

NOTICE

\$14,235,000
Minnesota Housing Finance Agency
Rental Housing Bonds,
2010 Series A-1, 2010 Series A-2, 2010 Series B

Official Statement, dated November 17, 2010

The Official Statement, dated November 17, 2010, 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.

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

**\$14,235,000****MINNESOTA HOUSING FINANCE AGENCY****\$3,605,000 Rental Housing Bonds, 2010 Series A-1 (Non-AMT)[†]****\$2,630,000 Rental Housing Bonds, 2010 Series A-2 (Non-AMT)[†]****\$8,000,000 Rental Housing Bonds, 2010 Series B (Non-AMT)[†]****Dated: Date of Delivery****Due: as shown on inside front cover***Tax Exemption*

Interest on the above-captioned bonds (collectively, the "Series Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (See pages 27 - 29 herein for additional information, including information on the application of federal and state alternative minimum tax provisions to the Series Bonds.)

Redemption

The 2010 Series A-1 Bonds are subject to sinking fund, special and optional redemption as set forth on pages 13 – 15 herein. The 2010 Series A-2 Bonds are subject to special redemption as set forth on page 15 herein and the 2010 Series B Bonds are subject to special and optional redemption as set forth on page 15 herein.

Security

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, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES BONDS AND THE SERIES BONDS ARE NOT A DEBT OF THE STATE. (See "Security for the Bonds.")

Interest Payment Dates

February 1 and August 1, commencing August 1, 2011.

Denominations

\$5,000 or any integral multiple thereof.

Closing/Settlement

On or about November 24, 2010 through the facilities of DTC in New York, New York.

Bond Counsel

Dorsey & Whitney LLP, Minneapolis, Minnesota.

Underwriters' Counsel

Kutak Rock LLP, Atlanta, Georgia.

Trustee

Wells Fargo Bank, National Association, in Minneapolis, Minnesota.

Book-Entry-Only System

The Depository Trust Company. (See Appendix F herein.)

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

RBC Capital Markets**Morgan Stanley****Piper Jaffray & Co.**

The date of this Official Statement is November 17, 2010.

[†]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.")

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

\$3,605,000 Series A-1 Bonds

\$335,000 3.75% Series A-1 Term Bonds Due August 1, 2020 (CUSIP 60415N5Q1*)
\$655,000 5.00% Series A-1 Term Bonds Due August 1, 2030 (CUSIP 60415N5R9*)
\$2,615,000 5.25% Series A-1 Term Bonds Due August 1, 2040 (CUSIP 60415N5S7*)

\$2,630,000 Series A-2 Bonds

| <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|----------------------|-------------------------|----------------------|--------------|
| August 1, 2012 | \$2,630,000 | 1.25% | 60415N5U2* |

\$8,000,000 Series B Bonds

| <u>Maturity Date</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>CUSIP</u> |
|----------------------|-------------------------|----------------------|--------------|
| February 1, 2013 | \$8,000,000 | 1.75% | 60415N5V0* |

Price of all Series 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.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriters to give any information or representations, other than those contained in this 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 and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Agency, its Program and the Series Bonds could cause actual results to differ materially from those contemplated in the forward-looking statements.

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.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AGENCY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. 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
\$14,235,000**

**MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2010 Series A-1 (Non-AMT)
Rental Housing Bonds, 2010 Series A-2 (Non-AMT)
Rental Housing Bonds, 2010 Series B (Non-AMT)**

The purpose of this Official Statement (which includes the cover page, inside front cover and Appendices) is to set forth information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Rental Housing Bonds, 2010 Series A-1 (the "Series A-1 Bonds") and 2010 Series A-2 (the "Series A-2 Bonds" and, together with the Series A-1 Bonds, the "Series A Bonds"), and its Rental Housing Bonds, 2010 Series B (the "Series B Bonds" and, with the Series A Bonds, the "Series Bonds"), in connection with the sale of the Series Bonds by the Agency. The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted on February 25, 1988, as amended (the "Bond Resolution"), a series resolution of the Agency adopted September 23, 2010 relating to the Series A Bonds (the "Series A Resolution"), and a series resolution of the Agency adopted October 28, 2010 relating to the Series B Bonds (the "Series B Resolution"); the Bond Resolution, the Series A Resolution and the Series B Resolution are herein sometimes called the "Resolutions." The Series Bonds and any Rental Housing Bonds heretofore and hereafter issued and Outstanding pursuant to the Bond Resolution will be equally and ratably secured under the Bond Resolution and are herein sometimes called the "Bonds." Bonds Outstanding under the Bond Resolution as of October 31, 2010 aggregated \$144,505,000 in principal amount.

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

INTRODUCTION

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

The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of making long-term mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income 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 and home energy loans and to finance multifamily housing 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 through its assets in its Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the "Net Assets Restricted by Covenant" footnote included in the notes to the financial statements of the Agency included in Appendix B.

The proceeds of Bonds issued pursuant to the Bond Resolution are used to finance a portion of the activities undertaken pursuant to the Rental Housing Program (the "Program"). The Program is administered by the multifamily division of the Agency. The purpose of the Program is to increase the supply of and to maintain and improve the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, the Program is intended generally to provide long-term, fixed rate, first lien (or second lien if the Agency also holds the first lien) mortgage loans ("Mortgage Loans"), and, under certain

circumstances, subordinate mortgage loans (“Subordinate Mortgage Loans”), to finance the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the “Developments”). The Bond Resolution authorizes, upon conditions set forth therein, the issuance of additional series of Bonds on a parity with the Outstanding Bonds, including the Series Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments which it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to such Developments. The procedures presently employed by the Agency to reduce such risks are described more fully herein. (See “The Rental Housing Program.”)

