<u><u>\$162,927,300</u></u>

#### *Uses*

Deposit to 2009 Series D-E-F Acquisition Account .....	\$107,073,965
Deposit to Costs of Issuance Account.....	280,000
Deposit to Debt Service Reserve Account .....	4,737,300
Transferred Program Loans.....	49,699,746
Underwriters’ Compensation .....	<u>1,136,289</u>
Total Uses of Funds	<u><u>\$162,927,300</u></u>

The Agency expects that, by the date of issuance of the Series Bonds, it will have acquired single family mortgage loans in an aggregate unpaid principal balance of approximately \$72 million and Program Securities in an estimated aggregate principal amount of approximately \$3 million from its own funds. Upon issuance of the Series Bonds, such Program Loans and Program Securities will be credited to the 2009 Series D-E-F Acquisition Account and thereby pledged to payment of the Bonds, and the Agency will be reimbursed from proceeds of the Series Bonds for its acquisition of such Program Loans and Program Securities. (See “Program Obligations To Be Financed from Series Bonds – Reimbursement of Advances of Agency Funds with Proceeds of 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 E — Book-Entry-Only System.”

The 2009 Series DE Bonds of each series are issuable in the denominations of \$5,000 or any integral multiple thereof of single maturities. The 2009 Series F 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 prior redemption and tender as hereinafter described.

### **Interest on the 2009 Series DE Bonds**

The 2009 Series DE Bonds will bear interest from their dated date, payable semiannually on January 1 and July 1 of each year, commencing July 1, 2010, and on 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 Series Bonds. Interest on the 2009 Series DE Bonds will be computed on the basis of a 360-day year composed of twelve 30-day months and 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 DE Bonds).

### **Interest on the 2009 Series F Bonds**

The 2009 Series F Bonds will bear interest from their dated date and will be dated as of the date of their authentication and delivery. The 2009 Series F Bonds will mature, subject to earlier redemption and tender as herein described, on July 1, 2031. The Record Date for 2009 Series F Bonds in the Weekly Mode is the last Business Day preceding each Interest Payment Date.

*Weekly Mode.* Interest on the 2009 Series F 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 is payable on January 1 and July 1 of each year, commencing January 1, 2010, and on any redemption date or Conversion Date; for the initial Interest Payment Date, from the date of delivery of the 2009 Series F 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 2009 Series F Bonds will bear interest from the date of delivery to and including December 9, 2009, at the rate set forth in a certificate delivered by the Remarketing Agent on the date of delivery of the 2009 Series F Bonds. Thereafter, the 2009 Series F 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 5:00 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds.

The determination by the Remarketing Agent of the Weekly Rate to be borne by any 2009 Series F Bonds (other than Bank Bonds) will be conclusive and binding on the Owners of such 2009 Series F Bonds. Failure by the Remarketing Agent or the Trustee to give any notice required under the 2009 Series F Resolution, or any defect in such notice, will not affect the interest rate borne by any 2009 Series F 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 2009 Series F 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 2009 Series F Bonds (each such change is a “Mode Change” with respect to the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds to bear interest at fixed rates to their maturity or to bear interest at an index rate (with respect to the 2009 Series F 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 2009 Series F 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 2009 Series F Bonds in any Mode other than a Weekly Mode.**

For additional information with respect to the 2009 Series F Bonds, see also “Optional Redemption of 2009 Series F Bonds” below, “Appendix J – Certain Definitions With Respect to the 2009 Series F Bonds” and “Appendix K – Summary of Certain Provisions of and Relating to the Standby Bond Purchase Agreement.”

*Swap Agreement.* The Agency expects to enter into an interest rate swap agreement with Royal Bank of Canada (the “Swap Counterparty”) (the “Swap Agreement”) effective on the anticipated date of issuance of the 2009 Series F Bonds. The purpose of the Swap Agreement is to place the aggregate net obligation of the Agency with respect to the portion of the Program financed by the 2009 Series F 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 the SIFMA Index plus a spread of 8 basis points (0.08%). Payments made to the Swap Counterparty by the Agency, 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 January 1, 2017.

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

## Sinking Fund Redemption

The 2009 Series D Bonds with a stated maturity on January 1, 2020 are subject to mandatory redemption in part on January 1, 2019 and on July 1, 2019, at the principal amount thereof to be redeemed plus accrued interest thereon, without premium, in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
January 1, 2019	\$990,000	January 1, 2020 (maturity)	\$1,510,000
July 1, 2019	860,000		

The 2009 Series E Bonds with a stated maturity on July 1, 2024 are subject to mandatory redemption in part on January 1, 2022 and on each January 1 and July 1 thereafter to and including January 1, 2024, at the principal amount thereof to be redeemed plus accrued interest thereon, 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, 2022	\$1,760,000	July 1, 2023	\$1,910,000
July 1, 2022	1,810,000	January 1, 2024	1,960,000
January 1, 2023	1,860,000	July 1, 2024 (maturity)	2,015,000

The 2009 Series E Bonds with a stated maturity on July 1, 2029 are subject to mandatory redemption in part on January 1, 2025 and on each January 1 and July 1 thereafter to and including January 1, 2029, at the principal amount thereof to be redeemed plus accrued interest thereon, 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, 2025	\$2,070,000	July 1, 2027	\$2,385,000
July 1, 2025	2,130,000	January 1, 2028	2,375,000
January 1, 2026	2,190,000	July 1, 2028	2,400,000
July 1, 2026	2,255,000	January 1, 2029	2,325,000
January 1, 2027	2,320,000	July 1, 2029 (maturity)	2,250,000

The 2009 Series E Bonds with a stated maturity on July 1, 2034 are subject to mandatory redemption in part on January 1, 2030 and on each January 1 and July 1 thereafter to and including January 1, 2034, at the principal amount thereof to be redeemed plus accrued interest thereon, 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, 2030	\$2,185,000	July 1, 2032	\$2,350,000
July 1, 2030	1,965,000	January 1, 2033	2,420,000
January 1, 2031	2,025,000	July 1, 2033	2,495,000
July 1, 2031	1,940,000	January 1, 2034	2,570,000
January 1, 2032	2,570,000	July 1, 2034 (maturity)	2,650,000

The 2009 Series E Bonds with a stated maturity on January 1, 2040 are subject to mandatory redemption in part on January 1, 2035 and on each January 1 and July 1 thereafter to and including July 1, 2039, at the principal amount thereof to be redeemed plus accrued interest thereon, 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, 2035	\$2,730,000	January 1, 2038	\$3,275,000
July 1, 2035	2,815,000	July 1, 2038	3,380,000
January 1, 2036	2,905,000	January 1, 2039	3,480,000

July 1, 2036	2,990,000	July 1, 2039	3,590,000
January 1, 2037	3,085,000	January 1, 2040 (maturity)	3,120,000
July 1, 2037	3,180,000		

The 2009 Series F Bonds are subject to mandatory redemption in part on July 1, 2015 and on each January 1 and July 1 thereafter to and including January 1, 2031, at the principal amount thereof to be redeemed plus accrued interest thereon, on the dates and in the principal amounts as follows:

Date	Principal Amount	Date	Principal Amount
July 1, 2015	\$ 515,000	January 1, 2024	\$ 935,000
January 1, 2016	1,475,000	July 1, 2024	960,000
July 1, 2016	2,100,000	January 1, 2025	990,000
January 1, 2017	2,140,000	July 1, 2025	1,015,000
July 1, 2017	1,290,000	January 1, 2026	1,045,000
January 1, 2018	800,000	July 1, 2026	1,075,000
July 1, 2018	800,000	January 1, 2027	1,105,000
January 1, 2019	805,000	July 1, 2027	1,135,000
July 1, 2019	820,000	January 1, 2028	1,130,000
January 1, 2020	840,000	July 1, 2028	1,145,000
July 1, 2020	860,000	January 1, 2029	1,110,000
January 1, 2021	795,000	July 1, 2029	1,070,000
July 1, 2021	815,000	January 1, 2030	1,045,000
January 1, 2022	840,000	July 1, 2030	935,000
July 1, 2022	860,000	January 1, 2031	960,000
January 1, 2023	885,000	July 1, 2031 (maturity)	915,000
July 1, 2023	910,000		

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 the principal amount thereof to be redeemed plus accrued interest thereon, without premium, from moneys representing the Series Bond proceeds not used to purchase Program Obligations and transferred to the Bond Redemption Fund from the 2009 Series D-E-F Acquisition Account and any allocable amounts held in the Debt Service Reserve 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 any 2009 Series F Bonds that are Bank Bonds must be selected for redemption before other Series Bonds. See “Program Obligations To Be Financed from Series Bonds – Reimbursement of Advances of Agency Funds with Proceeds of Series Bonds” with respect to Agency loan commitments and purchases outstanding for single family mortgage loans and Program Securities as of October 30, 2009.

*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 the principal amount thereof to be redeemed plus accrued interest thereon, 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” means 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 or Program Securities allocable to the proceeds of the Series Bonds received 10 years or more after the original issuance date of the bonds refunded by 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 by redemption; provided that no such redemption is 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>
October 1, 2009 to December 31, 2009	56.23%
January 1, 2010 to June 30, 2011	61.55
July 1, 2011 to June 30, 2012	63.25
July 1, 2012 to June 30, 2015	67.20
July 1, 2015 to June 30, 2018	70.94
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 mortgage principal allocable to the Series Bonds received by or on behalf of the Agency 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 redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, 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 the Series Bonds, on any date, in whole or in part, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon, without premium (subject, however, to any provisions to the contrary in any Series Resolutions relating to Outstanding Bonds).

#### **Optional Redemption of the 2009 Series DE Bonds**

The 2009 Series DE Bonds are also subject to redemption prior to their stated maturity dates at the option of the Agency, in whole or in part, on any date on or after July 1, 2019, from any amounts available to the Agency for such purpose, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date of redemption, without premium.

#### **Mandatory Tender of Certain 2009 Series DE 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 2009 Series DE Bonds selected by the Agency for purchase at the principal amount thereof plus accrued interest

thereon, or, at the option of the owner, exchange for a Series DE Bond of the same series and maturity and bearing interest as described below.

*Mandatory Tender of Certain 2009 Series DE Bonds.* Pursuant to the 2009 Series DE Resolution, a principal amount of 2009 Series DE Bonds as determined by the Agency (but not in excess of the principal amount of unexpended proceeds of such 2009 Series DE Bonds on deposit in the 2009 D-E-F Acquisition Account and any allocable amount held in the Debt Service Reserve Fund) may be subject to mandatory tender for purchase on any date (the “Purchase Date”). (See “Program Obligations To Be Financed from Series Bonds – Reimbursement of Advances of Agency Funds with Proceeds of Series Bonds” with respect to Agency loan commitments and purchases outstanding for Program Loans and Program Securities as of October 30, 2009.) On the Purchase Date, the 2009 Series DE 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 2009 Series DE Bonds of the same series and maturity bearing interest at the adjusted rate or rates, unless such 2009 Series DE Bonds are to be redeemed on the Purchase Date as provided in the 2009 Series DE 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 2009 Series DE Bonds, the Agency may appoint a remarketing agent (the “Series DE Remarketing Agent”) and provide the Series DE Remarketing Agent with a schedule of 2009 Series DE 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 DE 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 the principal amount thereof. The aggregate principal amount of Tender Bonds set forth on the schedule may not exceed the unexpended proceeds of the 2009 Series DE Bonds held in the 2009 D-E-F Acquisition Account and any allocable amount held in the Debt Service 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 2009 Series DE Bonds to be designated as Tender Bonds.

*Notice of Mandatory Tender.* Not less than 35 days prior to a Purchase Date, notice of the mandatory tender or exchange shall be given by the Trustee to the registered owners of Tender Bonds. (See “Appendix E—Book-Entry-Only System.”) Such notice shall state, in substance: (i) the Purchase Date; (ii) the Preliminary Adjusted Rates for 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 2009 Series DE 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 DE 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 DE Remarketing Agent, would permit the sale of the applicable Tender Bonds at the principal amount thereof 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, 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 the principal amount thereof plus accrued interest, without premium.

### **General Provisions as to 2009 Series DE Bonds**

Except as otherwise provided in the 2009 Series DE Resolution, any 2009 Series DE 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 2009 Series DE Bonds to be purchased or redeemed; (b) the maturities within such Series from which 2009 Series DE Bonds are to be purchased or redeemed; and (c) the maximum price or principal amount of such 2009 Series DE Bonds within such maturities to be purchased or redeemed. If less than all 2009 Series DE Bonds of a series and maturity are to be redeemed, the 2009 Series DE Bonds of that series and maturity to be redeemed are to be selected by lot. The Agency shall not at any time cause 2009 Series DE 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 2009 Series DE 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 2009 Series F Bonds**

*Optional Redemption.* 2009 Series F 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 2009 Series F Bonds are in the Weekly Mode, a copy of the notice of redemption identifying 2009 Series F 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 2009 Series F 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 2009 Series F Bonds to be redeemed on an optional or mandatory tender date.

Subject to the terms of the 2009 Series F Resolution, any 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds that are Bank Bonds shall be selected for redemption before other 2009 Series F Bonds.

### **Optional and Mandatory Tender of 2009 Series F Bonds**

*Optional Tender.* Owners of 2009 Series F Bonds in the Weekly Mode may elect to tender their 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds subject to such mandatory tender are deemed to have tendered their 2009 Series F Bonds upon such date.

This paragraph is applicable to the 2009 Series F Bonds only if the book-entry-only system has been discontinued and replacement bonds have been issued. Any 2009 Series F 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 2009 Series F 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 2009 Series F Bonds will be issued in place of such untendered 2009 Series F Bonds pursuant to the 2009 Series F Resolution, and, after the issuance of the replacement 2009 Series F Bonds, such untendered 2009 Series F Bonds will be deemed purchased, canceled, and no longer Outstanding under the Resolutions.

### **Remarketing of 2009 Series F Bonds**

*General.* On each date on which 2009 Series F Bonds are required to be purchased, the Remarketing Agent is to use its best efforts to sell such 2009 Series F 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 2009 Series F Bonds so tendered while the Initial Liquidity Facility is in effect, the Initial Liquidity Provider has agreed to purchase such 2009 Series F Bonds in accordance with the Initial Liquidity Facility. The Remarketing Agent is not required to remarket the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Resolution, including remarketing of tendered 2009 Series F 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 2009 Series F 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 2009 Series F Bonds.

*Remarketing Agent May Purchase 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, may purchase such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered 2009 Series F Bonds for its own account and, in its sole discretion, may acquire such tendered 2009 Series F Bonds in order to achieve a successful remarketing of the 2009 Series F Bonds (i.e., because there otherwise are not enough buyers to purchase the 2009 Series F Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase 2009 Series F Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2009 Series F Bonds by routinely purchasing and selling 2009 Series F Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below the principal amount thereof. However, the Remarketing Agent is not required to make a market in the 2009 Series F Bonds. The purchase of 2009 Series F Bonds by the Remarketing Agent may create the appearance that there is greater third party demand for the 2009 Series F Bonds in the market than is actually the case. The Remarketing Agent may also sell any 2009 Series F 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 2009 Series F Bonds. The practices described above also may result in fewer 2009 Series F Bonds being tendered for purchase pursuant to the 2009 Series F Resolution.

*2009 Series F 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 2009 Series F 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 2009 Series F Bonds (including whether the Remarketing Agent is willing to purchase 2009 Series F Bonds for its own account). There may or may not be 2009 Series F Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2009 Series F Bonds tendered for purchase on such date at the principal amount thereof and the Remarketing Agent may sell 2009 Series F 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 2009 Series F Bonds at the remarketing price. In the event the Remarketing Agent owns any 2009 Series F Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such 2009 Series F Bonds on any date, including the Rate Determination Date, at a discount to the principal amount thereof to some investors.

*Ability To Sell the 2009 Series F Bonds Other Than Through Tender Process May Be Limited.* The Remarketing Agent may buy and sell 2009 Series F 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 2009 Series F Bonds to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2009 Series F Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2009 Series F Bonds other than by tendering the 2009 Series F Bonds in accordance with the tender process.

*Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2009 Series F 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 2009 Series F Bonds as described in the 2009 Series F Resolution.

*Agency Not Responsible to Bondowners for Initial Liquidity Provider's Failure To Purchase 2009 Series F Bonds.* Under the terms and provisions of the Remarketing Agreement and the Initial Liquidity Facility, the Purchase Price of 2009 Series F Bonds is payable from moneys furnished in connection with the remarketing of the 2009 Series F 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 2009 Series F 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 K – 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 2009 Series F Bonds tendered at the option of the Owner or subject to mandatory tender for purchase pursuant to the 2009 Series F 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 2009 Series F 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 2009 Series F Bonds during such period and may be required to hold their 2009 Series F Bonds to maturity or prior redemption.

## **LIQUIDITY FACILITY**

### **General Provisions**

The Agency has agreed in the 2009 Series F Resolution to maintain a Liquidity Facility in effect at all times when any 2009 Series F 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 2009 Series F 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 2009 Series F Bonds, with another liquidity facility meeting the requirements of the 2009 Series F 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 2009 Series F Bonds at such Owner’s registered address not less than 15 days prior to the date the 2009 Series F Bonds are subject to mandatory tender. If the Agency elects to replace the Liquidity Facility, the 2009 Series F 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 describe the 2009 Series F Bonds when an Alternate Liquidity Facility in respect thereof is in place.

The Agency may also elect to provide liquidity support for any 2009 Series F Bonds from its own funds or by delivering a liquidity facility that does not meet the requirements of an Alternate Liquidity Facility. If the Agency makes such an election, such 2009 Series F 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 K 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 L 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 also 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 C — Summary of Certain Provisions of the Bond Resolution — Revenue Fund," the Agency may withdraw from the Revenue Fund funds to be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or deposit in the Alternative Loan Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

### **Program Obligations**

General information concerning the Agency's Residential Housing Finance Program, the types of Program Obligations that may be financed by the issuance of Bonds, and the Program Obligations that are expected to be financed with the proceeds of the Series Bonds is provided below under the headings "Residential Housing Finance Program" and "Program Obligations To Be Financed from Series Bonds." As described therein, the Agency is transitioning the Program from a "whole loan" model to a "mortgage-backed securities" model for its single family mortgage loans. All of the Program Obligations financed by Outstanding Bonds have been Program Loans. The Agency expects that approximately \$157 million in aggregate principal amount of Program Loans (including Transferred Program Loans) and approximately \$30 million in aggregate principal amount of Program Securities will be acquired by issuance of the Series Bonds and pledged to payment of Outstanding Bonds. Additional information regarding GNMA, Fannie Mae and Freddie Mac and Program Securities and the current Master Servicer is contained in Appendix I to this Official Statement.

### **Investment Obligations**

Bond proceeds and other funds held in the Acquisition Account, the Debt Service Reserve Fund, the Insurance Reserve Fund, the Revenue Fund, the Bond Fund, and the Redemption Fund under the Bond Resolution may be invested in Investment Obligations as defined in the Bond Resolution (see "Appendix C – Summary of Certain Provisions of the Bond Resolution – Certain Defined Terms").

Under the Bond Resolution, the Agency may direct the Trustee to invest funds held thereunder in investment agreements (sometimes referred to as "guaranteed investment contracts"), if such an investment agreement does not adversely affect any ratings of the Bonds at the time of execution thereof. Summary information concerning funds held in respect of Bonds under the Bond Resolution that are invested in investment agreements as of August 31, 2009, is set forth below:

Investment Agreement Providers  
as of August 31, 2009  
(unaudited)  
(\$ in thousands)

<u>Investment Agreement Provider</u>	<u>Acquisition Account</u>	Debt Service <u>Reserve Fund</u>	<u>Float Fund*</u>	<u>Total</u>
Depfa Bank PLC	--	\$14,813	\$13,452	\$28,265
FSA Cap. Mgmt. Servs. LLC**	--	7,078	17,627	24,705
Transamerica Life Insurance Co.	--	14,494	--	14,494
Calyon	--	--	9,946	9,946
Societe Generale	--	4,823	1,397	6,220
Monumental Life Insurance Company	--	2,969	--	2,969
Natixis Funding Corp***	--	<u>1,080</u>	<u>1,300</u>	<u>2,380</u>
Totals	--	\$45,257	\$43,722	\$88,979

\*The amount of funds on deposit in Float Funds (which comprise related accounts in the Revenue Fund, the Bond Fund Interest Account, the Bond Fund Principal Account and the Bond Redemption Fund) fluctuates throughout the year as debt service is paid and Bonds are redeemed.

\*\*Guaranteed by Financial Security Assurance Inc.

\*\*\*Guaranteed by Caisse des Dépôts et Consignations.

There is no assurance that the providers of Investment Obligations held under the Bond Resolution will be able to pay principal of and interest on such Investment Obligations as provided therein. In particular, certain providers of investment agreements have recently experienced substantial financial difficulties and ratings downgrades. No representation is made as to the creditworthiness of any provider.

The failure of a provider to pay principal and interest when due under an Investment Obligation pertaining to the Acquisition Account could result in the Agency's inability to acquire Program Loans in an amount necessary to fully secure the Bonds. A failure by a provider to pay amounts due under an Investment Obligation pertaining to the other Funds could result in the Agency's inability to pay debt service on the Bonds. Except for agreements with Depfa Bank PLC and one agreement with Calyon, all of Agency's investment agreements contain "downgrade" provisions giving the Agency the right to withdraw all invested funds early if the provider's credit ratings are downgraded below specified levels and remedial action is not taken by the provider. The agreements with Depfa Bank PLC and one agreement with Calyon permit early withdrawal only if the downgrade of the provider's credit ratings adversely affects the then current rating on the Bonds relating to such agreement and remedial action is not taken. Funds withdrawn from investment agreements under such circumstances will be invested in alternate Investment Obligations at the direction of the Agency.

## 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, \$4,737,300. The balance in the Debt Service Reserve Fund on June 30, 2009, was \$51,620,700, which was at least equal to the Debt Service Reserve 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. Proceeds of the Series Bonds will be used to purchase Program Loans consisting of single family mortgage loans or Program Securities backed by single family mortgage loans and, as a result of refunding certain of the Refunded Bonds, certain Transferred Program Loans will become pledged to the payment of Outstanding Bonds. The Agency does not currently anticipate that future Series of Bonds issued under the Bond Resolution will finance Program Obligations other than home improvement loans or Program Securities backed by single family 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 OBLIGATIONS TO BE FINANCED FROM SERIES BONDS**

### **General**

The following provides a general description of the Agency's Program in respect of the Program Loans constituting single family mortgage loans and Program Securities backed by single family mortgage loans to be purchased with proceeds of the Series Bonds, which is subject to change from time to time as provided in the Resolutions. *The Series Program Determinations governing the Program Obligations to be financed with proceeds of the Series Bonds may be revised by the Agency from time to time as provided in the 2009 Series Resolutions and, consequently, the following general description is subject to change.* The following description does not apply to the Transferred Program Loans that will be pledged to the payment of Outstanding Bonds as a result of the refunding of certain Refunded Bonds with certain proceeds of the Series Bonds. (See "Estimated Sources and Uses of Funds.")