The Agency intends to use the proceeds of the Series Bonds for the following purposes: (i) proceeds of the Series A-1 Bonds will be used primarily to fund a long-term first lien mortgage loan, (ii) proceeds of the Series A-2 Bonds to fund a short-term second lien mortgage loan and (iii) proceeds of the Series B Bonds to fund a short-term second lien mortgage loan, to private owners that will finance a portion of the costs of the acquisition, construction or rehabilitation of two multifamily housing developments in Minneapolis, Minnesota. (See “The Developments.”) The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or bonds, and federal or State laws heretofore or hereafter enacted appropriating funds to the Agency 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. (For purposes of the Resolutions, the General Reserve is designated as the General Reserve Account.) (See “The Agency — Net Assets Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund.”)

There are further pledged as security for the payment of the Series Bonds (on a parity with the Outstanding Bonds issued and to be issued under the Bond Resolution) amounts on deposit and investments in certain accounts and funds established pursuant to the Resolutions, including the Debt Service Reserve Fund established pursuant to the Bond Resolution in accordance with the Act. Under the Act, upon certification by the Agency, the State Legislature may, but is not required to, appropriate amounts which may be necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. (See “Security for the Bonds.”)

Although the State has appropriated amounts to the Agency for various specific purposes (see “The Agency — State Appropriations”), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations. The 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 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 2014, 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

Barbara Sanderson, Member — Term expires January 2012, Grand Rapids, Minnesota – Writer/Facilitator

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 certain 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 Management and Budget.

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

Dan Bartholomay — Commissioner. Mr. Bartholomay was appointed Commissioner effective November 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 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 effective September 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.

Adaire Peterson — Chief Administrative Officer effective September 2010. From 1998 to the date of her appointment, Ms. Peterson was Founder and Principal of a Business Consulting firm specializing in developing practical approaches to solving business problems. She worked with a number of Fortune 500 companies, nonprofit organizations and privately held enterprises to design, facilitate and implement large-scale change efforts, strategic planning and executive team alignment. Ms. Peterson also served as Managing Partner of Organizational Concepts International, a nationwide business and human capital consulting firm and Managing Principal of Seabury Group's Development Consulting Business. Seabury is a New York-based global investment banking, management advisory and human capital consulting firm. From 1991 to 1998, Ms. Peterson served on the executive team of Northwestern National Life Companies as Senior Vice President and Head of Global Human Resources. From 1976 to 1991, she held a variety of line and staff positions at Norwest (Wells Fargo) including Director of Administrative Services and VP, Capital Management and Trust. Ms. Peterson holds a Bachelor of Arts degree from the University of Minnesota with a concentration in Speech, History and Organizational Design.

Patricia L. Hanson — Assistant Commissioner, Housing Programs effective March 2010. From February, 1981 to the date of appointment, Mrs. Hanson was with Wells Fargo, and her most recent 15 years were as the President, Community Development & Specialized Lending. In that capacity, she managed all single family residential portfolios for the 26 banking states, Community Development Lending & Community Development for eight banking states, along with the Minnesota Foundation and Volunteer Initiatives. Previous to that role, she held various positions with Wells Fargo including VP, Mergers & Acquisitions, Wells Fargo Corporation; CAO for Wells Fargo Credit Card Business; Regional Controller for the Iowa banks for Wells Fargo and CFO of the Des Moines Wells Fargo bank. Prior to Wells Fargo, she spent five years in public accounting with Ernst & Young. Mrs. Hanson graduated from Minnesota State University, Mankato with a B.S. in Accounting and is a Certified Public Accountant.

Marcia Kolb — Assistant Commissioner, Multifamily, effective May 2010. Ms. Kolb has been with the Agency for 28 years during which time she has held a variety of progressively more responsible positions spending time in Single Family, Multifamily and Finance and Operations roles. Prior to assuming the role of Assistant Commissioner, from 1990 to 2010 Ms. Kolb was the manager of the Multifamily underwriting staff responsible for underwriting, tax credit allocation, supportive housing, rental rehabilitation loans and real estate closings. She also served as an agency-wide coordinator of a talent and strategy management initiative. Before her work at the Agency, she was a partner in a general contracting and real estate development company. Ms. Kolb holds a Bachelor of Arts degree from Metropolitan State University and a Masters degree in Business Administration from Bethel 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 website address is <http://www.mnhousing.gov>. No portion of the Agency's website is incorporated into this Official Statement.

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2010, included in this Official Statement as Appendix B 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, 2010.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix B as of and for the fiscal year ended June 30, 2010 are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

In Appendix C to this Official Statement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the three-months ended September 30, 2010. The information in Appendix C has been prepared by the Agency and, in the opinion of the Agency, reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of those Funds for the period, subject to year-end adjustments. The information in Appendix C is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Agreement for the benefit of the Beneficial Owners (as defined in Appendix D 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 120 days after the close of each fiscal year, commencing with the fiscal year ending June 30, 2011, with the Municipal Securities Rulemaking Board, at its internet repository named "Electronic Municipal Market Access" ("EMMA"). The notices of material events, if any, are also to be filed with EMMA. (See "Appendix D — 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 to be filed, are summarized in "Appendix D — 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 it has entered into with respect to the Rule.

In addition to the information required by the Continuing Disclosure Agreement, the Agency also uses its best efforts to prepare a semiannual disclosure report for its rental housing bond resolution and a quarterly disclosure report for each of its single family bond resolutions. 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 any rating agency rating the Bonds at the Agency's request.

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

In accordance with provisions of the Bond Resolution and its other respective bond resolutions, the Agency may transfer money from program funds to the General Reserve of the Housing Development Fund and other related

funds restricted to the same purposes. The Agency has pledged to deposit in the General Reserve or the Alternative Loan Fund held under the Residential Housing Finance Bond Resolution 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 and related funds 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 to 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. The guidelines also cover the Alternative Loan Fund, which comprises Pool 2 and Pool 3 (each as defined below), which are the related funds to the General Reserve. The Alternative Loan Fund, like the General Reserve, is not pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available therein, is generally available to pay any debt obligations of the Agency. The investment guidelines are subject to change by the Agency from time to time in its discretion.

Under the investment guidelines that took effect July 1, 2007 (as amended by a resolution adopted September 24, 2009), the required size of the liquidity reserve in the Housing Endowment Fund (held in the General Reserve and also referred to as "Pool 1") is 1% of gross loans receivable (excluding loans credited to Pool 3 (as hereinafter defined)), and the required size of the Housing Investment Fund (held in the Alternative Loan Fund and also referred to as "Pool 2") is 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 \$675.1 million, representing the combined net assets of these funds so calculated as of June 30, 2010. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities held in bond funds. The Housing Affordability Fund (held in the Alternative Loan Fund and also referred to as "Pool 3") is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities, and is not subject to the net asset investment guidelines. 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. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. All interfund transfers are approved by the Agency.

The following summary indicates the revenues earned, funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), and the expenses paid from such account for the two most recent audited fiscal years of the Agency and for the three-month period ended September 30, 2010 (unaudited) (in thousands):

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| | Three Months Ended September 30, 2010 <u>(unaudited)</u> | Fiscal Year Ended <u>June 30, 2010</u> | Fiscal Year Ended <u>June 30, 2009</u> |
|---|---|--|--|
| Revenues and other additions to restricted net assets: | | | |
| Fees earned ⁽¹⁾ | \$1,993 | \$ 8,907 | \$ 8,805 |
| Interest earned on investments | 75 | 342 | 874 |
| Unrealized gain (loss) on investment securities | (1) | 25 | -- |
| Administrative reimbursement ^{(2), (3)} | <u>5,153</u> | <u>21,658</u> | <u>24,375</u> |
| Total revenues and other additions | 7,220 | 30,932 | 34,054 |
| Expenses and other reductions to restricted net assets: | | | |
| Transfer of assets between funds ⁽⁴⁾ | 2,591 | 6,794 | 7,907 |
| Salaries and benefits | 4,351 | 17,815 | 17,743 |
| Other general operating expenses | <u>1,487</u> | <u>8,820</u> | <u>8,601</u> |
| Total expenses and other reductions | 8,429 | 33,429 | 34,251 |
| Change in net assets | (1,209) | (2,497) ⁽⁵⁾ | (197) |
| Net assets beginning of period | <u>24,169</u> | <u>26,666</u> | <u>26,863</u> |
| Net assets end of period | <u>\$22,960</u> | <u>\$24,169</u> | <u>\$26,666</u> |

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- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of 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 generally as total assets excluding the reserve for loan loss, unearned discounts on loans, premiums on loans, unamortized bond issuance costs, unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.
 - (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 in Appendix B to this Official Statement for additional information.
 - (5) The more significant reduction in net assets for fiscal year 2010 has two principal causes. First, because the Agency's whole loan single family mortgage loan portfolio is in runoff, the amount required to be retained in Pool 1 under the investment guidelines described above is reduced. Second, there was a reduction in the carrying amount of certain net assets invested in capital assets.

State Appropriations

Over the years, the State Legislature has appropriated funds to the Agency 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. Because of estimated State budget deficits for the 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 \$129.6 million.

For the current biennium ending June 30, 2011, the Legislature appropriated approximately \$86.7 million to the Agency. To balance the budget in the first fiscal year of the current biennium, the Governor effected unallotments in the aggregate amount of \$695 million, including \$512,000 of funds otherwise appropriated to the Agency. The Legislature more recently adopted a supplemental budget bill reducing appropriations to the Agency in the current biennium by \$4.2 million. The supplemental budget bill also reduces budgeted appropriations to the Agency in the biennium ending June 30, 2013 by \$4.9 million (a 5.7% base budget reduction). Given projected potential State budget deficits, 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 refunded bonds and notes) is limited to \$5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of October 31, 2010:

| | Number of Series* | Final Maturity | Original Principal Amount* (in thousands) | Principal Amount Outstanding (in thousands) |
|---|-------------------|----------------|---|---|
| Rental Housing Bonds | 23 | 2047 | \$ 473,770 | \$ 144,505 |
| Residential Housing Finance Bonds..... | 64 | 2048 | 2,191,230 | 1,770,650 |
| Single Family Mortgage Bonds..... | 29 | 2035 | 599,625 | 116,405 |
| Homeownership Finance Bonds | 2 | 2041 | 332,490 | 332,490 |
| Multifamily Housing Bonds (Treasury HFA Initiative) | 1 | 2051 | 15,000 | 15,000 |
| Total Debt Outstanding | 119 | | \$3,612,115 | \$2,379,050 |

*Does not include series of bonds or the original principal amount of any bonds that had been, as of October 31, 2010, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on general obligations of the Agency as shown above may be made, if necessary, from the General Reserve or the Alternative Loan Fund. (See “Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund” above.)

The Agency has entered into certain liquidity facilities and interest rate swap agreements in respect of certain of its outstanding Residential Housing Finance Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to such variable rate bonds and swap agreements is included in the notes to the audited financial statements contained in Appendix B to this Official Statement. No representation is made as to the creditworthiness of any such provider or counterparty.

The Agency has recently issued its limited obligation notes from time to time 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 June 30, 2010, one such limited obligation note was outstanding in the principal amount of \$332,355,000. 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.

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. The Agency is authorized under applicable law to issue an additional \$22,730,000 in aggregate principal amount of similarly secured Nonprofit Housing Bonds.

THE DEVELOPMENTS

The Series A Development

The Agency intends to use the proceeds of the Series A-1 Bonds primarily to make a long-term first lien Mortgage Loan, and the proceeds of the Series A-2 Bonds to make a short-term second lien Mortgage Loan, that will finance a portion of the costs of the acquisition and construction of a multifamily housing development. The Development, known as Lyndale Green (the “Series A Development”), is to be located at 2743 Lyndale Avenue in Minneapolis, Minnesota. The Series A Development proposal consists of the construction of a four-story building with 7,300 square feet of commercial space on the first floor and 63 rental housing units on the upper three floors. The total development cost, including acquisition and construction, is estimated to be approximately \$11.7 million. Construction is estimated to be completed by January 1, 2012.