### **History and Transition to "MBS" Model**

The Agency's Program has provided funds for the purchase by the Agency of newly originated Program Loans at a price and bearing interest at rates established from time to time 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. In 2006, however, the Agency implemented a program to offer Program Loans with 40-year terms under its CASA Program (as hereinafter defined, see "Special Assistance Programs"). The Agency terminated the 40-year loan program in October 2008. Historically, the Agency has purchased Program Loans on terms resulting in an effective rate sufficient to pay the

principal of and interest on the related Series of Bonds, the costs of servicing the Program Loans and other Program Expenses. 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.

Effective for commitments made on or after September 1, 2009, the Agency has changed the Program from a “whole loan” model to an “MBS” (mortgage-backed securities) model. The Agency has entered into a Servicing Agreement, dated as of July 9, 2009 (the “Servicing Agreement”), with the Trustee and U.S. Bank, National Association, operating by and through its U.S. Bank Home Mortgage – MRBP Division, as master servicer (the “Master Servicer”), for a term ending August 31, 2011 (subject to renewal and termination rights). Pursuant to the Servicing Agreement, the Master Servicer is to acquire single family mortgage loans meeting Program requirements and pool such loans into Program Securities to be purchased by the Trustee on behalf of the Agency. (See “Procedures for Origination, Purchase and Pooling — Program Securities” below.) For additional information regarding the initial Master Servicer, see Appendix I to this Official Statement.

### **Reimbursement of Advances of Agency Funds with Proceeds of Series Bonds**

The Agency has made commitments and purchases from its own funds in advance of issuing the Series Bonds. As of October 30, 2009, the Agency had purchased approximately \$71.3 million in principal amount of single family mortgage loans at an average interest rate of 5.76% and had commitments outstanding to purchase an additional approximately \$6.1 million in mortgage loans at an average interest rate of 5.56%. In addition, as of October 30, 2009, the Master Servicer had purchased approximately \$2.3 million in principal amount of single family mortgage loans and had commitments outstanding to purchase approximately \$55.9 million in mortgage loans at an average mortgage loan interest rate of 4.87%, all of which, if purchased by the Master Servicer, are expected to be pooled into Program Securities to be purchased by the Agency. Upon issuance of the Series Bonds, approximately \$72 million in aggregate unpaid principal amount of loans purchased by the Agency and approximately \$3 million in aggregate outstanding principal amount of Program Securities will be credited to the 2009 Series D-E-F Acquisition Account and thereby pledged to payment of Outstanding Bonds, and the Agency will be reimbursed from proceeds of the Series Bonds for its acquisition of such loans and securities.

### **Procedures for Origination, Purchase and Pooling**

#### *Application*

In connection with the new MBS Program, the Agency has published the Minnesota Housing Mortgage Loan Program Procedural Manual: MBS (the “Manual”) which sets forth the guidelines and procedures for participation in the Program and the requirements for origination of mortgage loans, including provisions for compliance with the requirements of applicable federal law. The Agency or the Master Servicer respond to inquiries by interested lenders by directing them to the appropriate page on the Agency’s or Master Servicer’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 Participation Agreement (the “Participation Agreement”), which incorporates the Manual and the Master Servicer’s lending manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds (see exceptions in “Special Assistance Programs” below). Rather, Lenders may request an individual commitment of loan funds via the internet by entering loan information in the Agency’s online loan purchase approval 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 loan funds are then committed for each specific loan for a specific period. Should a specific loan ultimately be rejected 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 Participation Agreement by the Agency and the Master Servicer, the Lender must pay an initial fee of \$1,000 to participate in the Program and an annual renewal fee of \$500, unless payment of such fees is specifically modified or waived by the Agency. A Lender is eligible to renew the Participation Agreement and pay the \$500 renewal fee only if the Lender has originated a minimum of six loans during the 12-month period that begins on the 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 funds through the HDS Web Application. If the Master Servicer has not purchased a loan pursuant to an individual commitment after 75 days where an existing home is to be

financed or after 115 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 or the Program Securities 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>
Twin Cities Metropolitan Area*	\$67,200	\$72,600	\$78,000	\$83,400	\$88,800	\$94,100	\$99,500
Rochester MSA	\$62,300	\$67,300	\$72,300	\$77,300	\$82,300	\$87,300	\$92,300
Balance of State	\$58,400	\$63,100	\$67,800	\$72,500	\$77,100	\$81,800	\$86,500

\* As used in this section, “Twin Cities Metropolitan Area” comprises the following 11 counties: 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 income limitations set forth in Section 143(f) of the Internal Revenue Code of 1986, as amended (the “Code”), to applicants for loans financed with proceeds of the Series Bonds. The Agency may revise the income limits for the loans from time to time to conform to State and federal law and Agency policy objectives.

At the time a 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”), Fannie Mae, Freddie Mac or the insuring private mortgage insurance company and the Master Servicer’s underwriting standards.

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

***Program Loans***

Under the “whole loan” model, 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 nonprofit 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.

Subject to the right of the Agency to modify the terms of Program Loans (see Appendix C “Summary of Certain Provisions of the Bond Resolution – Program Loans; Modification of Terms”), under the 2009 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 D.

***Program Securities***

Under the “MBS” model, the Trustee, on behalf of the Agency, is to purchase mortgage-backed GNMA I and GNMA II-Custom Pool securities, guaranteed as to timely payment of principal of and interest by GNMA, mortgage-backed Fannie Mae Securities, guaranteed as to payment of principal and interest by Fannie Mae, and mortgage-backed Freddie Mac Securities, guaranteed as to payment by Freddie Mac (each a Program Security), each of which is backed by pools of mortgage loans which have been made by Lenders to qualified borrowers to finance the purchase of single family residential housing located in the State, in accordance with the Servicing Agreement, the Participation Agreements, the Manual and other Program documents. For additional information regarding GNMA, Fannie Mae and Freddie Mac and Program Securities and the current Master Servicer, see Appendix I to this Official Statement.

Under the 2009 Series Resolutions, the Agency must enforce or cause to be enforced the provisions of the Participation Agreements that provide that, at the time of acquisition by the Master Servicer of a mortgage loan, each Lender shall cause either (1) mortgage insurance issued by Fannie Mae under Section 203(b), including mortgage insurance processed under Section 223(e), 203(k) or 234(c) of the National Housing Act, or (2) a mortgage guarantee issued by the VA under the Serviceman’s Readjustment Act of 1944, or by USDA Rural Development under its Guaranteed Rural Housing Loan Program, or (3) mortgage insurance issued by a Private Mortgage Insurer, to be in effect for each mortgage, or (4) that the loan to value ratio of the loan is acceptable to the applicable Federal Mortgage Agency.

For a description of the conditions under which the Trustee may use proceeds of Bonds to purchase Program Securities, see Appendix C “Summary of Certain Provisions of the Bond Resolution – Acquisition Accounts.”

**Qualified Real Property**

Program Loans may be purchased or mortgage loans may be eligible for pooling for residential property in Minnesota on which is located an owner-occupied one or two-family dwelling, or 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, the maximum purchase prices for both one and two-family homes currently are as follows:

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

The Agency may revise the maximum purchase prices from time to time to conform to applicable State and federal law and Agency policy objectives.

**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 (the “CASA Program”).

All loans originated under special assistance program components must be qualified 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 the Master Servicer’s 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 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 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 loans financed pursuant to Agency bond issuance on behalf of units of local government are to be qualified eligible loans as described above. Both borrowers and properties are to be in compliance with FHA, VA, USDA Rural Development/Fannie Mae/Freddie Mac and the Master Servicer’s 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.

### **Potential Refinancing Program**

Under the Federal Housing and Economic Recovery Act of 2008 enacted July 30, 2008, the Agency is authorized to refinance certain mortgage loans with the proceeds of tax-exempt qualified mortgage bonds. Loans eligible for such refinancing include adjustable rate single family mortgage loans closed after December 31, 2001 and prior to January 1, 2008, which, in the determination of the Agency, would be reasonably likely to cause the mortgagor financial hardship if not refinanced. The Agency has not yet made a determination whether it will implement such a refinancing program.

### **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 proceeds of the Series Bonds for the financing of loans for the purchase of residences located in Target Areas and will advertise the availability of such funds for loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas. Absent any determination by the Agency that further availability of the proceeds of the Series Bonds 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 Bonds.

## **Servicing of Program Loans**

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.

## **Servicing of Program Securities**

A servicer of mortgage loans backing a Program Security must be a GNMA, Fannie Mae and Freddie Mac approved servicer experienced in servicing pools of mortgage loans for GNMA, Fannie Mae and Freddie Mac under their respective guaranteed mortgage-backed securities programs and be subject to the standards set forth in the GNMA Servicer's Guide, the Fannie Mae Single Family Selling and Servicing Guide and the Freddie Mac guidelines.

The Agency has entered into the Servicing Agreement with the Master Servicer to service mortgage loans backing Program Securities. For additional information regarding the initial Master Servicer, see Appendix I to this Official Statement. The 2009 Series Resolutions provide that in the event the Servicing Agreement is cancelled or terminated for any reason, the Agency shall proceed with due diligence to procure a successor Master Servicer, subject to the provisions of the Servicing Agreement and the requirements of each applicable Federal Mortgage Agency. During the period necessary to obtain such successor, the Trustee shall, subject to the approval of the applicable Federal Mortgage Agency, cause to be performed the duties and responsibilities of the Master Servicer, under the Servicing Agreement and shall be compensated therefor, in addition to the compensation payable to it under the Resolutions or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

## **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 June 30, 2009, the Agency had outstanding Program Loans receivable of \$1,633,403,000 gross, which were financed from the proceeds of Bonds. As of June 30, 2009, excluding the proceeds of short-term bonds and notes, there were no uncommitted proceeds from previous bond sales available for commitment. Certain information relating to mortgage insurance and delinquency and foreclosure statistics for the single family mortgage loan portfolio funded by Bonds is contained in Appendix G.

There currently are no Program Securities securing Outstanding Bonds. After the issuance of the Series Bonds and application of the proceeds thereof, it is expected that approximately \$30 million in aggregate outstanding principal amount of Program Securities will be pledged to the payment of Outstanding Bonds.

## 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 purchases Home Improvement Program Loans at varying terms and interest rates, which may be financed with proceeds of Bonds. 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 June 30, 2009, the Agency had outstanding home improvement loans receivable of \$113,722,000 gross, which loans were financed in part from the proceeds of the Agency's Residential Housing Finance Bonds, 2002 Series H (Taxable) (\$10,000,000 principal amount Outstanding as of August 31, 2009), and in part from the Home Improvement Endowment Fund. As of July 1, 2007, all home improvement loans were transferred to Pool 2 of the Alternative Loan Fund. The Alternative Loan Fund is not pledged to the payment of 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.

## OTHER PROGRAMS

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs that 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. Certain of these housing programs are described below. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix A.

For example, as of June 30, 2009, the Single Family Mortgage Bond Fund had outstanding loans receivable of \$226,351,000 gross, which were financed from the proceeds of the Agency's single family mortgage bonds. As of June 30, 2009, no additional mortgage loans were being processed for purchase with moneys on deposit in the Single Family Mortgage Bond Fund, and 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.*

### 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 to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home.

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 \$5,000.

The entry cost 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 or mortgage loans backing Program Securities 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 a Series of Bonds to make loans for the purpose of entry cost assistance. Any such loans will also be Program Loans pledged to the payment of principal of and interest on

the Bonds. The Agency does not presently intend to use proceeds of the Series Bonds to make loans for such purpose.

### **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. HOME HELP loans are available only to Mortgagors participating in the Agency's CASA Program. Program participants choose between the use of Homeownership Assistance Funds described above or HOME HELP funds.

CASA borrowers 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 or \$10,000. 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 CASA program first mortgage, upon voluntary or involuntary sale of the property, or the property is no longer owner occupied. HOME HELP loans are not pledged to the payment of 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 loans funded in whole or in part with proceeds of the Series Bonds are that (1) the Home on which the loan is made is a single family residence which, at the time the 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 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, its procedural manuals (including the Manual) (collectively, the "Manuals") 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 Manuals 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 Manuals 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 Manuals 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 2009 Series F Bonds will, but interest on the 2009 Series D Bonds and the 2009 Series E Bonds will not, be treated as a preference item for purposes of calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the 2009 Series D Bonds will, but interest on the 2009 Series E Bonds will not, be included in the calculation of adjusted current earnings for purposes of computing the 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 Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax. Interest on the 2009 Series F Bonds, but not the 2009 Series D Bonds or the 2009 Series E Bonds, is includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

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.

## **LITIGATION**

There is not now pending or, to the best knowledge of the officers of the Agency, overtly threatened any litigation against the Agency seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series Bonds, or in any manner questioning or affecting the validity of the Series Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

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 the General Reserve's financial position or results of operations.

## **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 F attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

## **RATINGS**

The 2009 Series DE Bonds are rated "Aa1" by Moody's Investors Service, Inc. ("Moody's"), and "AA+" by Standard & Poor's Ratings Services ("S&P"), and the 2009 Series F Bonds are rated "Aa1/VMIG 1" by Moody's and "AA+/A-1+" by S&P. The short-term ratings assigned to the 2009 Series F Bonds are conditioned upon the issuance by the Initial Liquidity Provider of the Standby Bond Purchase Agreement. The ratings reflect only the views of these rating agencies. For an explanation of the ratings as described by those rating agencies, please contact the rating agencies. These bond ratings are subject to change or withdrawal by either of the rating agencies at any time. Therefore, after the date hereof, investors should not assume that such ratings are still in effect. A downward revision or withdrawal of the ratings is likely to have an adverse effect on the market price and marketability of the Series Bonds.

## **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. The Underwriters are to be paid a fee of \$1,136,288.94 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.

Piper Jaffray & Co. (“Piper”) has entered into an agreement (the “Distribution Agreement”) with Advisors Asset Management, Inc. (“AAM”) for the distribution of certain municipal securities offerings allocated to Piper at the original offering prices. Under the Distribution Agreement, if applicable to the Series Bonds, Piper will share with AAM a portion of the fee or commission, exclusive of management fees, paid to Piper.

RBC Capital Markets Corporation, an underwriter of the Series Bonds, is a subsidiary of Royal Bank of Canada, the provider of the Swap Agreement relating to the 2009 Series F Bonds.

## **ADDITIONAL COMPUTATIONAL INFORMATION**

Certain additional computational information regarding projected average lives of certain of the maturities of the 2009 Series DE Bonds, including a description of the methodology and certain assumptions used in deriving such average lives, is available from 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/          DANIEL M. BARTHOLOMAY            
Commissioner

Dated: November 6, 2009.

**APPENDIX A**

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Annual Financial Report as of and for the year ended June 30, 2009**

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## MINNESOTA HOUSING FINANCE AGENCY

### Commissioner's Report

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While it is tempting to devote this space to reliving the turmoil of the past year in the financial markets and the broader economy, those topics have been exhaustively covered by the media. Certainly Minnesota Housing has not been immune to effects of the turmoil as evidenced by rates of single family loan delinquency and foreclosure and related loan losses for the past year that were higher than our historical experience. In fact, actual and reserves for expected loan losses account for nearly the entire reduction in the Agency's net earnings compared to the previous year. Financial results for the year were not up to expectations, reflecting the realities of general economic conditions. The Agency restricted its lending activities that rely on efficient access to capital markets while market conditions were volatile. And although reduced lending volume dampened earnings, the Agency continued to be operate programs because competent long-term financial planning had provided sufficient internal resources to continue programs at reduced levels of activity.

The Agency is financially strong and is positioning itself to ensure it remains strong. Issuer ratings of Aa1 and AA+ were affirmed earlier this year by Moody's and Standard & Poor's, respectively, with the latter assigning a positive outlook to the Agency's rating.

Rather than dwell on the challenges of the past year, I believe it is more important to discuss the ways in which we are moving forward, setting an aggressive pace for ourselves as we address the various industry crises and manage our core housing programs.

Changes in the mortgage industry are fundamentally changing the way we will do some of our business in the future. Work has been underway for several months to transition the Agency's homeownership lending program from whole loans to mortgage-backed securities. This strategy will better insulate the Agency from loan delinquencies and foreclosures for loans acquired after September 2009. Government-guaranteed mortgages will largely replace conventionally-insured mortgages as the dominant loan type. Conventionally-insured, whole loans will be used for loan programs that cannot utilize government guarantees and that are not easily securitized.

The Agency fared reasonably well during the legislative session. The State of Minnesota's \$426 million budget shortfall for fiscal year 2009 and \$4.8 billion forecast budget deficit for the 2010-2011 biennium resulted in modest reductions to our 2008-2009 appropriations and to appropriations for the 2010-2011 biennium, but a substantial base appropriation still remains to support affordable housing. While reductions in appropriations do not impact the Agency's operating budget, they did force the Agency to make difficult programmatic reductions.

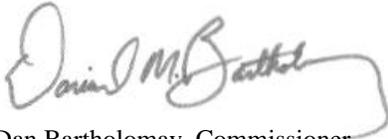
Despite reductions in certain lending activities, the Agency has been busier than ever developing new programs and procedures to maximize use of one-time federal funding made available under the Housing and Economic Recovery Act and the American Reinvestment and Recovery Act to address stalled tax credit projects and stretch state and local funds to address foreclosure and other housing activities.

We recently updated our strategic plan to reflect our commitment to five strategic priorities: ending long-term homelessness; preserving existing affordable housing; financing new affordable housing opportunities; increasing emerging market homeownership, and addressing the foreclosure crisis. Efforts to implement our strategic plan will include a greater emphasis on community sustainability and the importance of transit-oriented affordable housing. We will continue to build on our existing "green housing" strategies, revisit our land acquisition strategies, promote

innovative housing design, and continually work to improve and streamline our processes. We will also work to increase community impact which may spur new approaches to working in partnership to advance our mission.

As we look ahead, there are exciting opportunities because of new federal government leadership and direction. As a forward-looking housing finance agency, we are well positioned to lead and innovate while achieving financial success over the long run.

Regards,

A handwritten signature in black ink, appearing to read "Dan Bartholomay". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Dan Bartholomay, Commissioner  
Minnesota Housing  
August 26, 2009

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## Independent Auditors' Report

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To the Members of the Board of Directors 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, 2009, 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 2008 financial statements and, in our report dated August 27, 2009, 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, 2009, 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 is 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  
August 26, 2009

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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 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. The Agency articulates its mission as follows: Minnesota Housing finances and advances affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

Minnesota Housing is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of \$5.0 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 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 are presented on an accrual basis and include two kinds of statements: Agency-wide financial statements and fund financial statements.

- The first two statements are the Agency-wide financial statements that provide information about Minnesota Housing's overall financial position and results of operations. These statements 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 every corporate purpose.
- The remaining statements are the fund financial statements of Minnesota Housing's six proprietary funds.
- 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, 2008. 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**

### *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 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 for 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 staff attention.

All of Minnesota Housing's bond-financed multifamily loans are financed in Rental Housing. Funds in excess of bond resolution requirements may be used to redeem any Agency 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 limited obligation notes issued under separate bond resolutions, and the restricted by covenant Alternative Loan Fund which consists 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, certain entry cost housing assistance loans, and unsecured or subordinated home improvement 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 2009.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2009 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, for warehousing purchases of single family first-mortgage loans, contributions for limited obligation bond expenses, and for bond sale contributions. The fund may also provide funding for interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: zero-percent loans; loans at interest rates substantially below market; high risk loans; deferred loans; revolving funds; and grants and rental assistance. During fiscal year 2009 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing and innovative multifamily programs that were not eligible for bond financing such as non-profit capacity building and deferred, subordinated loans to support first mortgages.

Funds in excess of bond resolution requirements may be used to redeem any Agency 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. 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 used to redeem any Agency 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 or available 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- and moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, low-interest amortizing 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- and moderate-income persons and families in the form of no-interest deferred loans, grants, support to nonprofit 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 covenants or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically set forth in the 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 has published 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. Recent disclosure reports can be found in the “Investors” section 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		
					June 30, 2009		
		June 30, 2009	June 30, 2008	Change	Excluding Pool 3	Pool 3	Total
<b>Assets</b>	Cash and Investments	\$1,025,277	\$1,030,500	\$(5,223)	\$859,931	\$62,914	\$922,845
	Loans receivable, Net	2,428,625	2,398,136	30,489	2,370,170	22,052	2,392,222
	Interest Receivable	17,730	21,365	(3,635)	16,715	301	17,016
	Total Assets	3,514,210	3,480,950	33,260	3,287,861	85,267	3,373,128
<b>Liabilities</b>	Bonds Payable	2,473,733	2,411,376	62,357	2,473,733	—	2,473,733
	Interest Payable	49,956	53,009	(3,053)	49,956	—	49,956
	Accounts Payable and Other Liabilities	21,316	24,654	(3,338)	14,802	2,582	17,384
	Funds Held for Others	83,486	84,445	(959)	81,124	—	81,124
	Total Liabilities	2,628,491	2,573,484	55,007	2,619,619	2,670	2,622,289
<b>Net Assets</b>	Restricted by Bond Resolution	266,726	284,344	(17,618)	266,726	—	266,726
	Restricted by Covenant	481,528	476,878	4,650	398,931	82,597	481,528
	Restricted by Law	134,880	143,007	(8,127)	—	—	—
	Total Net Assets	885,719	907,466	(21,747)	668,242	82,597	750,839

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

		Agency-wide Total			Combined General Reserve and Bond Funds		
					Fiscal 2009		
		Fiscal 2009	Fiscal 2008	Change	Excluding Pool 3	Pool 3	Total
<b>Revenues</b>	Interest Earned	\$172,092	\$183,041	\$(10,949)	\$163,623	\$3,262	\$166,885
	Appropriations Received	231,925	266,273	(34,348)	—	—	—
	Fees and Reimbursements	14,796	14,378	418	34,245	78	34,323
	Total Revenues (1)	439,805	491,133	(51,328)	196,678	3,509	200,187
<b>Expenses</b>	Interest Expense	112,286	115,556	(3,270)	112,286	—	112,286
	Appropriations Disbursed	213,779	200,240	13,539	—	—	—
	Fees and Reimbursements	7,067	6,830	237	23,735	989	24,724
	Payroll, Gen. & Admin.	29,990	40,088	(10,098)	26,453	1,225	27,678
	Loan Loss/Value Adjust's	76,046	49,760	26,286	28,086	21,033	49,119
	Total Expenses (1)	461,552	435,306	26,246	190,560	23,247	213,807
	Change in Net Assets	(21,747)	55,827	(77,574)	6,118	(19,738)	(13,620)
	Beginning Net Assets	907,466	851,639	55,827	662,124	102,335	764,459
Ending Net Assets	885,719	907,466	(21,747)	668,242	82,597	750,839	

(1) Agency-wide totals include interfund amounts.

Combined General Reserve and Bond Funds		Combined State and Federal Appropriations Funds		
June 30, 2008	Change	June 30, 2009	June 30, 2008	Change
\$917,567	\$5,278	\$102,432	\$112,933	\$(10,501)
2,361,274	30,948	36,403	36,862	(459)
20,283	(3,267)	714	1,082	(368)
3,329,271	43,857	141,082	151,679	(10,597)
2,411,376	62,357	—	—	—
53,009	(3,053)	—	—	—
22,127	(4,743)	3,932	2,527	1,405
82,391	(1,267)	2,362	2,054	308
2,564,812	57,477	6,202	8,672	(2,470)
284,344	(17,618)	—	—	—
476,878	4,650	—	—	—
—	—	134,880	143,007	(8,127)
764,459	(13,620)	134,880	143,007	(8,127)

Combined General Reserve and Bond Funds		Combined State and Federal Appropriations Funds		
Fiscal 2008	Change	Fiscal 2009	Fiscal 2008	Change
\$176,309	\$(9,424)	\$5,207	\$6,732	\$(1,525)
—	—	231,925	266,273	(34,348)
34,193	130	2,857	3,017	(160)
213,249	(13,062)	239,618	277,884	(38,266)
115,556	(3,270)	—	—	—
—	—	213,779	200,240	13,539
23,664	1,060	4,727	5,998	(1,271)
36,644	(8,966)	2,312	3,444	(1,132)
23,916	25,203	26,927	25,844	1,083
199,780	14,027	247,745	235,526	12,219
13,469	(27,089)	(8,127)	42,358	(50,485)
750,990	13,469	143,007	100,649	42,358
764,459	(13,620)	134,880	143,007	(8,127)

## 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 this 2009 Financial Report.

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

Loans receivable, investments, cash, cash equivalents, interest receivable, and unamortized bond issuance costs comprise the majority of assets in the General Reserve and bond funds. 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 1% to \$2,392 million at June 30, 2009 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 2009 was attributable to the homeownership portfolio. The reserve for loan loss for the homeownership loan portfolio increased substantially due to an increase in the estimated loss per delinquent loan, an increase in homeownership loan delinquency rates as displayed in the following delinquency data, and the continued growth of the portfolio. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans that may be secured with second or subordinate mortgages, or may be unsecured as is the case for some loans in the home improvement loan portfolio. The reserve for loan loss for the home improvement loan portfolio decreased despite increased loan delinquency rates as displayed in the following delinquency data. The decrease is a result of the write-off during the year ended June 30, 2009 of delinquent home improvement loans for which collection efforts have ceased but a valid lien remains. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in delinquency rate and the aggregate loan receivable balance. The reserve for loan loss for the multifamily portfolio was relatively unchanged during fiscal year 2009. Minnesota Housing's primary loan programs offer fixed interest rate/fixed payment financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

#### Homeownership Loan Portfolio Delinquency Actual Loan Count

	June 30, 2009		June 30, 2008	
Current and less than 60 days past due	18,224	92.3%	18,650	95.5%
60-89 days past due	398	2.0%	243	1.2%
90-119 days past due	240	1.2%	155	0.8%
120+ days past due and foreclosures <sup>(1)</sup>	891	4.5%	485	2.5%
Total count	19,753		19,533	
Total past due <sup>(1)</sup>	1,529	7.7%	883	4.5%

(1) In addition to loans customarily included in foreclosure statistics, "foreclosures" include homeownership loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed. This causes the delinquency rates in the table to be higher than delinquency rates reported by the Mortgage Bankers Association of America.

**Home Improvement Loan Portfolio Delinquency**  
Actual Loan Count

	June 30, 2009		June 30, 2008	
Current and less than 60 days past due	8,638	95.6%	9,304	94.7%
60-89 days past due	86	1.0%	61	0.6%
90-119 days past due	58	0.6%	21	0.2%
120+ days past due <sup>(2)</sup>	257	2.8%	439	4.5%
Total count	9,039		9,825	
Total past due <sup>(2)</sup>	401	4.4%	521	5.3%

(2) In addition to loans customarily included in foreclosure statistics, the June 30, 2008 “120+ days past due” includes delinquent home improvement loans for which collection efforts have ceased but a valid lien remains. These loans are no longer included after June 30, 2008 which reduces the amounts displayed in the table for June 30, 2009 “120+ days past due”.

The 60+ day delinquency rate as of June 30, 2009 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately one percentage point the delinquency rates of similar loan data available as of March 31, 2009 from the Mortgage Bankers Association of America (as adjusted to reflect the proportions of insurance types in the Agency’s loan portfolio).

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

Mortgage insurance claims receivable consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. Mortgage insurance claims receivable increased 172% to \$10.372 million at June 30, 2009 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 incurred through the process of acquiring and holding real property. Real estate owned increased 87% to \$13.101 million at June 30, 2009 as a result of increased foreclosures within the homeownership portfolio.

While there has been a substantial increase in delinquency rates and foreclosures in the Agency’s loan portfolio during fiscal year 2009, and 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 June 30, 2009, being less than 0.97% 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 loans 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 less than 1% to \$923 million at June 30, 2009.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 16% to \$17.016 million at June 30, 2009. The average balance of loans receivable was higher in fiscal year 2009 than in the previous year but this increase was more than offset by a lower rate of return at the end of fiscal year 2009 on investments, cash and cash equivalents.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending. Bonds payable increased 3% to \$2,474 million at June 30, 2009 resulting from new debt issuance exceeding bond redemptions and maturities.

The companion category of interest payable decreased 6% to \$49.956 million at June 30, 2009 primarily due to lower interest rates on short-term debt during fiscal 2009.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to 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 2% to \$81.124 million at June 30, 2009 as multifamily escrows decreased slightly.

Accounts payable and other liabilities decreased 21% to \$17.384 million at June 30, 2009 primarily as a result of a reduction in the reserve first established during fiscal 2008 for potential payment to HUD for projects funded through the HUD Home Investment Partnerships (HOME) Program which are not in compliance with certain HOME Program regulatory requirements. The largest component of accounts payable continues to be arbitrage rebate 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 calculation 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 and money that would otherwise have been released to 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 general obligation bonds. Net assets decreased 2% to \$750.839 million at June 30, 2009 principally as a result of the planned disbursements from Pool 3 for the Agency's mission-intensive activity. Excluding Pool 3 net disbursements, net assets increased 1%.

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

Revenues over expenses of General Reserve and bond funds decreased 201% from fiscal year 2008 after considering Pool 3 net disbursements and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues decreased 4%. Total expenses, excluding Pool 3, increased 11% compared to the prior year. The largest revenue component, interest earned, decreased during the year. Combined interest revenues of General Reserve and bond funds from loans and investments decreased 5% to \$166.885 million compared to the prior year. Loan interest revenue increased 5% in fiscal year 2009 as new loan purchases and originations were made and the average balance of net loans outstanding was higher. This increase was negated by investment interest revenue which decreased 39% in fiscal year 2009 as investment yields decreased.

Administrative reimbursements to General Reserve from bond funds were \$17.708 million in fiscal year 2009 compared to \$16.878 million during the prior fiscal year. The rise is a result of an increase in the total assets of the bond funds upon which the administrative reimbursement is calculated. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$6.667 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2009 compared to \$6.830 million during the prior fiscal year. The apparent decrease is mainly a result of additional overhead reimbursement from State Appropriated during fiscal 2008 from fiscal 2007 unreimbursed overhead. Investment earnings within the State Appropriated fund were insufficient to recapture \$0.235 million of fiscal 2009 overhead expense.

Other fee income to General Reserve and bond funds decreased 5% to \$9.948 million compared to the prior year. The decrease is a result of one-time funds received in fiscal 2008. The primary components are fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs.

Minnesota Housing recorded \$1.021 million of unrealized losses on investment securities during fiscal year 2009, compared to \$2.747 million of unrealized gains during the prior year, a decrease of \$3.768 million. Interest expense of the bond funds decreased 3% to \$112.286 million compared to the prior year as a result of lower interest rates on short-term debt during fiscal year 2009.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 4% to \$24.724 million compared to the prior year. \$17.708 million of the total administrative reimbursement revenue in General Reserve was an interfund charge to the bond funds which was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve increased 7% to \$17.743 million compared to the prior year. Other general operating expense in General Reserve and bond funds decreased 50% to \$9.935 million compared to the prior year. The decrease is due to a \$6.877 million reserve that was established during fiscal year 2008 for potential payment to HUD for projects funded through the HUD Home Investment Partnerships (HOME) Program which are not in compliance with certain Home Program regulatory requirements. That reserve was reduced by \$4.288 million in fiscal 2009 thereby creating a negative expense. The change in the reserve explains the decrease in other general operating expense when comparing the two fiscal years.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 36% to \$20.302 million as valuation reductions of new deferred loans exceeded recoveries from existing deferred loans.

Provision for loan loss expense in the bond funds increased 219% to \$28.817 million. The provision for loan loss expense for the homeownership loan portfolio increased due to increased loan delinquency rates and an increase in the number and amount of loss per loan on real estate owned. The provision for loan loss expense for the home improvement loan portfolio increased 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 (Pool 1) requirement and Housing Investment Fund (Pool 2) requirement, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal 2009, \$7.907 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Also, the Rental Housing bond fund transferred \$9.500 million of funds in excess of resolution requirements to Pool 2 to provide liquidity for the purchase of homeownership loans.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, decreased \$27.089 million to a negative \$13.620 million compared to the prior year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses decreased 78% or \$26.186 million. That amount is a result of the decrease in interest earned net of interest expense combined with the increased provision for loan loss expense. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund (Pool 1) requirement are transferred periodically to the Housing Investment Fund (Pool 2) for use in housing programs. Revenues over expenses plus non-operating transfers in the Housing Investment Fund (Pool 2) that are in excess of requirements are transferred periodically to the Housing Affordability Fund (Pool 3) for use in housing programs. Board policy establishes the balances for Pool 1 and Pool 2.

Total combined net assets of General Reserve and bond funds decreased 2% to \$750.839 million as of June 30, 2009 as a result of expenses exceeding revenues for fiscal year 2009. The net assets of each individual bond fund decreased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. The net assets of General Reserve decreased slightly as a result of a decrease in net assets invested in capital assets.

### **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, 2009 combined balance decreased 9% to \$102.432 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2009 State Appropriated fund net loans receivable decreased 1% to \$36.403 million, reflecting slightly lower 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, 2009 decreased 34% to \$0.714 million primarily as a result of lower interest rates.

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, 2009 was \$3.932 million compared to \$2.527 million at June 30, 2008. The increase in accounts payable and other liabilities is largely attributable to National Foreclosure Mitigation Counseling program funds received by the Agency at the end of fiscal 2009 that are payable to the ultimate recipients of those funds.

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, 2009 the combined net interfund receivable was \$0.092 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, 2009 the balance of funds held for the federal government was \$2.362 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 decreased to \$134.880 million as of June 30, 2009 compared to June 30, 2008, reflecting combined revenues less than disbursements and expenses during fiscal year 2009.

### **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 decreased from \$266.273 million at June 30, 2008 to \$231.925 million at June 30, 2009. Federal appropriations received increased by \$9.243 million while state appropriations received decreased by \$43.591 million.

Interest income from investments decreased as investment yields in general were below the previous levels and the average balance of investment assets was less than the prior year. The combined interest income from investments decreased 23% to \$5.037 million at June 30, 2009.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.170 million as relatively few loans are interest bearing.

Fees earned and other income in the amount of \$2.857 million were recorded in the State Appropriated fund during the year ended June 30, 2009. This consisted mainly of private donations and funds from a Minnesota state agency received to support certain state housing programs.

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 losses of \$0.371 million were recorded at June 30, 2009 compared to \$1.862 million unrealized gains at June 30, 2008.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 21% to \$4.676 million compared to the prior year. The Agency incurs the overhead expense in its General Reserve. The General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent that investment earnings are sufficient. During fiscal year 2009 investment earnings in the State Appropriated fund were insufficient to fully reimburse \$0.235 million of overhead expenses incurred in General Reserve. However, overhead reimbursement received from State Appropriated funds during fiscal 2008 included \$1.376 million for fiscal 2007 unreimbursed overhead thus, the decrease in administrative reimbursement in fiscal 2009.

Combined appropriations disbursed increased 7% to \$213.779 million compared to the prior year, reflecting State Appropriations disbursed of \$26.780 million and federal appropriations disbursed of \$186.999 million to support housing policy objectives.

Increased expenditures of State Appropriated funds for below market and zero-percent interest rate loans resulted in greater expense from reductions in carrying value of certain loans. Net reductions of carrying value increased 3% to \$25.894 million compared to the prior year as a result of making a larger amount of 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 and Agency funded expenses to administer a certain federally funded housing program. Other general operating expense decreased 33% to \$2.312 million at June 30, 2009.

Combined revenues were less than combined expenditures of the appropriated funds by \$8.127 million at June 30, 2009. 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, 2009 long-term bonds totaling \$2,106.0 million and short-term bonds totaling \$364.0 million. Bond proceeds and related revenues are held by trustees, who are responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions require funding debt service reserve accounts and may require funding insurance reserve accounts. At June 30, 2009, amounts held by the trustees in principal, interest, redemption, and 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 2009 fiscal year, Minnesota Housing completed the issuance of 13 series of bonds and notes aggregating \$1,075.9 million. This is compared to the issuance of 12 series totaling \$631.1 million the previous fiscal year. Long-term debt issuance to finance mortgage lending continued to be suppressed in fiscal 2009 as it was in fiscal 2008, due to turbulence in the capital markets. Minnesota Housing internally financed its loan programs during much of fiscal 2009, relying on resources set aside for such occasions, rather than borrowing capital during the most inefficient period in capital markets history (see Significant Factors That May Affect Financial Condition and/or Operations—Mortgage Industry Credit Tightening). Long-term bonds are traditionally issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes are issued to preserve tax-exempt bonding authority for future program use.

A total of \$1,011.5 million in principal payments and \$112.3 million of interest payments were made during the year. Of the total principal payments, \$313.0 million were refundings of short-term debt and \$108.8 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.

While most of the Agency's bonds are tax-exempt, taxable bonds are also issued to supplement limited tax-exempt authority in order to meet 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 have been a component of Minnesota Housing's financings, enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help 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 debt. State statute limits total outstanding debt of Minnesota Housing to \$5.0 billion.

Both Standard and Poor's Ratings Services and Moody's Investors Service affirmed 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.

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

#### *Legislative Actions*

Like most states in the nation, Minnesota faces a significant forecast budget deficit of \$4.8 billion for the fiscal 2010-2011 biennium. A near-term shortfall of \$426 million was also forecast for the 2009 fiscal year. The fiscal 2008-2009 state budget was \$34.6 billion.

The 2009 shortfall was addressed through unallotments ordered by Governor Pawlenty in December 2008. Four million dollars was unallotted from Minnesota Housing's 2009 general fund appropriations, a 7% reduction in fiscal 2009 appropriations.

The Governor's fiscal 2010-2011 budget recommended a 5% base reduction in general fund appropriations to Minnesota Housing and no renewal of \$24.441 million in one-time funding provided for the fiscal 2008-2009 biennium. The recommended base reduction totaled \$4.495 million, resulting in a biennial base appropriation of \$85.420 million.

The 2009 Minnesota Legislature appropriated slightly more than the Governor's recommendation for Minnesota Housing for a biennial appropriation of \$86.768 million, a 3.5% decrease from the base budget for the previous biennium. In July 2009 the Governor unallotted another \$0.526 million from the Agency's biennial appropriation.

The 2009 Minnesota legislature also appropriated \$2.0 million dollars in general obligation bond proceeds to the Agency for the rehabilitation of public housing. To provide relief to the areas damaged by the March 2009 storms and flooding of the Red River Valley, the 2009 Minnesota legislature appropriated \$2.7 million to Minnesota Housing to assist with housing repairs and replacement.

State appropriations are used for specific programs and are not available to pay for Minnesota Housing operating 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.

#### *Federal Stimulus Funds*

As part of the Housing and Economic Recovery Act of 2008, Congress established and funded the Neighborhood Stabilization Program (NSP). NSP funds were allocated among states and communities on a formula basis. The Governor designated Minnesota Housing as administrator of the \$38.8 million allocated to the State. Minnesota Housing has used both state appropriations and Agency resources to assist with efforts to remediate neighborhoods hardest hit by the foreclosure crisis.

The federal stimulus legislation (the American Recovery and Reinvestment Act) includes two funding programs to assist housing tax credit projects that have been stalled due to the unfavorable tax credit market. The Tax Credit Assistance Program (TCAP) funds are allocated on a formula basis. Minnesota Housing will administer \$19.249 million in TCAP funds. The other program is the Tax Credit Exchange program. Minnesota Housing estimates that about \$40 million in funds will be available to it for the Tax Credit Exchange program.

#### *Nationwide Foreclosure Crisis*

The nationwide housing foreclosure crisis impacted borrowers in Minnesota Housing's loan portfolio despite the Agency's practice to provide only mortgage products designed to promote sustainable homeownership. Loan

delinquencies and foreclosures were higher in fiscal year 2009 for both the homeownership and home improvement portfolios as described in Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Highlights. The possible severity of general adverse economic conditions and the future impact to the Agency's loan portfolios are unpredictable. The Agency regularly reviews loan portfolio performance and records additional loss reserves when justified by actual delinquency, foreclosure and property loss experience.

The Agency is in the process of transitioning to a mortgage-backed securities business model during the next fiscal year. This model is designed to mitigate losses on future homeownership loans.

**Additional Information**

Questions and inquiries may be directed to either Mr. Bill Kapphahn 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, 2009 (with comparative totals as of June 30, 2008)**

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		Agency-wide Total as of June 30, 2009	Agency-wide Total as of June 30, 2008
<b>Assets</b>	Cash and cash equivalents	\$ 410,786	\$ 655,749
	Investment securities	614,491	374,751
	Loans receivable, net	2,428,625	2,398,136
	Interest receivable on loans	15,249	12,308
	Interest receivable on investments	2,481	9,057
	Mortgage insurance claims receivable	10,372	3,811
	Real estate owned	13,101	7,037
	Unamortized bond issuance costs	13,698	14,362
	Capital assets, net	2,585	3,237
	Other assets	2,822	2,502
	Total assets	<u>\$3,514,210</u>	<u>\$3,480,950</u>
<b>Liabilities</b>	Bonds payable, net	\$2,473,733	\$2,411,376
	Interest payable	49,956	53,009
	Accounts payable and other liabilities	21,316	24,654
	Funds held for others	83,486	84,445
	Total liabilities	<u>2,628,491</u>	<u>2,573,484</u>
	Commitments and contingencies		
<b>Net Assets</b>	Restricted by bond resolution	266,726	284,344
	Restricted by covenant	481,528	476,878
	Restricted by law	134,880	143,007
	Invested in capital assets	2,585	3,237
	Total net assets	<u>885,719</u>	<u>907,466</u>
	Total liabilities and net assets	<u>\$3,514,210</u>	<u>\$3,480,950</u>

See accompanying notes to financial statements.

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**MINNESOTA HOUSING FINANCE AGENCY****Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2009 (with comparative totals for the  
year ended June 30, 2008)**

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	<b>Agency-wide Total for the Year Ended June 30, 2009</b>	<b>Agency-wide Total for the Year Ended June 30, 2008</b>
<b>Revenues</b>		
Interest earned on loans	\$141,193	\$133,967
Interest earned on investments	30,899	49,074
Appropriations received	231,925	266,273
Administrative reimbursement	1,991	876
Fees earned and other income	12,805	13,502
Unrealized gains (losses) on securities	(1,392)	4,609
Total revenues	<u>417,421</u>	<u>468,301</u>
<b>Expenses</b>		
Interest	112,286	115,556
Loan administration and trustee fees	7,067	6,830
Salaries and benefits	17,743	16,582
Other general operating	12,247	23,506
Appropriations disbursed	213,779	200,240
Reduction in carrying value of certain low interest rate deferred loans	46,196	39,930
Provision for loan losses	29,850	9,830
Total expenses	<u>439,168</u>	<u>412,474</u>
Change in net assets	(21,747)	55,827
<b>Net Assets</b>		
Total net assets, beginning of year	907,466	851,639
Total net assets, end of year	<u>\$885,719</u>	<u>\$907,466</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, 2009 (with comparative totals as of June 30, 2008)**

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
<b>Assets</b>	Cash and cash equivalents	\$ 95,364	\$ 26,170	\$ 180,813	\$ 66,064
	Investment securities	19,685	35,280	492,147	7,322
	Loans receivable, net	—	193,685	1,976,985	221,552
	Interest receivable on loans	—	1,068	12,679	1,488
	Interest receivable on investments	387	675	620	99
	Mortgage insurance claims receivable	—	—	7,963	2,409
	Real estate owned	—	—	12,071	1,030
	Unamortized bond issuance costs	—	1,799	10,049	1,850
	Capital assets, net	2,585	—	—	—
	Other assets	1,286	2	—	1
	Total assets	<u>\$119,307</u>	<u>\$258,679</u>	<u>\$2,693,327</u>	<u>\$301,815</u>
<b>Liabilities</b>	Bonds payable, net	\$ —	\$162,288	\$2,105,655	\$205,790
	Interest payable	—	3,245	41,254	5,457
	Accounts payable and other liabilities	3,866	4,517	7,144	1,857
	Interfund payable (receivable)	7,651	—	(30,169)	22,610
	Funds held for others	81,124	—	—	—
	Total liabilities	<u>92,641</u>	<u>170,050</u>	<u>2,123,884</u>	<u>235,714</u>
	Commitments and contingencies				
<b>Net Assets</b>	Restricted by bond resolution	—	88,629	111,996	66,101
	Restricted by covenant	24,081	—	457,447	—
	Restricted by law	—	—	—	—
	Invested in capital assets	2,585	—	—	—
	Total net assets	<u>26,666</u>	<u>88,629</u>	<u>569,443</u>	<u>66,101</u>
	Total liabilities and net assets	<u>\$119,307</u>	<u>\$258,679</u>	<u>\$2,693,327</u>	<u>\$301,815</u>

See accompanying notes to financial statements.