The Agency will use the proceeds of the Series A-1 Bonds to be deposited in the Mortgage Loan Account to make a fully amortizing first lien Mortgage Loan with respect to the Series A Development which is expected to close in November 2010. The first lien Mortgage Loan, in the principal amount of approximately \$3.4 million will be insured under the HUD Risk-Sharing Program, with HUD through the Federal Housing Administration insuring 100% of any loss less certain deductions and the Agency reimbursing HUD for 50% of any loss. (See “The Rental Housing Program—Low and Moderate Income Rental Program.”) The first lien Mortgage Loan has been established in an amount estimated to be supported by the projected net operating income of the Series A Development and estimated available tax increment financing revenues. The Agency will also make a non-amortizing second lien bridge Mortgage Loan with respect to the Series A Development, which is expected to close in November 2010 and will mature in full on July 1, 2012 in the total principal amount of approximately \$2.6 million, from the proceeds of the Series A-2 Bonds. The bridge Mortgage Loan will not be insured, and will be additionally secured by a guaranty from the members of the general partner of the Mortgagor and in part by a letter of credit provided by a financial institution for the account of the Mortgagor upon which the Agency may draw if the equity investor in the Mortgagor fails to make an equity contribution due following completion of construction. The Agency will also make a subordinate non-amortizing deferred interest loan in the approximate principal amount of approximately \$1.4 million for the Series A Development from Agency resources other than the proceeds of the Series A Bonds.

As a result of the issuance of the Series A Bonds, 63 of the dwelling units in the Series A Development will be eligible for low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. Occupancy in these units will be limited to households with incomes at or below 60% of the area median income, adjusted for household size.

The Series B Development

The Agency intends to use the proceeds of the Series B Bonds primarily to make a short-term second lien Mortgage Loan that will finance a portion of the costs of the acquisition and rehabilitation of a multifamily housing development. Proceeds of the Agency’s Multifamily Housing Bonds (Treasury HFA Initiative), Series 2009 (the “Long-Term Bonds”) issued under a different bond resolution of the Agency will finance a long-term HUD Risk-Sharing loan in the approximate principal amount of \$15 million funding additional costs of such acquisition and rehabilitation under the LMIR Program (as hereinafter defined). (See “The Rental Housing Program” and its subsection “—Low and Moderate Income Rental Program”) The Development, known as Nicollet Towers (the “Series B Development”), is located at 1350 Nicollet Avenue in Minneapolis, Minnesota. The Series B Development proposal consists of the acquisition and substantial rehabilitation of a multi-building high rise and townhome development that includes 306 rental units (all subject to a U.S. Department of Housing and Urban Development Section 8 Housing Assistance Payment Contract) along with an underground parking facility containing 144 parking stalls and approximately 6,700 square feet of commercial space. The total development cost, including acquisition and rehabilitation, is estimated to be approximately \$51 million. Substantial rehabilitation is estimated to be completed by December 31, 2011.

The Agency will use the proceeds of the Series B Bonds to be deposited in the Mortgage Loan Account to make a non-amortizing second lien bridge Mortgage Loan with respect to the Series B Development, which is expected to close in December 2010 and will mature in full on January 2, 2013 in the total principal amount of approximately \$8 million. The bridge Mortgage Loan will not be insured, but will be secured in part by a guaranty from an affiliate of the general partner of the Mortgagor. The Agency will also make subordinate non-amortizing deferred interest loans in the aggregate principal amount of approximately \$9.0 million for the Series B Development from Agency resources other than the proceeds of the Series Bonds or other bonds.

As a result of the issuance of the Series B Bonds and the Long-Term Bonds, at least 290 of the dwelling units in the Series B Development will be eligible for low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. Occupancy in these units will be limited to households with incomes at or below 60% of the area median income, adjusted for household size.

Estimated Sources and Uses of Series Bond Proceeds and Agency Funds

The estimated sources and uses of proceeds of the Series Bonds and funds to be contributed by the Agency are as follows:

| | |
|--|---------------------|
| <i>Sources:</i> | |
| Principal Amount of Series Bonds | \$14,235,000 |
| Agency Contribution | <u>316,727</u> |
| Total Sources of Funds..... | <u>\$14,551,727</u> |
| <i>Uses:</i> | |
| 2010 A-B Project Account | \$14,009,924 |
| Debt Service Reserve Fund | 252,949 |
| Revenue Fund | 65,000 |
| Costs of Issuance | <u>223,854</u> |
| Total Uses of Funds | <u>\$14,551,727</u> |

THE SERIES BONDS

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 the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Bond Resolution.

The Series A-1 Bonds are issuable as term bonds in the denominations of \$5,000 or any integral multiple thereof each of a single stated maturity. The Series A-2 Bonds are issuable as bonds of a single stated maturity in the denominations of \$5,000 or any integral multiple thereof. The Series A Bonds mature, subject to redemption as herein described, on the dates and in the amounts set forth on the inside front cover hereof. The Series B Bonds are issuable as bonds of a single stated maturity in the denominations of \$5,000 or any integral multiple thereof. The Series B Bonds mature on the date set forth on the inside front cover hereof.

The Series Bonds bear interest from their respective dated dates, payable semiannually thereafter on February 1 and August 1 of each year, commencing August 1, 2011, at the respective rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bonds. As long as the Series Bonds are in book-entry form, 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. See Appendix F – “Book-Entry-Only System.”

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.