<b>Appropriated Funds</b>			
<b>State Appropriated</b>	<b>Federal Appropriated</b>	<b>Total as of June 30, 2009</b>	<b>Total as of June 30, 2008</b>
\$ 35,517	\$ 6,858	\$ 410,786	\$ 655,749
51,133	8,924	614,491	374,751
36,403	—	2,428,625	2,398,136
14	—	15,249	12,308
646	54	2,481	9,057
—	—	10,372	3,811
—	—	13,101	7,037
—	—	13,698	14,362
—	—	2,585	3,237
250	1,283	2,822	2,502
<b>\$123,963</b>	<b>\$17,119</b>	<b>\$3,514,210</b>	<b>\$3,480,950</b>
\$ —	\$ —	\$2,473,733	\$2,411,376
—	—	49,956	53,009
1,057	2,875	21,316	24,654
(652)	560	—	—
—	2,362	83,486	84,445
405	5,797	2,628,491	2,573,484
—	—	266,726	284,344
—	—	481,528	476,878
123,558	11,322	134,880	143,007
—	—	2,585	3,237
123,558	11,322	885,719	907,466
<b>\$123,963</b>	<b>\$17,119</b>	<b>\$3,514,210</b>	<b>\$3,480,950</b>

**MINNESOTA HOUSING FINANCE AGENCY****Fund Financial Statements****Statement of Revenues, Expenses and Changes in Net Assets (in thousands)****Proprietary Funds****Year ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)**

		<u>Bond Funds</u>			
		<u>General</u>	<u>Residential</u>		
		<u>Reserve</u>	<u>Rental</u>	<u>Housing</u>	<u>Single</u>
		<u>          </u>	<u>Housing</u>	<u>Finance</u>	<u>Family</u>
<b>Revenues</b>	Interest earned on loans	\$ —	\$12,946	\$113,156	\$14,921
	Interest earned on investments	874	2,182	19,071	3,735
	Appropriations received	—	—	—	—
	Administrative reimbursement	24,375	—	—	—
	Fees earned and other income	8,805	691	452	—
	Unrealized gains (losses) on securities	---	313	(1,558)	224
	Total revenues	<u>34,054</u>	<u>16,132</u>	<u>131,121</u>	<u>18,880</u>
<b>Expenses</b>	Interest	—	8,831	89,489	13,966
	Loan administration and trustee fees	—	136	6,071	809
	Administrative reimbursement	—	1,650	14,059	1,999
	Salaries and benefits	17,743	—	—	—
	Other general operating	8,601	—	1,334	—
	Appropriations disbursed	—	—	—	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	20,302	—
	Provision for loan losses	—	(560)	26,135	3,242
	Total expenses	<u>26,344</u>	<u>10,057</u>	<u>157,390</u>	<u>20,016</u>
	Revenues over (under) expenses	7,710	6,075	(26,269)	(1,136)
<b>Other changes</b>	Non-operating transfer of assets between funds	<u>(7,907)</u>	<u>(9,500)</u>	17,407	—
	Change in net assets	(197)	(3,425)	(8,862)	(1,136)
<b>Net Assets</b>	Total net assets, beginning of year	<u>26,863</u>	<u>92,054</u>	<u>578,305</u>	<u>67,237</u>
	Total net assets, end of year	<u>\$26,666</u>	<u>\$88,629</u>	<u>\$569,443</u>	<u>\$66,101</u>

See accompanying notes to financial statements.

<b>Appropriated Funds</b>			
<b>State Appropriated</b>	<b>Federal Appropriated</b>	<b>Total for the Year Ended June 30, 2009</b>	<b>Total for the Year Ended June 30, 2008</b>
\$ 170	\$ —	\$141,193	\$133,967
4,757	280	30,899	49,074
44,205	187,720	231,925	266,273
—	—	24,375	23,708
2,857	—	12,805	13,502
(489)	118	(1,392)	4,609
51,500	188,118	439,805	491,133
—	—	112,286	115,556
51	—	7,067	6,830
4,676	—	22,384	22,832
—	—	17,743	16,582
2,312	—	12,247	23,506
26,780	186,999	213,779	200,240
25,894	—	46,196	39,930
1,033	—	29,850	9,830
60,746	186,999	461,552	435,306
(9,246)	1,119	(21,747)	55,827
—	—	—	—
(9,246)	1,119	(21,747)	55,827
132,804	10,203	907,466	851,639
\$123,558	\$ 11,322	\$885,719	\$907,466

**MINNESOTA HOUSING FINANCE AGENCY**

**Fund Financial Statements**

**Statement of Cash Flows (in thousands)**

**Proprietary Funds**

**Year ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)**

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
<b>Cash flows from operating activities:</b>	Principal repayments on loans	\$ —	\$17,277	\$106,815	\$26,606
	Investment in loans	—	—	(266,924)	—
	Interest received on loans	—	13,198	109,617	14,161
	Other operating	—	—	(5,374)	—
	Fees and other income received	8,784	691	439	—
	Salaries, benefits and vendor payments	(24,482)	(141)	(6,410)	(816)
	Appropriations received	—	—	—	—
	Appropriations disbursed	—	—	—	—
	Administrative reimbursement from funds	26,468	(1,650)	(16,158)	(1,999)
	Interest transferred to funds held for others	(2,706)	—	—	—
	Deposits into funds held for others	31,523	—	—	—
	Disbursements made from funds held for others	(33,154)	—	—	—
	Interfund transfers and other assets	1,553	(8)	1,797	(108)
	Net cash provided (used) by operating activities	7,986	29,367	(76,198)	37,844
<b>Cash flows from noncapital financing activities:</b>	Proceeds from sale of bonds and notes	—	—	1,075,810	—
	Principal repayment on bonds and notes	—	(16,610)	(944,275)	(50,660)
	Interest paid on bonds and notes	—	(8,351)	(90,280)	(13,429)
	Financing costs paid related to bonds issued	—	—	(2,534)	—
	Interest paid/received between funds	—	—	1,435	(1,435)
	Principal paid/received between funds	—	—	685	(685)
	Premium paid on redemption of bonds	—	—	—	—
	Transfer of cash between funds	(6,556)	(9,500)	16,056	—
Net cash provided (used) by noncapital financing activities	(6,556)	(34,461)	56,897	(66,209)	
<b>Cash flows from investing activities:</b>	Investment in real estate owned	—	—	(1,296)	(303)
	Interest received on investments	3,935	2,354	21,574	3,815
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	22,371	2,793
	Proceeds from maturity, sale or transfer of investment securities	27,255	17,055	543,639	2,552
	Purchase of investment securities	---	(39,015)	(830,883)	(3,421)
	Purchase of loans between funds	—	—	1,311	1
	Net cash provided (used) by investing activities	31,190	(19,606)	(243,284)	5,437
Net increase (decrease) in cash and cash equivalents		32,620	(24,700)	(262,585)	(22,928)
<b>Cash and cash equivalents:</b>	Beginning of Year	62,744	50,870	443,398	88,992
	End of Year	\$95,364	\$26,170	\$180,813	\$66,064

See accompanying notes to financial statements.

<b>Appropriated Funds</b>			
<b>State Appropriated</b>	<b>Federal Appropriated</b>	<b>Total For the Year Ended June 30, 2009</b>	<b>Total For the Year Ended June 30, 2008</b>
\$ 2,930	\$ —	\$ 153,628	\$ 144,225
(27,790)	—	(294,714)	(521,087)
170	—	137,146	129,838
(2,315)	—	(7,689)	(6,908)
2,982	—	12,896	13,434
(51)	—	(31,900)	(29,910)
44,205	186,864	231,069	266,039
(27,896)	(185,574)	(213,470)	(198,760)
(5,008)	—	1,653	702
—	(50)	(2,756)	(3,710)
—	337	31,860	32,005
—	(29)	(33,183)	(29,709)
(3,048)	—	186	(2,185)
(15,821)	1,548	(15,274)	(206,026)
—	—	1,075,810	633,221
—	—	(1,011,545)	(618,650)
—	—	(112,060)	(107,307)
—	—	(2,534)	(2,689)
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
—	—	(50,329)	(95,425)
—	—	(1,599)	(1,010)
5,038	347	37,063	50,619
—	—	25,164	14,419
47,500	—	638,001	567,109
—	(4,670)	(877,989)	(457,039)
(1,312)	—	—	—
51,226	(4,323)	(179,360)	174,098
35,404	(2,775)	(244,964)	(127,353)
112	9,633	655,749	783,102
\$35,517	\$ 6,858	\$ 410,786	\$ 655,749

(continued)

**MINNESOTA HOUSING FINANCE AGENCY**

**Fund Financial Statements**

**Statement of Cash Flows (in thousands)**

**Proprietary Funds (continued)**

**Year ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)**

		Bond Funds			
		General Reserve	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	\$7,710	\$ 6,075	\$(26,269)	\$ (1,136)
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
	Amortization of premiums (discounts) and fees on loans	—	(64)	2,103	(409)
	Depreciation	1,966	—	—	—
	Realized (gains) on sale of securities, net	—	(51)	(883)	(18)
	Unrealized losses (gains) on securities, net	—	(313)	1,558	(224)
	Provision for loan losses	—	(560)	26,135	3,242
	Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	20,302	—
	Capitalized interest on loans and real estate owned	—	(130)	(2,492)	(349)
	Interest earned on investments	(874)	(2,090)	(17,970)	(4,213)
	Interest expense on bonds and notes	—	8,830	89,489	13,966
	Changes in assets and liabilities:				
	Decrease (increase) in loans receivable, excluding loans transferred between funds	—	17,277	(160,109)	26,606
	Decrease (increase) in interest receivable on loans	—	212	(3,150)	(2)
	Increase (decrease) in arbitrage rebate liability	—	194	(218)	496
	Interest transferred to funds held for others	(2,706)	—	—	—
	Increase (decrease) in accounts payable	(104)	(5)	(4,394)	(5)
	Increase (decrease) in interfund payable, affecting operating activities only	5,089	(10)	(786)	(110)
	Increase (decrease) in funds held for others	(1,631)	—	—	—
	Other	(1,464)	2	486	—
	<b>Total</b>	<b>276</b>	<b>23,292</b>	<b>(49,929)</b>	<b>38,980</b>
	 Net cash provided (used) by operating activities	 <b>\$7,986</b>	 <b>\$29,367</b>	 <b>\$(76,198)</b>	 <b>\$37,844</b>

See accompanying notes to financial statements.

**Appropriated Funds**

<b>State Appropriated</b>	<b>Federal Appropriated</b>	<b>Total for the Year Ended June 30, 2009</b>	<b>Total for the Year Ended June 30, 2008</b>
\$ (9,246)	\$1,119	\$(21,747)	\$ 55,827
—	—	1,630	1,567
—	—	1,966	2,049
—	—	(952)	(1,410)
489	(118)	1,392	(4,609)
1,033	—	29,850	9,830
25,894	—	46,196	39,930
—	—	(2,971)	(1,535)
(4,757)	(280)	(30,184)	(54,067)
—	—	112,285	115,556
(24,860)	—	(141,086)	(376,862)
—	—	(2,940)	(2,337)
—	—	472	4,579
—	(50)	(2,756)	(3,710)
(1,119)	2,228	(3,399)	8,319
(3,380)	(803)	—	10
—	308	(1,323)	2,296
125	(856)	(1,707)	(1,459)
(6,575)	429	6,473	(261,853)
<b>\$(15,821)</b>	<b>\$1,548</b>	<b>\$(15,274)</b>	<b>\$(206,026)</b>

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# MINNESOTA HOUSING FINANCE AGENCY

## Notes to Financial Statements

Year ended June 30, 2009

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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 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 \$5.0 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 to the payment of its general obligation bonds 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 application of 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 bond funds, which include bonds issued and outstanding under the Residential Housing Finance bond resolution, limited obligation notes issued under separate resolutions, and the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3), both of which are restricted by a covenant with bondholders.

#### *Bonds*

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans, some related entry cost housing assistance loans, and unsecured or subordinated home improvement loans, although no bonds were issued to support home improvement lending during fiscal year 2009. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers 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). Assets of the bonds issued and outstanding under the resolution are pledged to the repayment of Residential Housing Finance bonds, except that the limited obligation debt is issued under separate bond resolutions and is secured by the proceeds thereof as invested.

The 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.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2009 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, warehousing purchases of single family first-mortgage loans and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire high-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: zero-percent loans; loans at interest rates substantially below market; high risk loans; deferred loans; revolving funds; and grants and rental assistance. During fiscal year 2009 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing and innovative multifamily programs that were not eligible for bond financing such as nonprofit capacity building and deferred, subordinated loans to support first mortgages.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

The limited obligation debt resolutions prescribe the application of debt proceeds, and permitted investments.

#### *Single Family*

Bonds issued for homeownership programs have been issued under Single Family and Residential Housing Finance. The Agency generally expects to issue bonds for homeownership programs under Residential Housing Finance and not Single Family. Loans are secured by first mortgages on real property.

The Single Family bond resolution prescribes the application of 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 Minnesota legislature which are to be used for programs for low- and 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 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- and moderate-income persons and families in the form of no-interest deferred loans, grants, support to nonprofit housing organizations and other housing-related program costs. The net assets of the Federal Appropriated fund are not pledged or available to support 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 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 and, 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 did 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 is not expected to affect the Agency’s financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement defines derivative instruments and requires governmental entities to measure most derivative instruments at fair value and report them on the financial statements as assets or liabilities. Changes in the fair value of derivative instruments would be reported in the financial statements as investment gains and losses, unless certain criteria are met for investing the derivative instrument as a hedge, in which case a deferred inflow or outflow would be reported on the statement of net assets. This statement also requires note disclosure that includes summary information about derivative instruments used as hedges and investments, and disclosure of the risk exposures resulting from the derivative instruments. GASB Statement No. 53 is required to be effective for the Agency’s fiscal year ending June 30, 2010. The effect of this statement will increase or reduce net assets by the amount of unrealized gain or loss on interest rate swap agreements.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was effective upon issuance. The objective of GASB No. 55 is to incorporate the hierarchy of generally accepted accounting principles for state and local governments into GASB authoritative literature such that they derive from a single source. The adoption of GASB Statement No. 55 had no impact on the Agency.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent

events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. The adoption of GASB Statement No. 56 had no impact on the Agency.

#### *Cash and Cash Equivalents*

Cash equivalents may include commercial paper, money market funds, repurchase agreements, investment agreements, State investment pool and any other investments, primarily US treasury and agency 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 estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: Federal Housing Administration (FHA) insurance, Rural Development (RD) guarantee, Veterans Administration (VA) guarantee, or private mortgage insurance.

Actual gains and losses are posted to 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, 2009.

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, until they become "real estate owned" (described below) for homeownership loans, or until they are classified by the Agency as inactive for home improvement 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 and the Single Family 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.

#### *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; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); 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 held for, and reimbursable 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 resolutions. 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 2008 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 but only 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 \$1.991 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$22.384 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 federal 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, housing development operating subsidies received from other State agencies 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 (Pool 3) loans and State Appropriated loans which are originated at below market interest rates 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 risks 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; transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); 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 2009 were \$37.0 million and \$4.2 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*

In fiscal year 2006 an advance was made from Residential Housing Finance to optionally redeem bonds in Single Family in order to take advantage of economically favorable conditions. The advance to Single Family is being repaid according to the original debt repayment schedule. The advance is recorded in Interfund Payable (Receivable).

### *Income Taxes*

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

### *Rebateable Arbitrage*

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent calculation 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), State investment pool, corporate obligations, municipal bonds and other investments consistent with requirements of safety and liquidity that comply with applicable provisions of the bond resolutions, state law or Board policy.

Cash and Cash Equivalents are generally stated at cost, which approximates market. Certain investment agreements are stated at an amount that is less than cost. The balances are composed of the following at June 30, 2009 (in thousands):

<b>Cash and Cash Equivalents</b>					
<b>Funds</b>	<b>Deposits</b>	<b>Money Market Fund</b>	<b>State Investment Pool</b>	<b>Investment Agreements</b>	<b>Combined Totals</b>
General Reserve	\$ —	\$ —	\$ 95,364	\$ —	\$ 95,364
Rental Housing	—	2,689	—	23,481	26,170
Residential Housing Finance	2,481	66,260	—	112,072	180,813
Single Family	797	12,789	—	52,478	66,064
State Appropriated	169	—	35,348	—	35,517
Federal Appropriated	1,648	2,853	2,357	—	6,858
Agency-wide Totals	<u>\$5,095</u>	<u>\$84,591</u>	<u>\$133,069</u>	<u>\$188,031</u>	<u>\$410,786</u>

Deposits were cash awaiting investment, consisting 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.

The state investment pool is an internal investment pool managed by the Minnesota State Board of Investment (SBI). The SBI invests in debt securities, including US treasury securities, US agency securities, bankers acceptances, high grade corporates, and commercial paper. This investment pool is unrated.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2009, all the investment agreement providers, or the investment agreement guarantors if more highly rated, had a Standard & Poor's long-term credit rating of "A-" or higher and a Moody's long-term credit rating of "A3" or higher, except for Depfa Bank PLC's Standard & Poor's rating which is discussed below. 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. Certain investment agreements with Depfa Bank PLC (\$34.117 million) and Calyon (\$7.284 million) require downgrades to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating was downgraded to "BBB" by Standard & Poor's during this fiscal year, the Agency reduced the carrying value of those agreements by \$1.857 million as of June 30, 2009.

Investment securities (comprised of 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, 2009 (in thousands):

<b>Investment Securities</b>			
<b>Funds</b>	<b>Amortized Cost</b>	<b>Unrealized</b>	<b>Estimated Fair Market Value</b>
		<b>Appreciation (Depreciation) in Fair Market Value</b>	
General Reserve	\$ 19,033	\$ 652	\$ 19,685
Rental Housing	34,551	729	35,280
Residential Housing Finance	492,470	(323)	492,147
Single Family	6,758	564	7,322
State Appropriated	49,960	1,173	51,133
Federal Appropriated	8,643	281	8,924
Agency-wide Totals	<u>\$611,415</u>	<u>\$3,076</u>	<u>\$614,491</u>

US treasury securities, US agency securities, corporate notes and commercial paper 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. Certificates of deposit pledged as collateral for certain limited obligation notes with the Federal Home Loan Bank are held by the Federal Home Loan Bank in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities by their lowest Standard & Poor's/Moody's rating. U.S. treasuries are not classified because they are not considered to have credit risk. Investment securities exposure to credit risk at June 30, 2009 is (in thousands):

<b>Credit Ratings of Investment Securities</b>				
<b>Type</b>	<b>Par Value</b>	<b>AAA/Aaa</b>	<b>AA/Aa</b>	<b>A/A</b>
Certificates of Deposit	\$363,985	\$363,985	\$ -	\$ -
U.S. Agencies	118,800	118,800	-	-
Municipals	119,260	38,380	77,925	2,955
Agency-wide Totals	<u>\$602,045</u>	<u>\$521,165</u>	<u>\$77,925</u>	<u>\$2,955</u>
U.S. Treasuries	10,683			
Agency-wide Totals	<u>\$612,728</u>			

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 appreciation of \$4.104 million and net discounts of \$0.309 million), along with the weighted average maturities (in years) as of June 30, 2009, consisted of the following (in thousands):

<b>Cash, Cash Equivalents and Investment Securities</b>							
<b>Type</b>	<b>Par Value</b>	<b>Weighted Average Maturity, in Years</b>					
		<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance</b>	<b>Single Family</b>	<b>State Appropriated</b>	<b>Federal Appropriated</b>
Deposits	\$ 5,095	—	—	—	—	—	—
Certificates of Deposit	363,985	—	—	.2	—	—	—
Money market fund	84,591	—	—	—	—	—	—
State Investment Pool	133,069	—	—	—	—	—	—
Investment agreements	188,031	—	—	—	—	—	—
US Agencies	118,800	2.1	6.1	9.5	10.2	1.1	5.3
US Treasuries	10,683	—	—	10.8	7.6	—	8.4
Municipals	119,260	—	—	—	—	—	—
Agency-wide Totals	<u>\$1,023,514</u>						
Weighted Average Maturity		0.3	2.3	0.5	0.9	0.6	1.4

Investments in any one issuer, excluding investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2009 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank, Certificates of Deposit	\$363,985
Federal Home Loan Bank, US Agencies	57,180
FSA Capital Management Services, investment agreements	48,817

The Agency maintained certain deposits and investments throughout the fiscal year that were subject to custodial credit risk. As of June 30, 2009, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$76,888 in a money market fund and \$133,070 in the State investment pool)	\$222,755
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	722,780
Agency-wide Total	<u>\$945,535</u>

Net realized gain on sale of investment securities of \$0.952 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, 2009 were as follows (in thousands):

Funds	Amount
Rental Housing	\$20,105
Residential Housing Finance	51,621
Single Family	14,298
Totals	<u>\$86,024</u>

### Loans Receivable, Net

Loans receivable, net at June 30, 2009 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	\$ —	\$ —	\$ —	\$ —
Rental Housing	202,544	(7,566)	(1,293)	193,685
Residential Housing Finance	2,002,232	(29,585)	4,338	1,976,985
Single Family	226,351	(3,129)	(1,670)	221,552
State Appropriated	37,797	(1,394)	—	36,403
Federal Appropriated	—	—	—	—
Agency-wide Totals	<u>\$2,468,924</u>	<u>\$(41,674)</u>	<u>\$ 1,375</u>	<u>\$2,428,625</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 a significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not 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 below-market interest rates 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, 2009 the unpaid principal amount of loans originated with such characteristics aggregated \$21.801 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and \$27.802 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans receivable, net and gross in Residential Housing Finance at June 30, 2009 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
<b>Residential Housing Finance Bonds:</b>		
Homeownership, first mortgage loans	\$1,629,615	\$1,633,403
Other homeownership loans, generally secured by a second mortgage	2,249	2,331
<b>Alternative Loan Fund, Housing Investment Fund (Pool 2):</b>		
Home Improvement loans, generally secured by a second mortgage	108,893	113,722
Homeownership, first mortgage loans	59,298	59,931
Multifamily, first mortgage loans	154,878	169,858
<b>Alternative Loan Fund, Housing Affordability Fund (Pool 3):</b>		
Other homeownership loans, the majority secured by a second mortgage	22,052	22,987
Residential Housing Finance Totals	<u>\$1,976,985</u>	<u>\$2,002,232</u>

The Agency is limited by statute 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, 2009 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	\$1,220	\$ 66	\$1,286
Rental Housing	—	2	2
Residential Housing Finance	—	—	—
Single Family	—	1	1
State Appropriated	—	250	250
Federal Appropriated	1,283	—	1,283
Agency-wide Totals	<u>\$2,503</u>	<u>\$319</u>	<u>\$2,822</u>

#### Bonds Payable, Net

Bonds payable, net at June 30, 2009 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	\$ 164,545	\$ —	\$(2,257)	\$ 162,288
Residential Housing Finance	2,099,675	5,980	—	2,105,655
Single Family	205,790	—	—	205,790
Totals	<u>\$2,470,010</u>	<u>\$5,980</u>	<u>\$(2,257)</u>	<u>\$2,473,733</u>

Summary of bond activity from June 30, 2008 to June 30, 2009 (in thousands):

Funds	June 30, 2008			June 30, 2009
	Bonds Outstanding, at Par	Par Issued	Par Repaid	Bonds Outstanding, at Par
Rental Housing	\$ 181,155	\$ —	\$ 16,610	\$ 164,545
Residential Housing Finance	1,968,100	1,075,850	944,275	2,099,675
Single Family	256,450	—	50,660	205,790
Totals	\$2,405,705	\$1,075,850	\$1,011,545	\$2,470,010

Bonds payable at June 30, 2009 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2009 Bonds Outstanding, at Par
<b><u>Rental Housing Bonds</u></b>				
1995 Series C-2	5.85% to 5.95%	2015	\$ 38,210	\$ 7,130
1995 Series D	5.80% to 6.00%	2022	234,590	10,295
1997 Series A	5.30% to 5.875%	2028	4,750	3,885
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	2,715
1998 Series C	4.65% to 5.20%	2029	2,865	2,360
1999 Series A	4.55% to 5.10%	2024	4,275	3,265
1999 Series B	5.40% to 6.15%	2025	\$ 3,160	\$ 2,165
2000 Series A	5.50% to 6.15%	2030	9,290	6,155
2000 Series B	5.90%	2031	5,150	4,410
2001 Series A	4.50% to 5.35%	2033	4,800	4,310
2002 Series A	3.30% to 4.05%	2014	27,630	15,020
2003 Series A	4.55% to 4.95%	2045	12,770	12,200
2003 Series B	4.15% to 5.08%	2031	1,945	1,765
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,955
2004 Series A	3.20% to 5.00%	2035	9,345	8,155
2004 Series B	4.00% to 4.85%	2035	3,215	3,040
2004 Series C	2.90% to 4.40%	2022	80,000	50,610
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,650
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,530
2006 Series B	4.89%	2037	5,020	4,910
2006 Series C-1	4.96%	2037	2,860	2,790
2007 Series A-1	4.65%	2038	3,775	3,725
			473,770	164,545
<b><u>Residential Housing Finance Bonds</u></b>				
2002 Series A	4.75% to 5.30%	2019	14,035	3965
2002 Series B	4.80% to 5.65%	2033	59,650	14,805
2002 Series A-1	4.20% to 4.90%	2019	6,860	4,740
2002 Series B-1	4.00% to 5.35%	2033	25,760	15,085
2002 Series E	4.30% to 5.00%	2020	12,805	8,130
2002 Series F	3.95% to 5.40%	2032	52,195	23,900
2002 Series H	4.48% to 4.93%	2012	20,000	15,000
2003 Series A	2.50% to 4.30%	2034	40,000	20,665
2003 Series B	Variable	2033	25,000	25,000

Series	Interest rate	Final Maturity	Original Par	June 30, 2009
				Bonds Outstanding, at Par
<b>Residential Housing Finance Bonds (continued)</b>				
2003 Series I	3.60% to 5.25%	2035	25,000	11,540
2003 Series J	Variable	2033	25,000	21,985
2004 Series A	3.20% to 4.25%	2018	22,480	19,455
2004 Series B	3.05% to 5.00%	2033	94,620	55,680
2004 Series C	4.70%	2035	14,970	13,110
2004 Series E-1	4.10% to 4.60%	2016	5,110	4,025
2004 Series E-2	4.40% to 4.60%	2016	6,475	5,100
2004 Series F-1	4.40% to 4.50%	2012	4,600	825
2004 Series F-2	4.00% to 5.25%	2034	36,160	25,745
2004 Series G	Variable	2032	50,000	41,750
2005 Series A	2.95% to 4.125%	2018	14,575	10,945
2005 Series B	4.75% to 5.00%	2035	20,425	16,870
2005 Series C	Variable	2035	25,000	21,405
2005 Series G	4.25% to 4.30%	2018	8,950	8,785
2005 Series H	3.60% to 5.00%	2036	51,050	42,725
2005 Series I	Variable	2036	40,000	34,605
2005 Series J	3.625% to 4.00%	2015	11,890	11,660
2005 Series K	3.55% to 4.40%	2028	41,950	34,165
2005 Series L	4.75% to 5.00%	2036	48,165	41,805
2005 Series M	Variable	2036	60,000	51,720
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	3.90% to 5.00%	2036	65,490	59,475
2006 Series A	3.40% to 4.00%	2016	\$ 13,150	\$ 10,655
2006 Series B	4.60% to 5.00%	2037	43,515	40,130
2006 Series C	Variable	2037	28,335	26,145
2006 Series F	3.65% to 4.25%	2016	11,015	9,145
2006 Series G	4.85% to 5.50%	2037	58,985	57,470
2006 Series H	5.85%	2036	15,000	12,570
2006 Series I	4.00% to 5.75%	2038	95,000	89,100
2006 Series J	6.00% to 6.51%	2038	45,000	42,185
2006 Series L	3.50% to 3.95%	2016	6,740	6,110
2006 Series M	4.625% to 5.75%	2037	35,260	35,085
2006 Series N	5.19% to 5.76%	2037	18,000	17,130
2007 Series C	3.50% to 3.95%	2017	12,515	11,595
2007 Series D	4.60% to 5.50%	2038	62,485	61,520
2007 Series E	Variable	2038	25,000	23,965
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.85% to 5.50%	2038	100,270	97,240
2007 Series J	Variable	2038	37,500	36,260
2007 Series L	3.70% to 5.50%	2048	105,000	103,705
2007 Series M	6.345%	2038	70,000	68,930
2007 Series P	3.50% to 3.90%	2017	4,305	4,295
2007 Series Q	3.70% to 5.50%	2038	42,365	42,285
2007 Series R	4.41% to 4.76%	2013	2,840	2,630
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	37,160
2008 Series A	1.85% to 4.65%	2023	25,090	25,090
2008 Series B	5.50% to 5.65%	2033	34,910	34,910
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	1.30% to 5.20%	2023	26,795	26,795
2009 Series B	5.00% to 5.90%	2038	33,205	33,205

Series	Interest rate	Final Maturity	Original Par	June 30, 2009 Bonds Outstanding, at Par
<b><u>Residential Housing Finance Bonds (continued)</u></b>				
2009 Series C	Variable	2036	40,000	40,000
			2,033,370	1,735,690

<b><u>Limited Obligation Notes</u></b>				
2008	1.09%	2009	50,000	50,000
2008	1.25%	2009	40,910	40,910
2009-B	0.33%	2009	273,075	273,075
			363,985	363,985

<b><u>Single Family Bonds</u></b>				
1993 Series D	6.40%	2027	\$ 17,685	\$ 905
1993 Series F	6.25%	2020	9,500	390
1994 Series E	5.60% to 5.90%	2025	31,820	11,535
1994 Series T	6.125%	2017	16,420	460
1995 Series G	8.05%	2012	8,310	95
1995 Series H	6.40%	2027	19,240	990
1995 Series I	6.35%	2018	7,450	390
1995 Series M	5.40% to 5.875%	2017	32,025	2,290
1996 Series A	6.375%	2028	34,480	2,250
1996 Series B	6.35%	2019	\$ 7,990	\$ 1,150
1996 Series C	6.10%	2015	12,345	660
1996 Series D	6.00%	2017	23,580	775
1996 Series E	6.25%	2023	14,495	1,055
1996 Series F	6.30%	2028	18,275	1,335
1996 Series G	6.25%	2028	41,810	2,335
1996 Series H	6.00%	2021	13,865	770
1996 Series I	8.00%	2017	14,325	430
1996 Series J	5.60%	2021	915	60
1996 Series K	5.40%	2017	9,280	555
1997 Series A	5.80% to 5.95%	2017	22,630	1,720
1997 Series B	6.20%	2021	9,180	1,425
1997 Series C	6.25%	2029	27,740	1,625
1997 Series D	5.80% to 5.85%	2021	15,885	2,160
1997 Series E	5.90%	2029	23,495	1,845
1997 Series G	5.45% to 6.00%	2018	40,260	230
1997 Series I	5.50%	2017	9,730	1,990
1997 Series K	5.75%	2029	22,700	4,655
1998 Series A	4.80% to 5.20%	2017	5,710	965
1998 Series B	5.50%	2029	17,030	2,085
1998 Series C	4.75% to 5.25%	2017	21,775	2,430
1998 Series E	5.40%	2030	30,500	6,655
1998 Series F-1	5.00% to 5.45%	2017	10,650	1,060
1998 Series G-1	5.60%	2022	6,150	1,175
1998 Series H-1	5.65%	2031	14,885	2,830
1998 Series F-2	5.00% to 5.70%	2017	11,385	2,220
1998 Series G-2	6.00%	2022	6,605	2,355
1998 Series H-2	6.05%	2031	15,965	5,715
1999 Series B	5.00% to 5.25%	2020	18,865	6,260
1999 Series C	4.80% to 4.90%	2024	21,960	430
1999 Series D	5.45%	2031	23,975	7,630
1999 Series H	5.30% to 5.80%	2021	16,350	3,540

Series	Interest rate	Final Maturity	Original Par	June 30, 2009
				Bonds Outstanding, at Par
<b>Single Family Bonds(continued)</b>				
1999 Series I	5.25% to 6.05%	2031	34,700	4,725
1999 Series J	5.00%	2017	4,745	2,070
1999 Series K	4.30% to 5.35%	2033	44,515	17,445
2000 Series A	5.25% to 5.85%	2020	18,650	5,845
2000 Series C	6.10%	2032	30,320	8,230
2000 Series F	Variable	2031	20,000	9,225
2000 Series G	4.40% to 5.40%	2025	39,990	16,070
2000 Series H	5.50%	2023	32,475	8,730
2000 Series I	5.20% to 5.80%	2019	20,185	5,320
2000 Series J	5.40% to 5.90%	2030	29,720	8,485
2001 Series A	5.35% to 5.45%	2022	14,570	6,215
2001 Series B	4.80% to 5.675%	2030	34,855	8,140
2001 Series E	3.20% to 4.90%	2035	23,000	15,860
			1,074,960	205,790
Combined Totals			\$3,946,085	\$2,470,010

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.

Substantially 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, 2009, are as follows (in thousands):

Fiscal Year	Rental Housing Bonds		Residential Housing Finance Fund Bonds (1)	
	Principal	Interest	Principal	Interest
2010	\$ 11,605	\$ 7,672	\$ 429,675	\$ 66,136
2011	12,120	7,192	29,125	64,173
2012	12,375	6,671	30,285	63,064
2013	11,360	6,136	41,455	61,635
2014	12,800	5,646	33,600	60,146
2015-2019	37,810	22,049	193,880	279,107
2020-2024	23,220	13,833	223,545	238,007
2025-2029	17,450	9,010	317,165	187,642
2030-2034	12,300	4,970	398,130	120,788
2035-2039	7,220	2,391	373,270	43,968
2040-2044	4,375	1,106	13,960	2,449
2045-2049	1,910	150	15,855	829
Totals	\$164,545	\$86,826	\$2,099,675	\$1,187,944

Fiscal Year	Single Family Bonds		Combined Totals	
	Principal	Interest	Principal	Interest
2010	\$ 5,535	\$ 10,880	\$ 446,815	\$ 84,688
2011	6,435	10,601	47,680	81,966
2012	6,685	10,267	49,345	80,002
2013	7,095	9,911	59,910	77,682
2014	7,940	9,520	54,340	75,312
2015-2019	42,565	40,818	274,255	341,974
2020-2024	42,605	29,013	289,370	280,853
2025-2029	56,670	16,204	391,285	212,856
2030-2034	30,260	3,214	440,690	128,972
2035-2039	---	---	380,490	46,359
2040-2044	—	—	18,065	3,555
2045-2049	—	—	17,765	979
Totals	\$205,790	\$140,428	\$2,470,010	\$1,415,198

(1) Includes limited obligation notes

Principal due on limited obligation notes is reflected in the table above based on the maturity date of the notes. This presentation does not alter the expectation that these notes will be redeemed in whole or in part from proceeds of refunding bonds issued on or before the maturity date. Limited obligation notes are secured by certificates of deposit which are included in Investment Securities in the statement of net assets.

Principal due on short-term notes is reflected in the year of maturity of the individual notes, because 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; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; and 2009 Series C accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, is based upon the respective rates in effect on June 30, 2009. Variable rate bond interest payments will vary as rates vary. 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.

Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is 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, 2009. Interest payments on this series of bonds will vary as one-month LIBOR varies.

The income and assets of each of the bond funds are pledged on a parity basis 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, 2009, 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.

Call notices were issued on or before June 30, 2009 for the redemption of certain bonds thereafter. See Subsequent Events.

### Interest Rate Swaps

#### *Objective of Swaps*

The Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds since 2003. Using variable-rate debt hedged with interest-rate swaps reduces the

Agency's cost of capital compared to using long-term fixed rate bonds and, in turn, reduces mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

*Swap Payments and Associated Debt*

Using rates as of June 30, 2009, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming interest rates in effect on June 30, 2009 remain the same for the term of the bonds, are as follows (in thousands). As interest 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>
2010	\$ 12,475	\$2,099	\$15,016	\$29,590
2011	825	1,435	14,656	16,916
2012	870	1,431	13,901	16,202
2013	915	1,426	13,194	15,535
2014	1,290	1,421	12,551	15,262
2015-2019	20,025	8,349	65,202	93,576
2020-2024	59,750	7,685	47,527	114,962
2025-2029	104,525	6,284	32,670	143,479
2030-2034	141,435	4,188	21,302	166,925
2035-2039	126,270	1,723	9,329	137,322
2040-2044	19,785	450	1,858	22,093
2045-2049	12,830	171	674	13,675

*Terms of Swaps*

Terms of the swaps, including the fair values and the credit ratings of the three counterparties thereto as of June 30, 2009, are contained in the three tables below. Initial swap notional amounts matched 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, generally 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: UBS AG**

Moody's and Standard & Poor's Credit Rating: Aa2/A+(2)

<b>Associated Bond Series</b>	<b>Notional Amount as of June 30, 2009</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Fixed Rate Payable</b>	<b>Variable Rate To Be Received</b>	<b>Fair Value as of June 30, 2009<sup>(1)</sup></b>
RHFB 2003B	\$25,000,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (842,548)
RHFB 2003J	21,985,000	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(2,122,346)
RHFB 2005C	21,405,000	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,305,813)
RHFB 2006C	26,145,000	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.28% per annum	(2,116,936)

RHFB 2007S	18,975,000	December 19, 2007	July 1, 2038	4.340%	LIBOR* plus 0.29% per annum 100% of SIFMA** plus 0.06% per annum	(523,299)
RHFB 2007T (Taxable)	37,160,000	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(3,112,237)
Total	<u>\$150,670,000</u>					<u>\$(10,023,179)</u>

**Counterparty: Royal Bank of Canada**

Moody's and Standard & Poor's Credit Rating: Aaa/AA-(3)

Associated Bond Series	Notional Amount as of June 30, 2009	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2009 <sup>(1)</sup>
RHFB 2004G	\$41,750,000	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	\$(3,610,934)
RHFB 2007E (Taxable)	23,965,000	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(2,778,528)
RHFB 2007J (Taxable)	36,260,000	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(4,078,933)
RHFB 2008C	40,000,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(3,956,770)
RHFB 2009C	40,000,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(5,065,148)
Total	<u>\$181,975,000</u>					<u>\$(19,490,313)</u>

**Counterparty: Citibank, N.A.**

Moody's and Standard & Poor's Credit Rating: A1/A+(4)

Associated Bond Series	Notional Amount as of June 30, 2009	Effective Date	Maturity Date	Fixed Rate Payable	Variable Rate To Be Received	Fair Value as of June 30, 2009 <sup>(1)</sup>
RHFB 2005I	\$34,605,000	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus 0.28% per annum	\$(2,230,375)
RHFB 2005M	51,720,000	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(2,861,053)
Total	<u>\$ 86,325,000</u>					<u>\$( 5,091,428)</u>
Combined Totals	<u>\$418,970,000</u>					<u>\$(34,604,920)</u>

(1) A negative fair value represents money due from the Agency to the counterparty upon an assumed termination on June 30, 2009. A positive fair value represents the amount due the Agency by the counterparty upon such assumed termination

(2) Moody's Investor Service, Inc has placed the "Aa2" rating of this counterparty (USB AG) on negative watch and Standard & Poor's Rating Service has given the A+ rating of this counterparty (USB AG) a stable outlook.

(3) Moody's Investors Service, Inc. has given the "Aaa" rating of this counterparty (Royal Bank of Canada) a negative outlook and Standard & Poor's Services has given the "AA-" rating of this counterparty (Royal Bank of Canada) a stable outlook.

(4) Moody's Investor Services, Inc. has given the "A1" rating to this counterparty (Citibank, N.A.) a stable outlook and Standard & Poor's Rating Services has given the "A+" rating of this counterparty (Citibank, N.A.) a stable outlook.

\*London Interbank Offered Rate.

\*\*Securities Industry and Financial Markets Association

#### *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, 2009. 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 at market, a payment is due by one or both parties based upon the fair value of the swap even if the payment is owed to a defaulting party. 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, 2009, the Agency did not have a net credit risk exposure to any 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 June 30, 2009, 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, termination 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 potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage 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 June 30, 2009, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.36% to 0.39% per annum while the variable interest rate on the associated swaps ranged from 0.41% to 1.02% per annum. As of June 30, 2009, the interest rate on the Agency's variable rate taxable debt was 0.55% per annum while the variable interest rate on the corresponding swaps ranged from 0.31% to 0.32% 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 SIFMA index (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 LIBOR-based swap contracts relating to tax-exempt variable rate bonds is 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 chose to assume this risk at the time the swaps were entered into because it was not 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 nonprofit 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, 2009, \$31.7 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 (continued)**

Accounts payable and other liabilities at June 30, 2009 consisted of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	\$ —	\$3,017	\$ 849	\$ 3,866
Rental Housing	4,496	—	21	4,517
Residential Housing Finance	3,961	—	3,183	7,144
Single Family	1,798	—	59	1,857
State Appropriated	—	—	1,057	1,057
Federal Appropriated	—	—	2,875	2,875
Agency-wide Totals	\$10,255	\$3,017	\$8,044	\$21,316

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is \$4.496 million, in Residential Housing Finance is \$3.845 million and in Single Family is \$0.938 million, for a total of \$9.279 million.

**Interfund Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2009 consisted of the following (in thousands):

Funds	Due from						Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	State Appropriated	Federal Appropriated	
General Reserve	\$ —	\$ —	\$ —	\$ —	\$ —	\$652	\$ 652
Rental Housing	—	—	—	—	—	—	—
Residential Housing Finance	7,907	—	—	22,482	—	—	30,389
Single Family	—	—	—	—	—	—	—
State Appropriated	396	—	128	128	—	—	652
Federal Appropriated	—	—	92	—	—	—	92
Agency-wide Totals	\$8,303	\$ —	\$220	\$22,610	\$ —	\$652	\$31,785

The \$22.482 million due Residential Housing Finance reflects advances made to Single Family in fiscal year 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 \$21.065 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, 2009 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	\$—	\$1,650	\$16,158	\$1,999	\$8,067	\$1,654	\$29,528
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	64	10	—	2,220	1,312	2,410	5,952
	Single Family	—	—	1	—	—	—	1
	State Appropriated	—	—	9	10	—	—	83
	Federal Appropriated	—	370	—	—	—	—	370
	Agency-wide Totals	\$64	\$2,030	\$16,168	\$4,229	\$9,379	\$4,064	\$35,934

Interfund transfers recorded in Interfund Payable (Receivable) were made to move loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including \$1.312 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; to repay funds advanced by State Appropriated to Federal Appropriated for assistance to hurricane victims, and to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2009, 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	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	Rental Housing	—	—	—	—	—	—	—
	Residential Housing Finance	6,556	9,500	—	—	—	—	16,056
	Single Family	—	—	—	—	—	—	—
	State Appropriated	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—
	Agency-wide Totals	\$6,556	\$9,500	\$ —	\$ —	\$ —	\$ —	\$16,056

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 covenanted that it will use the money in General Reserve (or any such transferred funds deposited directly in the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including 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 general obligation bonds, 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 \$481.528 million of net assets restricted by covenant are restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

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 combined net assets of the General Reserve and bond funds (exclusive of Pool 3) are required by Board Resolution to be not less than the combined net assets of the same funds as of the immediately preceding fiscal year end. These combined net assets were \$662.124 million as of June 30, 2008 and are \$668.242 million as of June 30, 2009.

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, 2009 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
<b>Housing Endowment Fund (Pool 1), General Reserve</b>				
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade securities at market interest rates	\$ 24,081	\$—	\$—	\$ 24,081
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	—	—	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	\$ 24,081	\$—	\$—	\$ 24,081
<b>Housing Investment Fund (Pool 2), Residential Housing Finance</b>				
An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of	374,860	—	—	374,860

Pool 3) to be the greater of the combined net assets of the same funds for the immediately preceding audited fiscal year end or the combined net assets of the same funds for the immediately preceding fiscal year end plus current fiscal year income over expenses and transfers to Pool 2 less an amount transferred to Pool 3 (\$0 for fiscal 2009). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.

Unrealized depreciation in fair market value of investments	—	(10)	—	(10)
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	374,860	(10)	—	374,850
<b>Housing Affordability Fund (Pool 3), Residential Housing Finance</b>				
Funds in excess of Pool 1 and Pool 2 requirements are transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or investment-grade securities.	81,851	—	—	81,851
Unrealized appreciation in fair market value of investments	—	746	—	746
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	81,851	746	—	82,597
Agency-wide Total	\$480,792	\$736	\$—	\$481,528

*Restricted by Law*

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$11.322 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2009 are restricted by federal requirements that control the use of the funds. The \$123.558 million of net assets restricted by law in the State Appropriated fund as of June 30, 2009 are restricted by the state laws appropriating such funds.

**Defined Benefit Pension Plan**

The Agency contributes to the Minnesota State Retirement System (the 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
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, 2009 was \$631 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
07/01/08	\$9,013,456	\$9,994,602	\$981,146	90.18%	\$2,256,528	43.48%
07/01/07	8,904,517	9,627,305	722,788	92.49%	2,095,310	34.50%
07/01/06	8,486,756	8,819,161	332,405	96.23%	2,016,588	16.48%

**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
2008	11.76%	\$2,256,528	\$99,280	\$166,088	\$96,746	58.25%
2007	10.11%	2,095,310	89,447	122,389	86,492	70.67%
2006	10.55%	2,016,588	85,379	127,371	82,645	64.88%

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

The information presented was as of July 1, 2008, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2008, 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.

### Other Postemployment Benefits

The Agency's employees participate in the State of Minnesota-sponsored hospital, medical, and dental insurance group. State statute requires that former employees and their dependents be allowed to continue participation indefinitely, under certain conditions, in the insurance that the employees participated in immediately before retirement. The former employees must pay the entire premium for continuation coverage. An implicit rate subsidy exists for the former participants that elect to continue coverage. That subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate greater claims on average than active participants.

The State of Minnesota obtained an actuarial valuation from an independent firm of its postretirement medical benefits as of July 1, 2006 to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The State and the Agency recorded the liability for the first time during fiscal 2008. The State calculated the Agency's portion of the OPEB obligation based upon active employee count. For the Agency in fiscal 2008, the annual required contribution (ARC) was \$96 thousand, the employer contribution was \$58 thousand and the net OPEB obligation (NOO) was \$38 thousand. The NOO is

estimated at \$40 thousand for fiscal 2009. The NOO was recorded as an expense and a corresponding liability by the Agency.