Sinking Fund Redemption of Series A-1 Bonds

The Series A-1 Bonds with a stated maturity of August 1, 2020 are subject to mandatory redemption in part on each February 1 and August 1, commencing February 1, 2013 and concluding February 1, 2020, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

| <u>Date</u> | <u>Principal Amount</u> | <u>Date</u> | <u>Principal Amount</u> |
|------------------|-------------------------|---------------------------|-------------------------|
| February 1, 2013 | \$10,000 | February 1, 2017 | \$20,000 |
| August 1, 2013 | 15,000 | August 1, 2017 | 20,000 |
| February 1, 2014 | 20,000 | February 1, 2018 | 25,000 |
| August 1, 2014 | 20,000 | August 1, 2018 | 25,000 |
| February 1, 2015 | 20,000 | February 1, 2019 | 25,000 |
| August 1, 2015 | 20,000 | August 1, 2019 | 25,000 |
| February 1, 2016 | 20,000 | February 1, 2020 | 25,000 |
| August 1, 2016 | 20,000 | August 1, 2020 (maturity) | 25,000 |

The Series A-1 Bonds with a stated maturity of August 1, 2030 are subject to mandatory redemption in part on each February 1 and August 1, commencing February 1, 2021 and concluding February 1, 2030, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

| <u>Date</u> | <u>Principal Amount</u> | <u>Date</u> | <u>Principal Amount</u> |
|------------------|-------------------------|---------------------------|-------------------------|
| February 1, 2021 | \$25,000 | February 1, 2026 | \$35,000 |
| August 1, 2021 | 25,000 | August 1, 2026 | 35,000 |
| February 1, 2022 | 25,000 | February 1, 2027 | 35,000 |
| August 1, 2022 | 25,000 | August 1, 2027 | 35,000 |
| February 1, 2023 | 30,000 | February 1, 2028 | 35,000 |
| August 1, 2023 | 30,000 | August 1, 2028 | 40,000 |
| February 1, 2024 | 30,000 | February 1, 2029 | 40,000 |
| August 1, 2024 | 30,000 | August 1, 2029 | 40,000 |
| February 1, 2025 | 30,000 | February 1, 2030 | 40,000 |
| August 1, 2025 | 30,000 | August 1, 2030 (maturity) | 40,000 |

The Series A-1 Bonds with a stated maturity of August 1, 2040 are subject to mandatory redemption in part on each February 1 and August 1, commencing February 1, 2031 and concluding February 1, 2040, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

| <u>Date</u> | <u>Principal Amount</u> | <u>Date</u> | <u>Principal Amount</u> |
|------------------|-------------------------|---------------------------|-------------------------|
| February 1, 2031 | \$45,000 | February 1, 2036 | \$ 55,000 |
| August 1, 2031 | 45,000 | August 1, 2036 | 60,000 |
| February 1, 2032 | 45,000 | February 1, 2037 | 60,000 |
| August 1, 2032 | 45,000 | August 1, 2037 | 50,000 |
| February 1, 2033 | 50,000 | February 1, 2038 | 40,000 |
| August 1, 2033 | 50,000 | August 1, 2038 | 45,000 |
| February 1, 2034 | 50,000 | February 1, 2039 | 45,000 |
| August 1, 2034 | 50,000 | August 1, 2039 | 45,000 |
| February 1, 2035 | 55,000 | February 1, 2040 | 45,000 |
| August 1, 2035 | 55,000 | August 1, 2040 (maturity) | 1,680,000 |

Upon optional redemption of Series A-1 Bonds or any purchase and cancellation thereof by the Agency, the principal amount of such Series A-1 Bonds so redeemed or purchased may be credited toward one or more Sinking Fund Installments thereafter to become due on Series A-1 Bonds of the same stated maturity 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 the Series A-1 Bonds of the same stated maturity for the purpose of calculating the payment due on or scheduled for a future date.

Special Redemption at Par

The Series A Bonds are subject to special redemption, at the option of the Agency, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) from unexpended proceeds of the Series A Bonds not used to finance the Series A Development, together with amounts allocable to the Series A Development on deposit in the Debt Service Reserve Fund; (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Appendix E) relating to the Series A Development; and (iii) with respect to the Series A-1 Bonds, in the event the Agency receives a Prepayment relating to the Series A Development upon a determination by HUD that such Prepayment will avoid a mortgage insurance claim and is therefore in the best interests of the federal government. The Agency will apply any such unexpended proceeds, Recovery Payments or Prepayments to the redemption of Series A Bonds, as determined by the Agency. If such Recovery Payments or Prepayments are not sufficient to redeem all Outstanding Series A Bonds as aforesaid, the Agency reserves the right to apply other funds to the special redemption of the Series A Bonds, in addition to the Recovery Payments or Prepayments.

The Series B Bonds are subject to special redemption, at the option of the Agency, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) from unexpended proceeds of the Series B Bonds not used to finance the Series B Development; and (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Appendix E) relating to the Series B Development. The Agency will apply any such unexpended proceeds or Recovery Payments to the redemption of Series B Bonds, as determined by the Agency. If such Recovery Payments are not sufficient to redeem all Outstanding Series B Bonds as aforesaid, the Agency reserves the right to apply other funds to the special redemption of the Series B Bonds, in addition to the Recovery Payments.

Optional Redemption

The Series A-1 Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2020, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

The Series A-2 Bonds are not subject to optional redemption.

The Series B Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2012, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

General Redemption Provisions

Any Series Bonds to be redeemed other than upon mandatory sinking fund redemption shall be redeemed only upon receipt by the Trustee of a certificate signed by an authorized officer of the Agency and stating the series, principal amount and price and maturity of the Series Bonds to be redeemed. If less than all Series Bonds of a series and maturity are to be redeemed, the Series Bonds of such series and maturity to be redeemed are to be selected in \$5,000 principal amounts at random by the Trustee. The Agency shall not at any time cause Series Bonds to be optionally redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such redemption.

The Trustee is required to mail a copy of the notice of redemption to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date. Any defect in or failure to give the required mailed notice of redemption shall not affect the validity of any proceedings for the redemption of Series Bonds not affected by such defect or failure.

SECURITY FOR THE BONDS

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

assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds, and federal or State laws heretofore or hereafter enacted pledging particular funds for a specified purpose. The pledge and security interests granted by the Bond Resolution shall be for the equal benefit, protection and security of Holders of all Bonds, including the Series Bonds.