This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 4.0%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status, from the report dated July 31, 2008, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

The funding status is summarized as follows.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	\$0	\$564,809	\$564,809	0.0%	\$1,961,643	28.79%

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/08	\$56,314	\$24,611	43.70%	\$31,703

Fiscal Year Ended	(a) Annual Required Contribution (ARC)	(b) Employer Contribution	(c) Interests on NOO	(d) ARC Adjustment with Interest (h) / (e) * 1.0475	(e) Amortization Factor	(f) Annual OPEB Cost (a) + (c) - (d)	(g) Change in NOO (f) - (b)	(h) NOO Balance LY + (g)
06/30/07								\$ —
06/30/08	\$56,314	\$24,611	\$—	\$—	27.0839*	\$56,314	\$31,703	\$31,703

\*30-year amortization using 4.75% interest and 4.00% payroll growth.

### 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	\$ 5,048,558
Business interruption/loss of use/extra expense	50,000,000

Bodily injury and property damage per person	500,000
Bodily injury and property damage per occurrence	1,500,000
Faithful performance/commercial crime	14,000,000
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, 2009, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	\$ —
Rental Housing	578
Residential Housing Finance	92,493
Single Family	—
State Appropriated	102,296
Federal Appropriated	17,813
Agency-wide Totals	<u>\$213,180</u>

Board-approved selections of future loans or other housing assistance for multifamily housing projects are included in the above table. Multifamily developers frequently proceed with their projects based upon their selection by the Board and, therefore, a selection is treated like a de facto commitment although it is merely a reservation of funds. The Agency retains 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 through May 2012 and for parking through February 2010. Combined office facilities and parking lease expense for the fiscal year ended June 30, 2009 was \$1.199 million. Commitments for future minimum lease payments under cancelable leases for office facilities and parking are (in thousands):

	Fiscal Year			Total
	2010	2011	2012	
Amount	\$1,094	\$1,011	\$927	\$3,032

On June 30, 2009 the Agency had in place a \$8.5 million revolving line of credit with the Federal Home Loan Bank of Des Moines collateralized with \$9.8 million of homeownership loans that reside in Pool 2. A \$4.0 million advance was taken in January 2009 and repaid in February 2009. The advance was used to warehouse homeownership loans in Pool 2. There are no advances outstanding as of June 30, 2009.

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**

The Agency called for redemption subsequent to June 30, 2009 the following bonds (in thousands):

<b>Program</b>	<b>Redemption Date</b>	<b>Par</b>
Residential Housing Finance	July 1, 2009	\$33,360
Single Family	July 1, 2009	8,480

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**MINNESOTA HOUSING FINANCE AGENCY**  
**Supplementary Information (Unaudited)**  
**General Reserve and Bond Funds**  
**Five Year Financial Summary (in thousands)**  
**Fiscal Years 2005 – 2009**

		2005	2006	2007	2008	2009
<b>Loans Receivable, net (as of June 30)</b>	Multifamily programs	\$ 350,881	\$ 350,661	\$ 348,974	\$ 346,509	\$ 348,563
	Homeownership programs	1,061,556	1,302,544	1,588,871	1,899,313	1,934,766
	Home improvement programs	101,657	123,531	121,977	115,452	108,893
	Total	<u>\$1,514,094</u>	<u>\$1,776,736</u>	<u>\$2,059,822</u>	<u>\$2,361,274</u>	<u>\$2,392,222</u>
<b>Bonds Payable, net<sup>(1)</sup> (as of June 30)</b>	Multifamily programs	\$ 201,200	\$ 200,744	\$ 191,691	\$ 178,431	\$ 162,288
	Homeownership programs	1,794,886	1,725,347	2,187,297	2,217,945	2,296,445
	Home improvement programs	20,000	20,000	20,000	15,000	15,000
	Total	<u>\$2,016,086</u>	<u>\$1,946,091</u>	<u>\$2,398,988</u>	<u>\$2,411,376</u>	<u>\$2,473,733</u>
<b>Loans purchased or originated during fiscal year</b>	Multifamily programs	\$ 20,056	\$ 29,534	\$ 19,306	\$ 30,169	\$ 41,897
	Homeownership programs	305,899	393,866	424,436	436,263	207,050
	Home improvement programs	44,279	51,119	29,456	19,883	17,977
	Total	<u>\$ 370,234</u>	<u>\$ 474,519</u>	<u>\$ 473,198</u>	<u>\$ 486,315</u>	<u>\$ 266,924</u>
<b>Net Assets (as of June 30)</b>	Total net assets	\$ 697,192	\$ 719,887	\$ 750,990	\$ 764,459	\$ 750,839
	Net assets as a percent of total assets	24.5%	25.7%	22.8%	23.0%	22.3%
<b>Revenues over Expenses</b>	Revenues over expenses for the fiscal year	\$ 30,214	\$ 22,695	\$ 31,103	\$ 13,469	\$ (13,620)

Notes:

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

**MINNESOTA HOUSING FINANCE AGENCY**  
**Supplementary Information (Unaudited)**  
**Statement of Net Assets (in thousands)**  
**General Reserve and Bond Funds**  
**June 30, 2009 (with comparative totals as of June 30, 2008)**

		<b>Bond Funds</b>			
		<b>General Reserve</b>	<b>Rental Housing</b>	<b>Residential Housing Finance Excluding Pool 3</b>	<b>Single Family</b>
<b>Assets</b>	Cash and cash equivalents	\$ 95,364	\$ 26,170	\$ 178,685	\$ 66,064
	Investment securities	19,685	35,280	431,361	7,322
	Loans receivable, net	—	193,685	1,954,933	221,552
	Interest receivable on loans	—	1,068	12,610	1,488
	Interest receivable on investments	387	675	388	99
	Mortgage insurance claims receivable	—	—	7,963	2,409
	Real estate owned	—	—	12,071	1,030
	Unamortized bond issuance costs	—	1,799	10,049	1,850
	Capital assets, net	2,585	—	—	—
	Other assets	1,286	2	—	1
	<b>Total assets</b>	<b>\$119,307</b>	<b>\$258,679</b>	<b>\$2,608,060</b>	<b>\$301,815</b>
<b>Liabilities</b>	Bonds payable, net	\$ —	\$162,288	\$2,105,655	\$205,790
	Interest payable	—	3,245	41,254	5,457
	Accounts payable and other liabilities	3,866	4,517	4,562	1,857
	Interfund payable (receivable)	7,651	—	(30,257)	22,610
	Funds held for others	81,124	—	—	—
	<b>Total liabilities</b>	<b>92,641</b>	<b>170,050</b>	<b>2,121,214</b>	<b>235,714</b>
	Commitments and contingencies				
<b>Net Assets</b>	Restricted by bond resolution	—	88,629	111,996	66,101
	Restricted by covenant	24,081	—	374,850	—
	Invested in capital assets	2,585	—	—	—
	<b>Total net assets</b>	<b>26,666</b>	<b>88,629</b>	<b>486,846</b>	<b>66,101</b>
	<b>Total liabilities and net assets</b>	<b>\$119,307</b>	<b>\$258,679</b>	<b>\$2,608,060</b>	<b>\$301,815</b>

<b>General Reserve &amp; Bond Funds, Excluding Pool 3 Total as of June 30, 2009</b>	<b>Residential Housing Finance Pool 3</b>	<b>General Reserve &amp; Bond Funds Total as of June 30, 2009</b>	<b>General Reserve &amp; Bond Funds Total as of June 30, 2008</b>
\$ 366,283	\$ 2,128	\$ 368,411	\$ 646,004
493,648	60,786	554,434	271,563
2,370,170	22,052	2,392,222	2,361,274
15,166	69	15,235	12,294
1,549	232	1,781	7,989
10,372	—	10,372	3,811
13,101	—	13,101	7,037
13,698	—	13,698	14,362
2,585	—	2,585	3,237
1,289	—	1,289	1,700
<u>\$3,287,861</u>	<u>\$85,267</u>	<u>\$3,373,128</u>	<u>\$3,329,271</u>
\$2,473,733	\$ —	\$2,473,733	\$2,411,376
49,956	—	49,956	53,009
14,802	2,582	17,384	22,127
4	88	92	(4,091)
81,124	—	81,124	82,391
<u>2,619,619</u>	<u>2,670</u>	<u>2,622,289</u>	<u>2,564,812</u>
266,726	—	266,726	284,344
398,931	82,597	481,528	476,878
2,585	—	2,585	3,237
<u>668,242</u>	<u>82,597</u>	<u>750,839</u>	<u>764,459</u>
<u>\$3,287,861</u>	<u>\$85,267</u>	<u>\$3,373,128</u>	<u>\$3,329,271</u>

**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, 2009 (with comparative totals for the year ended June 30, 2008)**

		<u>Bond Funds</u>			
		<u>General Reserve</u>	<u>Rental Housing</u>	<u>Residential Housing Finance Excluding Pool 3</u>	<u>Single Family</u>
<b>Revenues</b>	Interest earned on loans	\$ —	\$12,946	\$112,788	\$14,921
	Interest earned on investments	874	2,182	16,177	3,735
	Administrative reimbursement	24,375	—	—	—
	Fees earned and other income	8,805	691	374	—
	Unrealized gains on securities	—	313	(1,727)	224
	Total revenues	<u>34,054</u>	<u>16,132</u>	<u>127,612</u>	<u>18,880</u>
<b>Expenses</b>	Interest	—	8,831	89,489	13,966
	Loan administration and trustee fees	—	136	6,062	809
	Administrative reimbursement	—	1,650	13,079	1,999
	Salaries and benefits	17,743	—	—	—
	Other general operating	8,601	—	109	—
	Reduction in carrying value of certain low interest rate deferred loans	—	—	—	—
	Provision for loan losses	—	(560)	25,404	3,242
	Total expenses	<u>26,344</u>	<u>10,057</u>	<u>134,143</u>	<u>20,016</u>
	Revenues over (under) expenses	<u>7,710</u>	<u>6,075</u>	<u>(6,531)</u>	<u>(1,136)</u>
<b>Other changes</b>	Non-operating transfer of assets between funds	<u>(7,907)</u>	<u>(9,500)</u>	<u>17,407</u>	<u>—</u>
	Change in net assets	<u>(197)</u>	<u>(3,425)</u>	<u>10,876</u>	<u>(1,136)</u>
<b>Net Assets</b>	Total net assets, beginning of year	<u>26,863</u>	<u>92,054</u>	<u>475,970</u>	<u>67,237</u>
	Total net assets, end of year	<u>\$26,666</u>	<u>\$88,629</u>	<u>\$486,846</u>	<u>\$66,101</u>

<b>General Reserve &amp; Bond Funds, Excluding Pool 3 Total For The Year Ended June 30, 2009</b>	<b>Residential Housing Finance Pool 3</b>	<b>General Reserve &amp; Bond Funds Total For The Year Ended June 30, 2009</b>	<b>General Reserve &amp; Bond Funds Total For The Year Ended June 30, 2008</b>
\$140,655	\$ 368	\$141,023	\$133,776
22,968	2,894	25,862	42,533
24,375	—	24,375	23,708
9,870	78	9,948	10,485
(1,190)	169	(1,021)	2,747
196,678	3,509	200,187	213,249
112,286	—	112,286	115,556
7,007	9	7,016	6,786
16,728	980	17,708	16,878
17,743	—	17,743	16,582
8,710	1,225	9,935	20,062
—	20,302	20,302	14,894
28,086	731	28,817	9,022
190,560	23,247	213,807	199,780
6,118	(19,738)	(13,620)	13,469
—	—	—	—
6,118	(19,738)	(13,620)	13,469
662,124	102,335	764,459	750,990
\$668,242	\$82,597	\$750,839	\$764,459

**MINNESOTA HOUSING FINANCE AGENCY**

**Supplementary Information (Unaudited)**

**Statement of Cash Flows (in thousands)**

**General Reserve and Bond Funds**

**Year ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)**

		Bond Funds				
		Residential Housing Finance				
		General Reserve	Rental Housing	Excluding Pool 3	Single Family	
<b>Cash flows from operating activities</b>	Principal repayments on loans	\$ —	\$17,277	\$105,273	\$26,606	
	Investment in loans	—	—	(241,491)	—	
	Interest received on loans	—	13,198	109,285	14,161	
	Other operating	—	—	(109)	—	
	Fees and other income received	8,784	691	378	—	
	Salaries, benefits and vendor payments	(24,482)	(141)	(6,248)	(816)	
	Administrative reimbursement from funds	26,468	(1,650)	(15,178)	(1,999)	
	Interest transferred to funds held for others	(2,706)	—	—	—	
	Deposits into funds held for others	31,523	—	—	—	
	Disbursements made from funds held for others	(33,154)	—	—	—	
	Interfund transfers and other assets	1,553	(8)	30,283	(108)	
	Net cash provided (used) by operating activities	7,986	29,367	(17,807)	37,844	
<b>Cash flows from noncapital financing activities</b>	Proceeds from sale of bonds and notes	—	—	1,075,810	—	
	Principal repayment on bonds and notes	—	(16,610)	(944,275)	(50,660)	
	Interest paid on bonds and notes	—	(8,351)	(90,280)	(13,429)	
	Financing costs paid related to bonds issued	—	—	(2,534)	—	
	Interest paid/received between funds	—	—	1,087	(1,435)	
	Principal paid/received between funds	—	—	(43,483)	(685)	
	Premium paid on redemption of bonds	—	—	—	—	
	Transfer of cash between funds	(6,556)	(9,500)	16,056	—	
	Net cash provided (used) by noncapital financing activities	(6,556)	(34,461)	12,381	(66,209)	
<b>Cash flows from investing activities</b>	Investment in real estate owned	—	—	(1,255)	(303)	
	Interest received on investments	3,935	2,354	18,600	3,815	
	Proceeds from sale of mortgage insurance claims/real estate owned	—	—	22,371	2,793	
	Proceeds from maturity, sale or transfer of investment securities	27,255	17,055	380,582	2,552	
	Purchase of investment securities	—	(39,015)	(675,369)	(3,421)	
	Purchase of loans between funds	—	—	(1)	1	
		Net cash provided (used) by investing activities	31,190	(19,606)	(255,072)	5,437
		Net increase (decrease) in cash and cash equivalents	32,620	(24,700)	(260,498)	(22,928)
<b>Cash and cash equivalents</b>	Beginning of year	62,744	50,870	439,183	88,992	
	End of year	\$95,364	\$26,170	\$178,685	\$66,064	

<b>General Reserve &amp; Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2009</b>	<b>Residential Housing Finance Pool 3</b>	<b>Total General Reserve &amp; Bond Funds Total For The Year Ended June 30, 2009</b>	<b>Total General Reserve &amp; Bond Funds Total For The Year Ended June 30, 2008</b>
\$149,156	\$ 1,542	\$150,698	\$139,139
(241,491)	(25,433)	(266,924)	(486,315)
136,644	332	136,976	129,661
(109)	(5,265)	(5,374)	(4,541)
9,853	61	9,914	10,547
(31,687)	(162)	(31,849)	(29,899)
7,641	(980)	6,661	7,423
(2,706)	—	(2,706)	(3,627)
31,523	—	31,523	31,897
(33,154)	—	(33,154)	(29,655)
31,720	(28,486)	3,234	(5,277)
57,390	(58,391)	(1,001)	(240,647)
1,075,810	—	1,075,810	633,221
(1,011,545)	—	(1,011,545)	(618,650)
(112,060)	—	(112,060)	(107,307)
(2,534)	—	(2,534)	(2,689)
(348)	348	—	—
(44,168)	44,168	—	—
—	—	—	—
—	—	—	—
(94,845)	44,516	(50,329)	(95,425)
(1,558)	(41)	(1,599)	(1,010)
28,704	2,974	31,678	44,555
25,164	—	25,164	14,419
427,444	163,057	590,501	518,761
(717,805)	(155,514)	(873,319)	(361,249)
—	1,312	1,312	2,065
(238,051)	11,788	(226,263)	217,541
(275,506)	(2,087)	(277,593)	(118,531)
641,789	4,215	646,004	764,535
\$366,283	\$ 2,128	\$368,411	\$646,004

(continued)

**MINNESOTA HOUSING FINANCE AGENCY**  
**Supplementary Information (Unaudited)**  
**Statement of Cash Flows (in thousands)**  
**General Reserve and Bond Funds (continued)**  
**Year ended June 30, 2009 (with comparative totals for the year ended June 30, 2008)**

		<u>Bond Funds</u>			
		<u>Residential</u>			
		<u>Housing</u>			
		<u>Finance</u>			
		<u>General</u>	<u>Rental</u>	<u>Excluding</u>	<u>Single</u>
		<u>Reserve</u>	<u>Housing</u>	<u>Pool 3</u>	<u>Family</u>
		<u>\$7,710</u>	<u>\$ 6,075</u>	<u>\$ (6,531)</u>	<u>\$ (1,136)</u>
<b>Reconciliation of revenue over (under) expenses to net cash provided(used) by operating activities</b>	Revenues over (under) expenses				
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
	Amortization of premiums (discounts) and fees on loans	—	(64)	2,131	(409)
	Depreciation	1,966	—	—	—
	Realized (gains) on sale of securities, net	—	(51)	(287)	(18)
	Unrealized losses (gains) on securities, net	—	(313)	1,727	(224)
	Provision for loan losses	—	(560)	25,404	3,242
	Reduction in carrying value of certain low interest rate and/or deferred loans	—	—	—	—
	Capitalized interest on loans and real estate owned	—	(130)	(2,492)	(349)
	Interest earned on investments	(874)	(2,090)	(15,672)	(4,213)
	Interest expense on bonds and notes	—	8,830	89,489	13,966
	Changes in assets and liabilities:				
	Decrease (increase) in loans receivable, excluding loans transferred between funds	—	17,277	(136,218)	26,606
	Decrease (increase) in interest receivable on loans	—	212	(3,142)	(2)
	Increase (decrease ) in arbitrage rebate liability	—	194	(218)	496
	Interest transferred to funds held for others	(2,706)	—	—	—
	Increase (decrease) in accounts payable	(104)	(5)	(182)	(5)
	Increase (decrease) in interfund payable, affecting operating activities only	5,089	(10)	28,164	(110)
	Increase (decrease) in funds held for others	(1,631)	—	—	—
	Other	(1,464)	2	20	—
	Total	<u>276</u>	<u>23,292</u>	<u>(11,276)</u>	<u>38,980</u>
	Net cash provided (used) by operating activities	<u>\$7,986</u>	<u>\$29,367</u>	<u>\$(17,807)</u>	<u>\$37,844</u>

<b>General Reserve &amp; Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2009</b>	<b>Residential Housing Finance Pool 3</b>	<b>Total General Reserve &amp; Bond Funds Year Ended June 30, 2009</b>	<b>Total General Reserve &amp; Bond Funds Year Ended June 30, 2008</b>
\$ 6,118	\$(19,738)	\$(13,620)	\$ 13,469
1,658	(28)	1,630	1,567
1,966	—	1,966	2,049
(356)	(596)	(952)	(1,391)
1,190	(169)	1,021	(2,747)
28,086	731	28,817	9,022
—	20,302	20,302	14,894
(2,971)	—	(2,971)	(1,535)
(22,849)	(2,298)	(25,147)	(47,545)
112,285	—	112,285	115,556
(92,335)	(23,891)	(116,226)	(347,176)
(2,932)	(8)	(2,940)	(2,323)
472	—	472	4,579
(2,706)	—	(2,706)	(3,627)
(296)	(4,212)	(4,508)	6,986
33,133	(28,950)	4,183	(3,572)
(1,631)	—	(1,631)	2,242
(1,442)	466	(976)	(1,095)
51,272	(38,653)	12,619	(254,116)
\$ 57,390	\$(58,391)	\$ (1,001)	\$(240,647)

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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

Gloria Bostrom  
Member

Tony Goulet  
Member

Lee Himle  
Member

Joseph Johnson III  
Member

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### 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*  
CSG Advisors Incorporated

*Underwriter*  
RBC Capital Markets

*Certified Public Accountants*  
LarsonAllen@ LLP

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### 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 B

### SUMMARY OF CONTINUING DISCLOSURE AGREEMENT

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

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

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

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

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

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

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor thereto for purposes of the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (“1934 Act”).

#### **Provision of Annual Reports.**

(a) The Agency shall, no later than nine months after the close of each fiscal year, commencing with the fiscal year ending June 30, 2010, provide to the MSRB 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 MSRB, 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 MSRB 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; information of the type set forth in Appendix G to the Official Statement relating to mortgage insurance and delinquency and foreclosure statistics for the single family mortgage loan portfolio funded by Bonds; information of the type set forth in Appendix L to the Official Statement relating to liquidity facilities for outstanding Bonds; and information of the type set forth in the chart labeled “Investment Agreement Providers” under the heading “Security for the Bonds – Investment Obligations” in the Official Statement concerning funds held in respect of Bonds under

the Bond Resolution in investment agreements. 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 MSRB 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 the MSRB. 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 the MSRB.

(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.

**MSRB Filings.** All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Currently, all such material shall be filed in accordance with procedures established for the MSRB's

Electronic Municipal Market Access system for municipal securities, located as of the date hereof at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

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

## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution. Terms defined herein are identical in all material respects with the definitions in the Bond Resolution or the 2009 Series Resolutions.

#### 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.

*Fannie Mae:* The Federal National Mortgage Association, or any successor thereto.

*Fannie Mae Security:* A single pool, guaranteed mortgage pass-through Fannie Mae Program Security, guaranteed as to timely payment of principal and interest by Fannie Mae and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool.

*Federal Mortgage Agency:* The Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, Farmers Home Mortgage Corporation and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

*FHA:* The Federal Housing Administration of the Department of Housing and Urban Development or any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.

*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.

*Freddie Mac:* The Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States created pursuant to the Federal Home Loan Mortgage Act (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459), and any successor to its functions.

*Freddie Mac Security:* A single pool, guaranteed mortgage pass-through Freddie Mac program security, guaranteed as to timely payment of principal and interest by Freddie Mac and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool

*GNMA:* The Government National Mortgage Association, a wholly owned corporate instrumentality of the United States within HUD, and any successor to its functions. Its powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C., §1716 et seq.).

*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.

*Private Mortgage Insurer:* Any private mortgage insurance company approved by the applicable Federal Mortgage Agency and the Agency and providing private mortgage guaranty insurance on Conventional Mortgage Loans.

*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.

*Series:* All Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Bond Resolution.

*Series Resolution:* A resolution of the Agency authorizing the issuance and delivery of Bonds pursuant to the Bond Resolution.

*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.

## **Program Loans; Modification of Terms**

The Agency may consent to the modification of the security for, or any terms or provisions of, one or more Program Loans but only if (1) the Agency reasonably determines that the modification will not be materially adverse to the security or other interests of Owners of Outstanding Bonds, and (2) the modification does not impair any contract of insurance or guaranty of the Program Loan.

Any such modifications shall be reflected in the next Cash Flow Certificate which the Agency is required to prepare and provide to the Trustee pursuant to the provisions of the Bond Resolution; provided, however, that if the cumulative effect of such modifications not reflected in a Cash Flow Certificate previously delivered to the Trustee would reduce estimated Revenues from the Program Loans so modified by more than \$500,000 in the current or any future Fiscal Year, then the Agency may not consent to such modifications until it has delivered a Cash Flow Certificate to the Trustee reflecting such modifications.

## **Sale of Program Obligations**

The Agency may at any time sell, assign or otherwise dispose of a Program Obligation (or the premises to which such Program Obligation is related):

- (i) in the event that payment under such Program Loan is delinquent more than 90 calendar days or, at any time, in order to realize the benefits of insurance with respect to such Program Obligation or property;

(ii) in order to obtain funds to provide for the redemption (whether optional or special, to the extent permitted by the terms of any applicable Series Resolution) or purchase of an amount of Bonds having a value corresponding to the value of such Program Obligation as reasonably estimated by the Agency; or

(iii) in the event that a Certificate of the Agency shall be filed with the Trustee, and each Rating Agency, which gives effect to the proposed sale thereof and states that such sale, assignment, transfer or other disposition would not have a material adverse effect on the ability of the Agency to pay the Debt Service on the Outstanding Bonds when and as due and payable and reasonable and necessary Program Expenses.

### **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 D

### MORTGAGE INSURANCE PROGRAMS AND STATE LAWS AFFECTING FORECLOSURES

*The following 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 Federal Housing Administration (“FHA”), Rural Development (“RD”) and the Veterans Administration (“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.*

#### **Federal Housing Administration Single-Family Mortgage Insurance Programs**

The National Housing Act of 1934, as amended, authorizes various 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 payment 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 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 amount hereinafter described; and (d) for loans for manufactured homes, 40% of the loan is guaranteed (with a maximum guaranty of \$20,000). The maximum guaranty amount for loans greater than \$144,000 is generally 25% of the Freddie Mac conforming loan limit (currently \$417,000); however, pursuant to the Housing and Economic Recovery Act of 2008 and the Veterans Benefits Improvement Act of 2008, the maximum guaranty amount for such loans originated in 2009 through 2011 is 25% of the greater of (i) the Freddie Mac conforming loan limit or (ii) 125% of the area median price for a single family residence in the county in which the property securing the loan is located. 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 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 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 2009 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 a Series of 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.

### **Insurance Reserve Fund**

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

### **State Laws Affecting Foreclosures**

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

Prior to the foreclosure sale, the mortgagor has the right to reinstate the mortgage and prevent foreclosure by curing all defaults on a current basis and by paying attorneys' fees and out-of-pocket disbursements to the extent

permitted by statute. If the mortgage is not reinstated, the foreclosure sale is held in the 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 lien holder bids in the debt without competing bidders (and under the Bond Resolution, the Agency is required to do so), and purchases the mortgaged property from the defaulting borrower through the sheriff, subject to the rights of the borrower and subsequent creditors to redeem.

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

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

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

## APPENDIX E

### BOOK-ENTRY-ONLY SYSTEM

#### 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 2009 Series Resolutions, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency's obligations 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 2009 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 2009 Series Resolutions.

**APPENDIX G**

**FORMS OF OPINIONS OF BOND COUNSEL**

[To be dated the date of issuance of the Series 2009 Series D Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2009 Series D

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, 2009 Series D, in the aggregate principal amount of \$19,830,000 (the “2009 Series D Bonds”), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2009 Series D Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2009 Series D 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 2009 Series D Bonds adopted October 22, 2009 (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 2009 Series D Bonds in order that interest on the 2009 Series D 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 2009 Series D 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 2009 Series D 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 2009 Series D 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 2009 Series D 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 2009 Series D Bonds will not be treated as an item of tax preference 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 2009 Series D Bonds. All owners of 2009 Series D 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 2009 Series D Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2009 Series D 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: \_\_\_\_\_, 2009.

Respectfully yours,

[To be dated the date of issuance of the 2009 Series E Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2009 Series E

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, 2009 Series E, in the aggregate principal amount of \$103,960,000 (the “2009 Series E Bonds”), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2009 Series E Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2009 Series E 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 2009 Series E Bonds adopted October 22, 2009 (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 2009 Series E Bonds in order that interest on the 2009 Series E 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 2009 Series E Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond 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 2009 Series E Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2009 Series E Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the 2009 Series E Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2009 Series E Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and interest on the 2009 Series E Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations. Interest on the 2009 Series E Bonds will not be treated as an item of tax preference for purposes of 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 2009 Series E Bonds. All owners of 2009 Series E Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2009 Series E Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2009 Series E 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: \_\_\_\_\_, 2009.

Respectfully yours,

[To be dated the date of issuance of the 2009 Series F Bonds]

Minnesota Housing Finance Agency  
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency  
Residential Housing Finance Bonds, 2009 Series F

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, 2009 Series F, in the aggregate principal amount of \$34,120,000 (the “2009 Series F 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 2009 Series F Bonds are dated, mature on the date, bear interest at the rate and are payable as provided in the Series Resolution referenced below. The 2009 Series F 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 2009 Series F Bonds adopted October 22, 2009 (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 2009 Series F Bonds in order that interest on the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds will be treated as an item of tax preference 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 2009 Series F Bonds. All owners of 2009 Series F 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 2009 Series F Bonds. The interest rate on all or a portion of the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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: \_\_\_\_\_, 2009.

Respectfully yours,

**APPENDIX G**  
**CERTAIN INFORMATION RELATING TO THE**  
**RHFB MORTGAGE LOAN PORTFOLIO**

**Mortgage Insurance for RHFB Mortgage Loan Portfolio as of September 30, 2009**

Series	FHA	VA	Rural Development	MGIC	Genworth	Other Private Mortgage Insurers*	Uninsured	Total
Retired	\$ 5,348,414	\$ 272,055	\$ 2,084,002	\$ 96,708	\$ 594,890	\$ 152,207	\$ 1,019,102	\$ 9,567,378
02AB	7,033,922	147,011	3,944,883	896,576	197,796	750,393	1,505,267	14,475,848
02AB-1	8,253,055	524,046	5,079,139	1,668,350	853,418	492,266	2,043,475	18,913,749
02EF	14,846,146	469,011	9,024,374	936,464	204,810	973,274	3,665,888	30,119,967
03AB	19,169,270	358,998	10,436,611	2,211,395	1,684,801	3,620,938	4,537,843	42,019,856
03IJ	13,663,881	582,102	8,233,683	922,594	1,057,432	3,172,502	2,827,829	30,460,023
04ABC	27,025,270	2,591,097	18,101,017	6,758,880	1,982,424	11,349,824	8,971,535	76,780,047
04EFG	14,643,115	1,328,798	20,749,634	16,190,896	2,873,711	4,162,019	10,020,427	69,968,600
05ABC	8,479,452	327,923	10,231,681	15,013,897	1,242,554	2,777,764	5,900,894	43,974,165
05GHI	13,282,522	870,790	21,955,770	20,141,560	3,602,549	7,244,088	9,522,977	76,620,256
05JKLM	32,289,266	1,490,930	31,055,718	23,463,624	4,676,668	14,496,078	17,840,537	125,312,821
05OP	14,179,707	964,964	13,270,839	8,749,113	2,301,843	9,770,948	9,471,903	58,709,317
06ABC	15,594,814	1,267,915	14,692,729	12,736,612	5,219,279	10,973,619	10,509,479	70,994,447
06FGH	12,454,014	1,212,155	17,107,379	7,221,011	4,190,811	11,187,932	10,401,240	63,774,542
06FGH-40 Year	-	-	-	1,506,547	220,212	3,633,354	1,425,819	6,785,932
06IJ	13,950,456	895,368	27,784,253	19,064,444	7,773,252	10,217,892	13,421,387	93,107,052
06IJ-40 Year	-	-	642,752	9,409,465	2,660,554	7,943,390	3,798,631	24,454,792
06LMN	3,231,979	565,552	8,857,493	14,165,803	7,569,774	4,951,127	5,246,598	44,588,326
06LMN-40 Year	-	-	-	4,945,142	2,383,277	2,033,717	1,349,279	10,711,415
07CDE	5,685,648	601,817	12,300,248	23,113,408	13,842,277	9,505,060	7,284,590	72,333,048
07CDE-40 Year	-	-	-	8,327,068	2,066,103	5,425,646	2,234,359	18,053,176
07HIJ	5,812,335	1,115,565	16,169,200	40,505,915	24,761,964	14,815,132	7,758,061	110,938,172
07HIJ-40 Year	-	-	-	13,524,310	3,645,152	5,691,124	3,964,345	26,824,931
07LM	11,567,265	1,300,439	18,627,951	37,856,130	30,652,767	20,506,754	9,918,498	130,429,804
07LM-40 Year	-	-	126,963	15,681,293	4,577,093	8,317,550	3,421,421	32,124,320
07PQRST	12,192,330	1,179,905	10,228,360	25,775,633	9,440,175	15,979,265	5,920,581	80,716,249
07PQRST-40 Year	-	-	-	11,308,435	4,019,454	3,037,398	1,610,099	19,975,386
08ABC	32,036,080	1,369,720	16,502,767	7,603,643	3,667,589	5,802,077	8,029,048	75,010,924
08ABC-40 Year	-	-	-	10,768,886	1,708,702	3,134,383	3,326,858	18,938,829
09ABC	44,360,006	1,249,177	15,195,173	6,781,835	2,447,321	5,498,057	7,303,532	82,835,101
09ABC-40 Year	-	-	127,460	5,567,519	369,010	3,322,396	3,286,610	12,672,995
<b>Total Bond Financed</b>	<b>\$ 335,098,947</b>	<b>\$ 20,685,338</b>	<b>\$ 312,530,079</b>	<b>\$ 372,913,156</b>	<b>\$ 152,487,662</b>	<b>\$ 210,938,174</b>	<b>\$ 187,538,112</b>	<b>\$ 1,592,191,468</b>
	21.04%	1.30%	19.63%	23.42%	9.58%	13.25%	11.78%	100.00%

\*Other Private Mortgage Insurers consists of:

Republic 6.34%, United 3.06%, PMI 2.20%, Guarantee Fund 0.72%, Commonwealth 0.50%, Triad 0.28%, Amerin 0.14%, GMAC 0.01%, Other 0.00%.

**RHFB Mortgage Loan Portfolio  
Delinquency and Foreclosure Statistics as of September 30, 2009**

**Payments Past Due as a Percentage of the Number of Loans Outstanding**

Bond Financed:	Number of Loans	Balance Outstanding	30-59 Days		60-89 Days		90-119 Days		120 Days and Greater and Foreclosures <sup>(1)</sup>		Total <sup>(2)</sup>
			#	%	#	%	#	%	#	%	%
Retired	243.0	\$ 9,567,378	11.0	4.53	5.0	2.06	1.0	0.41	6.0	2.47	4.94
02AB	194.0	14,475,848	16.0	8.25	6.0	3.09	1.0	0.52	7.0	3.61	7.22
02AB-1	213.0	18,913,749	12.0	5.63	5.0	2.35	2.0	0.94	16.0	7.51	10.80
02EF	408.0	30,119,967	23.0	5.64	11.0	2.70	7.0	1.72	26.0	6.37	10.78
03AB	470.0	42,019,856	20.0	4.26	10.0	2.13	9.0	1.91	25.0	5.32	9.36
03IJ	338.5	30,460,023	27.0	7.98	9.5	2.81	4.0	1.18	15.0	4.43	8.42
04ABC	1,034.5	76,780,047	63.0	6.09	28.0	2.71	10.5	1.01	54.5	5.27	8.99
04EFG	681.0	69,968,600	45.0	6.61	16.0	2.35	14.0	2.06	23.0	3.38	7.78
05ABC	397.0	43,974,165	22.0	5.54	11.5	2.90	4.0	1.01	35.5	8.94	12.85
05GHI	684.0	76,620,256	37.5	5.48	20.5	3.00	13.0	1.90	52.0	7.60	12.50
05JKLM	1,201.0	125,312,821	71.0	5.91	26.0	2.16	19.0	1.58	88.0	7.33	11.07
05OP	530.5	58,709,317	41.5	7.82	11.0	2.07	9.0	1.70	42.5	8.01	11.78
06ABC	620.5	70,994,447	29.0	4.67	9.0	1.45	9.0	1.45	55.5	8.94	11.85
06FGH	549.5	63,774,542	32.0	5.82	13.5	2.46	7.0	1.27	40.0	7.28	11.01
06FGH-40 Year	42.0	6,785,932	2.0	4.76	2.0	4.76	1.0	2.38	4.0	9.52	16.67
06IJ	875.0	93,107,052	46.5	5.31	24.0	2.74	16.5	1.89	54.0	6.17	10.80
06IJ-40 Year	152.0	24,454,792	11.0	7.24	10.0	6.58	5.0	3.29	20.0	13.16	23.03
06LMN	395.0	44,588,326	17.0	4.30	10.0	2.53	4.5	1.14	26.5	6.71	10.38
06LMN-40 Year	68.0	10,711,415	1.0	1.47	4.0	5.88	1.0	1.47	16.0	23.53	30.88
07CDE	591.5	72,333,048	23.5	3.97	10.5	1.78	6.5	1.10	35.5	6.00	8.88
07CDE-40 Year	117.0	18,053,176	3.0	2.56	4.0	3.42	5.0	4.27	13.0	11.11	18.80
07HIJ	840.0	110,938,172	44.5	5.30	17.0	2.02	16.0	1.90	42.0	5.00	8.93
07HIJ-40 Year	163.0	26,824,931	16.0	9.82	7.0	4.29	3.0	1.84	14.0	8.59	14.72
07LM	1,047.5	130,429,804	39.5	3.77	21.0	2.00	17.5	1.67	54.5	5.20	8.88
07LM-40 Year	209.0	32,124,320	12.0	5.74	8.0	3.83	3.0	1.44	15.0	7.18	12.44
07PQRST	632.0	80,716,249	23.5	3.72	11.0	1.74	3.5	0.55	12.0	1.90	4.19
07PQRST-40 Year	129.0	19,975,386	7.0	5.43	5.0	3.88	2.0	1.55	11.0	8.53	13.95
08ABC	642.0	75,010,924	23.0	3.58	6.0	0.93	6.0	0.93	13.0	2.02	3.89
08ABC-40 Year	130.0	18,938,829	5.0	3.85	1.0	0.77	4.0	3.08	1.0	0.77	4.62
09ABC	755.5	82,835,101	20.0	2.65	6.5	0.86	3.0	0.40	8.5	1.13	2.38
09ABC-40 Year	97.0	12,672,995	1.0	1.03	-	-	-	-	-	-	-
<b>Total Bond Financed</b>	<b>14,450.0</b>	<b>\$ 1,592,191,468</b>	<b>745.5</b>	<b>5.16</b>	<b>329.0</b>	<b>2.28</b>	<b>207.0</b>	<b>1.43</b>	<b>826.0</b>	<b>5.72</b>	<b>9.43</b>

All Loans are serviced by US Bank Home Mortgage.

If the number of loans allocated to a series of Bonds in the table is expressed in an increment of 0.5, the allocation reflects the fact that proceeds of Bonds of the series were used, with an equal amount of funds from another source (which may be another series of Bonds or a series of Single Family Mortgage Bonds) to purchase the mortgage loan. In such cases, while principal repayments and prepayments are allocated equally to each funding source, interest payments on the mortgage loan are not allocated pro rata.

**Comparative Statistics<sup>(3)</sup>**

<b>RHFB Mortgage Loan Portfolio, at 9/30/09</b>	<u><u>8.22 %</u></u>
<b>Mortgage Bankers Association of America, Minnesota, at 6/30/09<sup>(4)</sup></b>	<u><u>5.57 %</u></u>
<b>Mortgage Bankers Association of America, National, at 6/30/09<sup>(4)</sup></b>	<u><u>6.72 %</u></u>

(1) 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.

(2) 30-59 days not included in total.

(3) 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.

(4) 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. The unadjusted 6/30/09 Mortgage Bankers Association of America average 60+ days is 4.03% Minnesota and 5.14% national. Reprinted by permission of the Mortgage Bankers Association. For more information, contact the Mortgage Bankers Association, 1331 L Street NW, Washington D.C. 20005, (202) 557-2700 <http://www.mortgagebankers.org>

**APPENDIX H**  
**CERTAIN INFORMATION RELATING TO LIQUIDITY FACILITIES**  
**FOR BONDS OUTSTANDING**

**as of June 30, 2009**

**(unaudited)**

<u>Liquidity Provider</u>	<u>Related Bond Series</u>	<u>Bonds Outstanding</u>	<u>Expiration Date</u>
Lloyds TSB Bank	2003 Series E	\$25,000,000	7/23/2012
	2003 Series J	21,985,000	7/23/2012
	2004 Series G	41,750,000	7/23/2012
	2005 Series C	21,405,000	7/23/2012
	2005 Series I	34,605,000	7/23/2012
	2005 Series M	<u>51,720,000</u>	8/04/2012
		\$196,465,000	
State Street Bank and Trust Company	2006 Series C	\$26,145,000	3/21/2013
	2007 Series E	23,965,000	3/21/2013
	2007 Series J	36,260,000	3/21/2013
	2007 Series S	18,975,000	3/21/2013
	2007 Series T	<u>37,160,000</u>	3/21/2013
		\$142,505,000	
Federal Home Loan Bank of Des Moines	2008 Series C	\$40,000,000	8/07/2015
	2009 Series C	<u>40,000,000</u>	2/12/2016
		\$80,000,000	

## APPENDIX I

### CERTAIN INFORMATION RELATING TO GNMA, FANNIE MAE, FREDDIE MAC AND CERTAIN PROGRAM SECURITIES AND THE CURRENT MASTER SERVICER

#### GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES

*This summary does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide and to the documents referred to herein for full and complete statements of their provisions. Additional information is available at "www.ginniemae.gov."*

The Government National Mortgage Association is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development with its principal office in Washington, D.C.

Each GNMA Security is to be issued under either the GNMA I Program or the GNMA II Program. Although there are a number of differences between GNMA I Securities and GNMA II-Custom Pool Securities, those differences do not adversely affect the availability of Revenues with which to pay principal of and interest on Outstanding Bonds. Each GNMA Security is to be backed by a pool of mortgage loans in a minimum aggregate amount of \$25,000 and multiples of \$1 in excess of \$25,000. The servicer is required to pay to the Trustee (in the case of a GNMA I Security) or to the Central Paying and Transfer Agent (in the case of a GNMA II-Custom Pool Security), and such Central Paying and Transfer Agent shall be required to pay to the Trustee, as the owner of the GNMA Security, the regular monthly installments of principal and interest on the mortgage loans backing the GNMA Security (less such servicer's servicing fee, which includes the GNMA guaranty fee), whether or not the servicer receives such installments, plus any mortgage prepayments received by the servicer in the previous month. The Government National Mortgage Association guarantees the timely payment of the principal of and interest on the GNMA Security.

In order to issue GNMA Securities, the servicer must first apply to and receive from the Government National Mortgage Association a commitment to guarantee securities. Such a commitment authorizes the servicer to issue GNMA Securities up to a stated amount during a one-year period following the date of the commitment. The servicer is required to pay the application fee to the Government National Mortgage Association for such commitments. The amount of commitments to guarantee GNMA Securities that the Government National Mortgage Association can approve in any federal fiscal year is limited by statute and administrative procedures. The total annual amount of available commitments is established in appropriation acts and related administrative procedures.

The issuance of each GNMA Security by the servicer is subject to the following conditions, among others: (i) the purchase by the servicer of mortgage loans in a minimum aggregate principal amount at least equal to the minimum size permitted by the Government National Mortgage Association for each GNMA Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance and VA guarantees), (ii) the submission by the servicer to the Government National Mortgage Association of certain documents required by the Government National Mortgage Association in form and substance satisfactory to the Government National Mortgage Association, (iii) the servicer's continued compliance, on the date of issuance of the GNMA Security, with all of the Government National Mortgage Association's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the servicer's continued approval by the Government National Mortgage Association to issue GNMA Securities, and (v) the servicer's continued ability to issue, execute and deliver the GNMA Security, as such ability may be affected by such servicer's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Security by the servicer is subject to the condition that the Government National Mortgage Association must have entered into a guaranty agreement with the servicer. The conditions to the Government National Mortgage Association entering into such an agreement may change from time to time, and there can be no assurance that the servicer will be able to satisfy all such requirements

in effect at the time a GNMA Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Security is to be issued by the servicer for purchase by the Trustee.

### **GNMA Security**

The Government National Mortgage Association is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act") to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool composed of, among other things, mortgage loans insured by FHA under the Housing Act or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. Section 306(g) further provides that "[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Lenders are authorized to be made by the Government National Mortgage Association and "would constitute general obligations of the United States backed by its full faith and credit."

### **Government National Mortgage Association Borrowing Authority**

In order to meet its obligations under such guaranty, the Government National Mortgage Association, in its corporate capacity under Section 306(d) of Title III of the Housing Act, may issue its general obligations to the United States Treasury (the "Treasury") in an amount outstanding at any one time sufficient to enable the Government National Mortgage Association, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by the Government National Mortgage Association and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development ("HUD") that the Treasury will make loans to the Government National Mortgage Association, if needed, to implement the aforementioned guaranty.

The Government National Mortgage Association is to warrant to the Trustee, as the owner of the GNMA Securities, that, in the event it is called upon at any time to honor its guaranty of the payment of principal and interest on any GNMA Security, it shall, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payment.

### **Servicing of the Mortgage Loans**

Under contractual arrangements that will be entered into by and between the servicer and the Government National Mortgage Association, and pursuant to the Program Documents, the servicer is responsible for servicing and otherwise administering the mortgage loans in accordance with generally accepted practices of the mortgage lending industry and the Government National Mortgage Association Servicer's Guide.

The monthly remuneration of the servicer, for its servicing and administrative functions, and the guaranty fee charged by the Government National Mortgage Association, are based on the unpaid principal amount of the GNMA Securities outstanding. In compliance with the Government National Mortgage Association regulations and policies, the total of these servicing and guaranty fees equals 0.25%, calculated on the principal balance of each GNMA Security outstanding on the last day of the month preceding such calculation. Each GNMA Security carries an interest rate that is fixed at 0.25% below the interest rate on the underlying mortgage loans because the servicing and guaranty fees are deducted from payments on the mortgage loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the mortgage loans received by the servicer will be the source of money for payments on the GNMA Securities. If such payments are less than the amount then due, the servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the GNMA Securities. The Government National Mortgage Association guarantees such timely payment in the event of the failure of the servicer to pass through an amount equal to such scheduled payments (whether or not made by the mortgagors).

The servicer is required to advise the Government National Mortgage Association in advance of any impending default on scheduled payments so that the Government National Mortgage Association, as guarantor, will

be able to continue such payments as scheduled on the third business day after the twentieth day of each month. However, if such payments are not received as scheduled, the Trustee has recourse directly to the Government National Mortgage Association.