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

Mortgage Loans

The Bond Resolution requires, except in certain circumstances hereinafter described, that each Mortgage Loan be secured by a first mortgage lien (subject to permitted encumbrances) on the real property or leasehold interest of the Mortgagor under a lease with a term at least twice the length of the term of the Bonds which is the site of the Development financed by such Mortgage Loan, and all improvements thereon. At the initial closing for each Development the Agency receives a recorded Mortgage and a mortgagee's title insurance policy in the amount of the Mortgage Loan. The Agency may also participate with other parties in the making of a Mortgage Loan if the Agency's mortgage lien, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Bond Resolution also permits the Agency, if it holds a Mortgage that constitutes a first mortgage lien on a Development, to make an additional Mortgage Loan for the Development and secure such additional Mortgage Loan by a Mortgage on a parity with or junior and subordinate to the first lien Mortgage held by the Agency. In addition, the Bond Resolution allows the Agency to make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, but solely from amounts which would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

Under the Bond Resolution, there shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from such calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans). In making a determination as of any date that this covenant is met, the Agency may make assumptions as to future events (including, as applicable, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and the amount of interest payable on Variable Rate Bonds), which assumptions are to be based upon the Agency's reasonable expectations as of the date of such determination. The Agency may forgive a portion of the interest on any Mortgage Loan provided that, after giving effect to such reduction and all similar reductions then in effect, the Agency continues to comply with such covenant.

The scheduled payments of the Principal Installments of and interest on the Bonds are generally based on the receipt of scheduled payments by the Agency on the Mortgage Loans and any Subordinate Mortgage Loans, together with capitalized interest and estimated investment income of certain Funds and Accounts established by the Bond Resolution, to the extent provided therein. The ability of the Mortgagors to make scheduled payments to the Agency depends, among other things, on the Developments achieving and sustaining occupancy and rental levels necessary to generate rental income which, together with any applicable subsidies, is expected to be sufficient to meet the required loan payments, to fund required reserves and escrows and to meet operating expenses. Under the Bond Resolution, the Agency (unless otherwise required by any agency of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan or Subordinate Mortgage Loan) may give its consent to Prepayment of a Mortgage Loan or Subordinate Mortgage Loan only if certain conditions as described under the caption "Summary of Certain Provisions of the Bond Resolution — Mortgage Provisions and Conditions — Prepayments" in Appendix E hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is

described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Additional Condition to the Disbursement of Proceeds of the Series B Bonds from the Mortgage Loan Account

As an additional condition to the general requirements of the Bond Resolution for the disbursement of funds from a Mortgage Loan Account (see Appendix E – Summary of Certain Provisions of the Bond Resolution—Mortgage Provisions and Conditions”), the Series B Resolution contains a provision that no proceeds of the Series B Bonds held in the Mortgage Loan Account relating to the Series B Development will be disbursed unless the Agency has first deposited in the account in the Bond Fund relating to the Series B Bonds an amount of funds equal to the amount of the disbursement. The Bond Fund and all accounts therein secure all Outstanding Bonds equally and ratably, except as otherwise expressly provided in the Bond Resolution.

Debt Service Reserve Fund

The Debt Service Reserve Requirement for the Series A-1 Bonds is \$230,000, which is not less than the maximum annual debt service payable on the Series A-1 Bonds in any fiscal year of the Agency (excluding the fiscal year ending June 30, 2041). Upon issuance of the Series A-1 Bonds, an investment valued at not less than \$230,000, as calculated under the Bond Resolution, will be deposited into the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the Series A-1 Bonds.

No funds will be credited to the Debt Service Reserve Fund with respect to the Series A-2 Bonds or the Series B Bonds (and the Debt Service Reserve Requirement in respect of each such series of Bonds will be \$0.00), since, in addition to the other security provided pursuant to the Bond Resolution, payment of principal with respect to the bridge loans funded by the Series A-2 Bonds or the Series B Bonds will be secured as described under “The Developments.”

Upon issuance of the Series Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution will be \$19,391,331 and the value of the investments in the Debt Service Reserve Fund as computed under the Bond Resolution will not be less than the aggregate Debt Service Reserve Requirement. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series Bonds, on a parity basis.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund shall be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund shall not be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency shall not issue any additional bonds or notes which are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency shall deposit in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

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

submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency
.....

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

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, to provide funds for the purpose of financing Mortgage Loans for Developments under the Agency’s programs of making Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations issued to finance Mortgage Loans, upon certain conditions contained therein (see Appendix E – “Summary of Certain Provisions of the Bond Resolution—Additional Bonds”), without limitation as to amount except as may from time to time be provided by law. Any additional Bonds issued under the Bond Resolution will be on a parity with the Series Bonds and the Outstanding Bonds, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

Nothing in the Bond Resolution prohibits the financing of other multifamily housing developments under other bond resolutions.

State Pledge Against Impairment of Contracts

The State in the Act has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with them or in any way impair the rights and remedies of the Bondholders until the Bonds, together with the interest thereon and on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

THE RENTAL HOUSING PROGRAM

The Bond Resolution is currently the primary source of funds borrowed by the Agency to fund its multifamily housing programs. The proceeds of Bonds issued under the Bond Resolution are loaned by the Agency to for-profit, nonprofit and limited profit sponsors that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families with low and moderate incomes.

The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are loans outstanding which were either funded from Bond proceeds under the Bond Resolution, or are pledged as additional security under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program. Recently originated loans have included the acquisition and rehabilitation of existing market rate rental properties, and loans for the preservation of existing Federal subsidies under the Section 8 and Section 236 programs.

The existing Developments financed by Outstanding Bonds have been originated under the following programs:

- Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)
- Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)
- Section 236 Interest Reduction Payments New Construction Program

—Market Rate Mortgage Loan Program

In addition to the programs listed above, loans contributed as additional security under the Bond Resolution have been financed under the following program:

—Apartment Renovation Mortgage Program

The following table provides summary data regarding the outstanding loans financed or pledged as additional security for the Rental Housing Bond Resolution as of June 30, 2010 for the programs as listed above:

Rental Housing Program Mortgage Loan Program Summary as of June 30, 2010

| Program | Number of Loans | Number of Units | Outstanding Loan Amount | Percentage of Total Amount |
|---|--------------------|--------------------|----------------------------|-------------------------------|
| Section 8 Housing Assistance Payment Program* | 130 | 6,277 | \$98,157,151 | 51.51% |
| Apartment Renovation Mortgage Program | 5 | 140 | 1,556,112 | 0.82 |
| Low and Moderate Income Rental Program** | 39 | 2,733 | 82,912,855 | 43.51 |
| Market Rate Mortgage Loan Program ... | 6 | 265 | 3,676,636 | 1.93 |
| Section 236 Interest Reduction Payments Program*** | <u>8</u> | <u>543</u> | <u>4,256,770</u> | <u>2.23</u> |
| | <u>188</u> | <u>9,958</u> | <u>\$190,559,524</u> | <u>100.00%</u> |

*Includes two FHA-insured Developments with 91 aggregate units and an aggregate outstanding loan amount of \$1,129,629.

**Includes 17 HUD Risk-Sharing Developments with 1,695 aggregate units and an aggregate outstanding loan amount of \$51,633,000. Also includes three FHA-insured Developments with 447 units and an aggregate outstanding loan amount of \$7,619,525.

***Includes one FHA-insured Development with 31 units and an outstanding loan amount of \$166,558.

Low and Moderate Income Rental Program

The Low and Moderate Income Rental Program (the “LMIR Program”) is the program under which the Agency is currently making loans funded from the proceeds of Bonds issued under the Bond Resolution. Some of the loans involve the preservation of existing federal housing subsidies. The federal housing subsidies preserved in connection with loans under the LMIR Program have included Section 8 project based assistance and Interest Reduction Payments Contracts under Section 236, both of which subsidy programs are described below. Most recent developments financed under this program have also benefited from the receipt of federal low-income tax credits.

In the LMIR Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under the LMIR Program, may also use its general reserves to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or reserves are loaned by the Agency to nonprofit or limited profit entities that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under the LMIR Program have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans financed under the LMIR Program have one or

more low or non-interest bearing, non-amortizing subordinate mortgages that facilitate keeping rents below market rate levels and reduce the amount of amortizing debt.

HUD Risk-Sharing Program

As part of the LMIR Program under the Bond Resolution, the Agency has made and expects to make Mortgage Loans under the Department of Housing and Urban Development Housing Finance Agency Risk-Sharing Program for Insured Affordable Multifamily Project Loans (“HUD Risk-Sharing Program”). Section 542(c) of the Housing and Community Development Act of 1992, as amended (the “Risk-Sharing Act”) authorized the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies (“HFAs”) to enable those HFAs to underwrite and process loans for which HUD, acting through the Federal Housing Administration (“FHA”), will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the “Regulations”) pursuant to the Risk-Sharing Act. The HUD Risk-Sharing Program allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, and provides for reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect.

The HUD Risk-Sharing Program requires that an interested HFA first be approved as a qualified housing finance agency. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement between the Commissioner of FHA and the HFA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA’s standards and procedures for underwriting and servicing loans, and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the HUD Risk-Sharing Program include projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program.

The Agency has been designated by HUD as a “qualified HFA” under the Risk-Sharing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the “Risk-Sharing Agreement”) which sets out the terms for the Agency’s participation in the HUD Risk-Sharing Program. The Agency has a “Level I” and “Level II” approval under the regulations, which means HUD agrees to reimburse the Agency 50% to 90% of any losses incurred as a result of a default under a HUD Risk-Sharing Program loan, permitting the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans with review and approval by the local HUD office. Substantially all of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

Prior to funding of a Mortgage Loan by the Agency, HUD issues a Risk-Sharing Approval Letter under which it agrees to endorse the Mortgage Note either at closing (in which case all advances are insured) or upon completion of construction and satisfaction of various conditions relating to the Mortgage Loan, including funding of all anticipated sources of funds. If the Mortgage Note is not endorsed until completion of construction, HUD is not obligated to reimburse the Agency for any losses which occur as a result of a default under the loan documents prior to completion of construction and endorsement of the Mortgage Note for insurance by HUD.

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and such default continues for a period of 30 days. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and

interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms and must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA's reimbursement obligation to HUD under its Risk-Sharing Agreement.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed-in-lieu of foreclosure or (2) expiration of the term of the HFA debenture, loss on the mortgaged property is determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the mortgage note and risk-sharing agreement.

Section 8 Program

General Description

Under the Section 8 Program, HUD provides for the payment of a subsidy for the benefit of low income families, which are defined generally as those families whose income does not exceed 80% of the median income for the area as determined by HUD. Almost all of the Developments with Section 8 subsidies financed by the Agency until recent years were financed from a set-aside to the Agency from HUD under which the Developments were underwritten and financed by the Agency, and the Agency entered into Annual Contributions Contracts ("ACC") with HUD and Housing Assistance Payments Contracts ("HAP Contracts") with owners under which the subsidy payments were made on behalf of tenants in the Developments. Pursuant to the ACC for each Development, the Agency is to receive an annual contribution from HUD, payable monthly in advance, with respect to each assisted dwelling unit and, in turn, disburses or credits monthly housing assistance payments to the owner of the Development under the HAP Contract. In addition to the Developments with HAP Contracts with the Agency under the state agency set-aside program, several loans were made for Developments where the loans are insured under a program of the FHA and the Developments receive the benefit of 20-year HAP Contracts directly between the owner and HUD. For eight of these Developments, the original 20-year HAP Contracts for the Developments have expired, with contracts typically being renewed for a period of one to five years. It is anticipated that HUD will continue to provide the opportunity for extension of expiring project-based HAP Contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended. In recent years, the Agency has permanently financed developments which have HAP Contracts with either HUD or the Agency the terms of which expire within the initial ten years of the Agency's 30- or 40-year loans. It is anticipated, but not assured, that the federal government will continue to provide one to five year extensions of Section 8 subsidies for these Developments upon the expiration of their current HAP Contracts. In general, renewal HAP Contracts beyond the expiration of the initial HAP Contract term and contracts for the project-basing of HUD vouchers or certificates (as described below) are subject to annual appropriation and spending authorization in the federal budget.