### **Guaranty Agreement**

The Government National Mortgage Association guaranty agreement to be entered into by the Government National Mortgage Association and the servicer upon issuance of a GNMA Security, pursuant to which the Government National Mortgage Association guarantees the payment of principal of and interest on such GNMA Security (the “GNMA Guaranty Agreement”), provides that, in the event of a default by the servicer, including (i) a failure to make any payment due under the GNMA Security, (ii) a request to the Government National Mortgage Association to make a payment of principal or interest on a GNMA Security and the utilization thereof by the servicer, (iii) insolvency of the servicer, or (iv) default by the servicer under any other terms of the GNMA Guaranty Agreement, the Government National Mortgage Association has the right, by letter to the servicer, to effect and complete the extinguishment of the servicer’s interest in the mortgage loans, and the mortgage loans shall thereupon become the absolute property of the Government National Mortgage Association, subject only to the unsatisfied rights of the owner of the GNMA Security. In such event, the GNMA Guaranty Agreement provides that on and after the time the Government National Mortgage Association directs such a letter of extinguishment to the servicer, the Government National Mortgage Association shall be the successor in all respects to the servicer in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the servicer’s indemnification of the Government National Mortgage Association), theretofore placed on the servicer by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time the Government National Mortgage Association may enter into an agreement with any other eligible issuer of GNMA Securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the servicer, and provided that no such agreement shall detract from or diminish the responsibilities, duties or liabilities of the Government National Mortgage Association in its capacity as guarantor of the GNMA Security, or otherwise adversely affect the rights of the owner thereof.

### **Payment of Principal of and Interest on the GNMA Securities**

Regular monthly installment payments on each GNMA Security are required to begin on the fifteenth day (in the case of a GNMA I Security) and on the nineteenth day, or the twentieth day if the nineteenth day is not a business day (in the case of a GNMA II-Custom Pool Security), of the first month following the date of issuance of such GNMA Security and will be equal to the aggregate amount of the scheduled monthly principal and interest payments on each mortgage loan in the mortgage pool backing the GNMA Security, less the monthly servicing and guaranty fees of one-twelfth of 0.25% of the outstanding principal balance. In addition, each payment is required to include any Mortgage Prepayments on mortgage loans underlying the GNMA Security.

## **FANNIE MAE MORTGAGE-BACKED SECURITIES**

### **General**

*The following summary of the Fannie Mae MBS Program (as defined below), the Fannie Mae Securities, Fannie Mae’s mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Fannie Mae’s Prospectus, as defined below, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to herein.*

Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency (“FHFA”), to the extent provided in the Housing and Economic Recovery Act of 2008 (“HERA”). The FHFA has placed Fannie Mae into conservatorship. See also “GSE CONSERVATORSHIP” in this Appendix I and “THE AGENCY—Impact of Disruptions in Mortgage and Financial Markets on Housing Finance Agencies and Policy Responses” in this Official Statement.

Information on Fannie Mae and its financial condition is contained in Fannie Mae’s most current annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission. Fannie Mae files reports, proxy statements and other information with the

Securities and Exchange Commission. Materials that it files with the Securities and Exchange Commission are also available from the Securities and Exchange Commission's web site, "www.sec.gov." In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the Securities and Exchange Commission's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. Investors may also request copies of any filing from Fannie Mae, at no cost, by telephone at (202) 752-7000 or by mail at 3900 Wisconsin Avenue, NW, Washington, DC 20016. The Agency takes no responsibility for information contained on the web site.

## **Fannie Mae**

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (12 U.S.C. Section 1716 *et seq.*). Fannie Mae was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market, and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968. Fannie Mae provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. Fannie Mae acquires funds to purchase mortgage loans from many capital market investors that may not ordinarily invest in mortgage loans, thereby expanding the total amount of funds available for housing. In addition, Fannie Mae issues mortgage-backed securities primarily in exchange for pools of mortgage loans from lenders.

## **Mortgage-Backed Securities Program**

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the "MBS Program"). **The obligations of Fannie Mae, including its obligations under the Fannie Mae Securities, are obligations solely of Fannie Mae and are not backed by, or entitled to, the full faith and credit of the United States.**

The terms of the MBS Program are governed by the Fannie Mae Single Family Selling and Servicing Guides published by Fannie Mae, as modified by the Pool Contract (defined below), and, in the case of mortgage loans such as the mortgage loans, a Trust Indenture, dated as of November 1, 1981, as amended (the "Trust Indenture"), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the "Fannie Mae Prospectus"). The Fannie Mae Prospectus is updated from time to time. A Fannie Mae Prospectus Supplement may not be available as to the Fannie Mae Securities.

Copies of the Fannie Mae Prospectus are available without charge from Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (800) 237-8627). Additional information and copies of the prospectus are available by accessing Fannie Mae's web site.

## **Pool Purchase Contract**

Fannie Mae and the servicer will enter into a Pool Purchase Contract (the "Pool Contract"), pursuant to which the servicer is permitted to deliver, and Fannie Mae agrees to purchase, mortgage loans in exchange for Fannie Mae Securities. The purpose of the Pool Contract is to provide for certain additions, deletions and changes to the Fannie Mae Single Family Selling and Servicing Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Contract and the Fannie Mae Single Family Selling and Servicing Guides, the Pool Contract is to control. The description set forth below assumes that the Pool Contract will be executed substantially in the form presented by Fannie Mae to the servicer and in effect at the time the Series Bonds are initially delivered.

The Pool Contract obligates the servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Single Family Selling and Servicing Guides and the Pool Contract.

## **Fannie Mae Securities**

Each Fannie Mae Security is to represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the servicer and identified in records maintained by Fannie Mae. The Pool Contract requires

that each Fannie Mae Security be in a minimum amount of \$250,000 (or, in each case, such lesser amounts as may be approved by Fannie Mae). The mortgage loans backing each Fannie Mae Security are to bear interest at a rate higher than each Fannie Mae Security (the “pass-through rate”). The difference between the interest rate on the mortgage loans and the pass-through rate on the Fannie Mae Security is to be collected by the servicer and used to pay the servicer’s servicing fee and Fannie Mae’s guaranty fee.

Fannie Mae is to guarantee to the registered holder of the Fannie Mae Securities that it shall distribute amounts representing scheduled principal and interest at the applicable “pass-through rate” on the mortgage loans in the pools represented by such Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received. The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to, the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the holder of Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the registered holder of Fannie Mae Securities, would be affected by delinquent payments and defaults on such mortgage loans.

### **Payments on Mortgage Loans; Distributions on Fannie Mae Securities**

Payments on a Fannie Mae Security are to be made to the Trustee on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae is to distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae’s election any mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae’s election to repurchase such mortgage loan under certain other circumstances as permitted by the Trust Indenture), (iii) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (iv) one month’s interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date).

For purposes of distributions, a mortgage loan is to be considered to have been prepaid in full if, in Fannie Mae’s reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

## **FREDDIE MAC MORTGAGE-BACKED SECURITIES**

### **General**

*The following summary of the Freddie Mac Guarantor Program, the Freddie Mac Securities, Freddie Mac’s mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Freddie Mac’s Mortgage Participation Certificates Offering Circular, applicable Offering Circular Supplements, Freddie Mac’s Information Statement, any Information Statement Supplements, the Freddie Mac Securities and any other documents made available by Freddie Mac. Copies of the Offering Circular, Information Statement and any supplements to those documents and other information can be obtained by calling Freddie Mac’s Investor Inquiry Department (telephone (800) 336-3672) or by accessing Freddie Mac’s World Wide Web site. Freddie Mac is a publicly traded company listed on the New York Stock Exchange (symbol: FRE).*

Freddie Mac is subject to the supervision and regulation of the FHFA to the extent provided in HERA. The FHFA has placed Freddie Mac into conservatorship. See also “GSE CONSERVATORSHIP” in this Appendix I and

“THE AGENCY—Impact of Disruptions in Mortgage and Financial Markets on Housing Finance Agencies and Policy Responses” in this Official Statement.

Information on Freddie Mac and its financial condition is contained in Freddie Mac’s quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission. The Securities and Exchange Commission filings are available at the Securities and Exchange Commission’s Web site at “www.sec.gov.” The Agency takes no responsibility for information contained on the web site.

## **Freddie Mac**

Freddie Mac is a publicly-held government-sponsored enterprise created on July 24, 1970, pursuant to the Federal Home Loan Mortgage Corporation Act and Title III of the Emergency Home Finance Act of 1970, as amended (the “Freddie Mac Act”). Freddie Mac’s statutory mission is (i) to provide stability in the secondary market for residential mortgages, (ii) to respond appropriately to the private capital market, (iii) to provide ongoing assistance to the secondary market for residential mortgage loans (including activities relating to mortgage loans on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities), and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

## **Freddie Mac Guarantor Program**

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgage loans from a seller or sellers in exchange for a Freddie Mac Security representing an undivided interest in a pool consisting of the same mortgage loans (the “Guarantor Program”). Freddie Mac approves the institutions that may sell and service mortgage loans under the Guarantor Program on an individual basis after consideration of factors such as financial condition, operational capability and mortgage origination and/or servicing experience. Most sellers and servicers are HUD-approved mortgagees or FDIC-insured financial institutions.

## **Freddie Mac Securities**

Freddie Mac Securities will be mortgage pass-through securities issued and guaranteed by Freddie Mac under its Guarantor Program. Freddie Mac Securities are issued only in book-entry form through the Federal Reserve Banks’ book-entry system. Each Freddie Mac Security represents an undivided interest in a pool of mortgage loans. Payments by borrowers on the mortgage loans in the pool are passed through monthly by Freddie Mac to record holders of the Freddie Mac Securities representing interests in that pool.

Payments on Freddie Mac Securities begin on or about the fifteenth day of the first month following issuance. Each month, Freddie Mac passes through to record holders of Freddie Mac Securities their proportionate share of principal payments on the mortgage loans in the related pool and one month’s interest at the applicable pass-through rate. The pass-through rate for a Freddie Mac Security is determined by subtracting from the lowest interest rate on each of the mortgage loans in the pool the applicable servicing fee and Freddie Mac’s management and guaranty fee, if any.

Freddie Mac guarantees to each record holder of a Freddie Mac Security the timely payment of interest at the applicable pass-through rate on the principal balance of the holder’s Freddie Mac Security. Freddie Mac also guarantees to each holder of a Freddie Mac Security (i) the timely payment of the holder’s proportionate share of monthly principal due on the related mortgage loans, as calculated by Freddie Mac, and (ii) the ultimate collection of the holder’s proportionate share of all principal of the related mortgage loans, without offset or reduction, no later than the payment date that occurs in the month by which the last monthly payment on the Freddie Mac Security is scheduled to be made.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal on a mortgage loan at any time after default but not later than 30 days following (i) the foreclosure sale of the mortgaged property, (ii) if applicable, the payment of an insurance or guaranty claim by the mortgage insurer or guarantor or (iii) the expiration of any right of redemption that the borrower may have, whichever is the last to occur. In no event, however, will Freddie Mac make payments on account of this guarantee later than one year after an

outstanding demand has been made on the borrower for accelerated payment of principal or for payment of the principal due at maturity.

The obligations of Freddie Mac under its guarantees of the Freddie Mac Securities are obligations of Freddie Mac only. The Freddie Mac Securities, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligation under its guarantees, distributions on the Freddie Mac Securities would consist solely of payments and other recoveries on the related mortgages; accordingly, delinquencies and defaults on the mortgage loans would affect distributions on the Freddie Mac Securities and could adversely affect payments on Outstanding Bonds.

### **Mortgage Purchase and Servicing Standards**

All mortgage loans purchased by Freddie Mac must meet certain standards established by the Freddie Mac Act. In addition, Freddie Mac has established its own set of mortgage purchase standards, including credit, appraisal and underwriting guidelines. These guidelines are designed to determine the value of the real property securing a mortgage loan and the creditworthiness of the borrower. Freddie Mac's administration of its guidelines may vary based upon its evaluation of and experience with the seller of the mortgage loans, the loan-to-value ratio and age of the mortgage loans, the type of property securing the mortgage loans and other factors.

Freddie Mac has also established servicing policies and procedures to support the efficient and uniform servicing of the mortgage loans it purchases. Each servicer must perform diligently all services and duties customary to the servicing of mortgage loans in a manner consistent with prudent servicing standards. The duties performed by a servicer include collection and remittance of principal and interest to Freddie Mac; timely computation and adjustment as appropriate of the mortgage coupons and the borrowers' scheduled monthly payments; administration of escrow accounts; a collection of insurance or guaranty claims; property inspections; and, if necessary, foreclosure. Freddie Mac monitors servicers' performance through periodic and special reports and inspections.

In the event of an existing or impending delinquency or other default on a mortgage loan, Freddie Mac may attempt to resolve the default through a variety of measures. In determining which measures to pursue with respect to a given mortgage loan and when to initiate such measures, Freddie Mac seeks to minimize the costs that may be incurred in servicing the mortgage loan, as well as Freddie Mac's possible exposure under its guarantees. However, the measures that Freddie Mac may choose to pursue to resolve a default will not affect Freddie Mac's guarantees. In any event, Freddie Mac generally repurchases from a pool any mortgage loan that has remained delinquent for at least 120 consecutive days and makes payment of principal to record holders pursuant to Freddie Mac's guarantees of ultimate collection of principal.

### **GSE CONSERVATORSHIP**

Congress in 2008 in enacting the Housing and Economic Recovery Act of 2008 ("HERA") established the Federal Housing Finance Agency ("FHFA"), an independent agency of the federal government, as the new supervisory and general regulatory authority for Fannie Mae and Freddie Mac. Fannie Mae and Freddie Mac are subject to the supervision and regulation of FHFA to the extent provided in HERA, and the Director of FHFA has general regulatory authority over Fannie Mae and Freddie Mac to ensure that the purposes of HERA, the authorizing statutes and any other applicable law are carried out. On September 7, 2008, Fannie Mae and Freddie Mac were placed into conservatorship by FHFA. The U.S. Treasury also took additional steps to complement FHFA's decision. This included establishing preferred stock purchase agreements to purchase up to \$100 billion of preferred stock in each of Fannie Mae and Freddie Mac, creating a new secured lending credit facility for Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and establishing a program to purchase mortgage-backed securities of Fannie Mae and Freddie Mac.

The Agency cannot predict the long-term consequences of the conservatorship of these entities and the corresponding impact on the participants and the Program.

## CURRENT MASTER SERVICER

U.S. Bank, National Association, d/b/a U.S. Bank Home Mortgage-MRBP Division (“U.S. Bank Home Mortgage”) currently serves as Master Servicer for the Program Securities to be financed with proceeds of the Series Bonds. The Agency entered into a Servicing Agreement, dated as of July 9, 2009 (the “Servicing Agreement”), with the Trustee and U.S. Bank Home Mortgage, as master servicer (the “Master Servicer”), for a term ending August 31, 2011 (subject to renewal and termination rights). The Program Securities acquired with proceeds of the Series Bonds will be serviced by U.S. Bank Home Mortgage.

THE FOLLOWING INFORMATION ABOUT U.S. BANK HOME MORTGAGE RELATES TO AND WAS SUPPLIED BY U.S. BANK N.A. SUCH INFORMATION HAS NOT BEEN VERIFIED BY THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL AND IS NOT GUARANTEED AS TO COMPLETENESS OR ACCURACY BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF, THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL.

The Master Servicer is U.S. Bank N.A., operating by and through its U.S. Bank Home Mortgage – MRBP Division. As of June 30, 2009, the Master Servicer, operating by and through its U.S. Bank Home Mortgage–MRBP Division, serviced 147,823 single-family mortgage loans with an aggregate principal balance of approximately \$12.3 billion. The Master Servicer currently services single-family mortgage loans for mutual savings banks, life insurance companies, savings and loan associations and commercial banks, as well as Fannie Mae, GNMA and Freddie Mac.

As of June 30, 2009, according to its unaudited quarterly financial statements, U.S. Bancorp had total assets of approximately \$265.6 billion and a net worth of \$24.2 billion. For the six months ended June 30, 2009, the Master Servicer, through its MRBP Division, originated and purchased single-family mortgage loans in the total principal amount of approximately \$308 million.

The Master Servicer is (i) an FHA- and VA-approved lender in good standing, (ii) a GNMA-approved seller and servicer of mortgage loans and an issuer of mortgage-backed securities guaranteed by GNMA, (iii) a Fannie Mae approved seller and servicer of Fannie Mae Securities and (iv) a Freddie Mac approved seller and servicer of Freddie Mac securities.

The Master Servicer is not liable for the payment of the principal of Outstanding Bonds or the interest or redemption premium, if any, thereon.

The holding company for U.S. Bank N.A. is U.S. Bancorp, the sixth largest financial services holding company in the United States.

## APPENDIX J

### CERTAIN DEFINITIONS WITH RESPECT TO THE 2009 SERIES F 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 2009 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds to a Fixed Interest Rate or an Indexed Rate pursuant to the 2009 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 2009 Series F Resolution that provides liquidity support for the purchase of Liquidity Facility Bonds in accordance with the terms of the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds.

“*Non-Conforming Liquidity Facility*” means a liquidity facility delivered by the Agency pursuant to the 2009 Series F Resolution that does not meet the requirements for an Alternate Liquidity Facility.

“*Purchase Date*” means any date that 2009 Series F Bonds are to be purchased pursuant to the 2009 Series F Resolution.

“*Purchase Price*” means an amount equal to the principal amount of any 2009 Series F 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 2009 Series F 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 2009 Series F Bonds.

“*Self Liquidity*” means a liquidity facility provided by the Agency’s own funds pursuant to the 2009 Series F 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 2009 Series F 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 2009 Series F Bonds are Liquidity Facility Bonds or Unenhanced Variable Rate Bonds).

**APPENDIX K**

**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 L – 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 \$36,240,113.98 for the 2009 Series F Bonds.

“Available Interest Commitment” initially means \$2,120,113.98 for the 2009 Series F Bonds of which initial amount equals 189 days’ interest on the initial amount of the Available Principal Commitment available for 2009 Series F Bonds in a Weekly 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 2009 Series F Bonds Outstanding, \$34,120,000, 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 2009 Series F Bonds for the purchase of which funds are made available by the Bank to purchase 2009 Series F Bonds pursuant to the Initial Liquidity Facility; (c) downward by the principal amount of any 2009 Series F Bonds of which the interest rate borne by such 2009 Series F Bonds has been converted or changed to an Auction Period Rate (as defined in the 2009 Series F Resolution), the Fixed Interest Rate (as defined in the 2009 Series F Resolution) or an Indexed Rate (as defined in the 2009 Series F Resolution) or has been changed to a mode or rate not required by the 2009 Series F Resolution to be supported by a Liquidity Facility (as defined in the 2009 Series F Resolution) or for which an Alternate Liquidity Facility (as defined in the 2009 Series F Resolution), a Non-Conforming Liquidity Facility (as defined in the 2009 Series F Resolution), or Self Liquidity (as defined in the 2009 Series F Resolution) has become effective; and (d) upward by the principal amount of any 2009 Series F 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 \$34,120,000 for the 2009 Series F 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 2009 Series F Bonds that bear interest at a Variable Rate during the Weekly Mode Period, as such capitalized term is defined in the 2009 Series F Resolution, or Daily Mode Period, as such capitalized term is defined in the 2009 Series F Resolution and which are not Bank Bonds or 2009 Series F 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 2009 Series F 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 2009 Series F Bonds pursuant to the General Bond Resolution.

“Related Documents” means the Initial Liquidity Facility, the 2009 Series F Bonds, the 2009 Series F 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 2009 Series F 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 2009 Series F Resolution.

“Variable Rate” means the rate of interest payable on any Outstanding 2009 Series F Bonds which are required by the terms of the 2009 Series F 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 2009 Series F Bonds. Each Initial Liquidity Facility requires the Bank to provide funds for the purchase of the 2009 Series F Bonds outstanding as Eligible Bonds that have been tendered for purchase and not remarketed, subject to certain conditions described below. Any 2009 Series F 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 2009 Series F Bonds which are Eligible Bonds pursuant to the Initial Liquidity Facility from the date of issuance of the 2009 Series F 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 December 1, 2016, 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 2009 Series F Bonds has been converted or changed to an Auction Period Rate (as defined in the 2009 Series F 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 2009 Series F 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 2009 Series F Resolution) has become effective with respect to all outstanding 2009 Series F 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 2009 Series F Bonds immediately terminates or suspends without notice or demand to any person. In such event, holders of 2009 Series F Bonds will have no right to optionally tender the 2009 Series F Bonds and may be required to hold such 2009 Series F Bonds until the earlier of the redemption or maturity thereof.**

*Purchase of Eligible Bonds.* On each Purchase Date on which the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 become “insolvent” as defined under 11 U.S.C. Section 101(32)(C) 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 or imposed upon (whether or not in writing) 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 2009 Series F Bonds, or any Parity Debt relating to the payment of the principal of or interest on the 2009 Series F 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 2009 Series F Bonds, the Act, the Resolution or any Parity Debt relating to the payment of the principal of or interest on the 2009 Series F Bonds (including any Bank Bonds), or any Parity Debt or the security therefor or results in a repudiation of its obligation to pay the 2009 Series F Bonds (including any Bank Bonds); or (c) the Agency (i) challenges the validity or enforceability of any provision of the Initial Liquidity Facility, the 2009 Series F Bonds, the Act, the Resolution or any Parity Debt relating to or otherwise affecting (A) the obligation to pay the principal of or interest on the 2009 Series F Bonds, the Bank Bonds or any Parity Debt or (B) the security available for repayment of the principal of or interest on the 2009 Series F 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 2009 Series F Bonds or any Parity Debt relating to or otherwise affecting (A) the Agency’s obligation to pay the principal of or interest on the 2009 Series F Bonds, the Bank Bonds or any Parity Debt or (B) the security available for repayment of the principal of or interest on the 2009 Series F 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 2009 Series F Bonds or any unenhanced Parity Debt below Investment Grade; (b) withdrawn their long-term ratings of the 2009 Series F Bonds or any unenhanced Parity Debt for any credit-related reasons; or (c) suspended their long-term ratings of the 2009 Series F Bonds or any unenhanced Parity Debt for any credit-related reasons; or

9. (a) The Agency shall fail to pay principal or interest when due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) on any Parity Debt (including Bank Bonds), 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 (b) pursuant to the provisions of any such resolution, indenture, contract or instrument, the maturity of any Parity Debt (including Bank Bonds) shall have been or, as a result of a default in the payment of principal or interest on the Parity Debt, or shall have been or may be, as a result of a default in the payment of principal or interest on the Parity Debt required to be repaid 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 2009 Series F 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 2009 Series F Bonds, which, if not terminated revoked or omitted, would adversely affect the exclusion from gross income of such interest on the 2009 Series F 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 2009 Series F 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 2009 Series F Bonds which are Eligible Bonds, provided that an Event of Default described in paragraph (1) above will not qualify as a Termination Event if the failure to pay the principal of, or interest due on, a Bank Bond is due solely to an acceleration of all Bank Bonds for any reason other than as described in paragraph (1) above. 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F Bonds which are Eligible Bonds. The obligation of the Bank to purchase the 2009 Series F 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 2009 Series F 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 2009 Series F 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 2009 Series F 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 L**  
**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, 2008, the Bank had total assets of \$68.1 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 2009 SERIES F 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 2009 SERIES F BONDS ARE NOT DEPOSITS OR OBLIGATIONS OF THE FEDERAL HOME LOAN BANK OF DES MOINES AND ARE NOT GUARANTEED BY SUCH BANK. THE SERIES F 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.