HAP Contract Term State Agency Set-Aside Program

Under HUD regulations, the initial term of the HAP Contract for uninsured Developments financed under the state agency set-aside program was either five or 20 years, with provisions for renewal for five-year periods totaling either 30 or 40 years, including the initial period. Under the terms of the Agency's regulatory agreements with Development owners, the owners are required to renew their respective HAP Contracts as long as their mortgage is outstanding. The ACC remains in effect as long as the HAP Contract is in effect. Nonrenewal of the HAP Contract requires the written consent of the Agency whether or not the owner has mortgage financing remaining in place. See, however, "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments." Although the Section 8 housing assistance payments are made directly or indirectly to the owner and, in effect, represent rental income, the HAP Contract may, with HUD's approval, be pledged by the owner to the Agency as mortgage lender on the Development. All of the HAP Contracts covering the Agency's Developments are so pledged. Housing assistance payments by HUD do not terminate if the Mortgage Loan on the Development goes into default, so long as the owner has not breached any of the owner's obligations under the HAP Contract, including, among other responsibilities, an obligation to maintain and operate the Development so as to provide decent, safe and sanitary housing. In the event of breach of the HAP Contract by the owner, HUD may abate or terminate housing assistance payments after giving the owner and the Agency reasonable opportunity to take corrective action. Under HUD regulations, in the event of assignment, sale or other disposition of the Development agreed to by the Agency and approved by HUD, foreclosure, or assignment of the mortgage or deed in lieu of

foreclosure, the HAP Contract and ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract unless approval to amend or terminate the HAP Contract or ACC has been obtained from the Assistant Secretary for Housing. See, however, “Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.”

The Agency Regulatory Agreement

The uninsured Section 8 assisted Developments and Developments financed under the HUD Risk-Sharing Program are all subject to regulatory agreements with the Agency regulating their rents, profits, occupancy, management and operation. Under such regulatory agreements, a limited-profit or nonprofit owner may not make distributions to its partners or members in any one year in excess of 15% of its initial equity in a Development. In its administration of the Program to date, the Agency has made Mortgage Loans of up to 100% of total development costs. Mortgage Loans for Developments are for terms of 30 to 40 years.

Certain Information Regarding Housing Assistance Payment Contracts

General

The following discussion provides certain information with regard to the Section 8 program and HAP Contracts which may affect payments made by HUD pursuant to the HAP Contracts and a discussion of certain recent developments with respect to HUD and the Section 8 program. Such information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the United States Housing Act of 1937, as amended (the “Housing Act”).

Adjustments in Contract Rents

Each HAP Contract provides for certain adjustments in contract rents. At least annually, HUD publishes an annual adjustment factor; interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP Contract to contract rents, resulting in upward or downward adjustment except that contract rents may not be reduced below the contract rents that were in effect on the effective date of the HAP Contract. However, pursuant to federal legislation enacted in 1997, if the contract rents for a development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the differential between the initial contract rents and the original comparable rents) as determined by independent appraisals of at least three comparable local developments submitted by the owner. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining the development which have resulted from substantial general increases in real property taxes, assessments, utility rates or similar costs if the owner demonstrates that the automatic annual adjustments have not provided adequate compensation. Adjustments may not, however, result in material differences between rents charged for assisted units and unassisted units of similar quality and age in the same market area except to the extent of the initial difference at the time of contract execution. Under current law, “[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner.” 42 U.S.C. §1437f(c)(1)(C). There can be no assurance that increases in contract rents, if any, will result in revenues sufficient to compensate for increased operating expenses of the Developments. There can be no assurance that there will not be a decrease in contract rents which would adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See “Certain Recent Developments” below.)

Limitations on Increases in Housing Assistance Payments

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP Contract. The annual maximum Housing Assistance Payments are, however, initially limited to the initial contract rents. A project account is required to be established and maintained by HUD in an amount determined by HUD to be consistent with its responsibilities under the Housing Act out of amounts by which the annual maximum housing assistance commitment under the HAP Contract (which is set forth in each HAP Contract)

exceeds the amount actually paid out under the HAP Contract each year. Furthermore, whenever the estimated annual Housing Assistance Payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of such maximum commitment, HUD is required within a reasonable period of time to take additional steps authorized by Section 8(c)(6) of the Housing Act in order to assure that Housing Assistance Payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes, among other things, “the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts” to provide for such assurance. The above language notwithstanding, as a matter of practice HUD does not increase annual contributions contract authority until such time as the project account has been exhausted.

Certain Recent Developments

In July 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979, which interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related development. This would include any refinancing that included a prepayment. HUD also stated that it would agree to amend any HAP Contract to eliminate such termination. However, all of the currently outstanding Mortgage Loans of the Agency which involve this form of HAP Contract are the original permanent financing provided by the Agency. The one exception is the Mortgage Loan made for Rivertown Commons, for which the original Agency loan was prepaid in 1996. HUD has been making payments under the HAP Contract for Rivertown Commons during the years since the Agency loan was prepaid, and it is the Agency’s understanding that the current HUD practice is to approve the continuation of HAP Contracts upon payment of the original financing where, as in the case of Rivertown Commons, the owner has elected to remain in the Section 8 program.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials as to the future of HUD and the Section 8 program. The scope of these pronouncements have ranged from a total elimination of HUD and the Section 8 program to a restructuring of HUD and the administration and reduction in funding of the Section 8 program. In addition, the consolidation of HUD’s programs has been proposed as well as the transfer of certain administrative responsibilities for HUD programs, including the Section 8 program, to state and local governments and other entities. Furthermore, Congress has proposed reductions in all federal spending including the funding of HUD and its programs, including the Section 8 program.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the contract rents in effect as of April 15, 1987, as described above under “Adjustments in Contract Rents.” It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for the Developments to “market rents,” but not lower than the initial contract rents, plus the initial difference, approved by HUD for the development.

At this time, the Agency cannot predict the terms of the legislation, if any, which may be enacted which may restructure and change HUD, its administration and its programs (including the Section 8 program) and the funding of HUD and its programs. The Agency cannot predict whether any such legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds, including the Series A Bonds, with amounts pledged under the Resolutions.

Furthermore, there have been several court decisions with respect to the Section 8 program and HAP Contracts. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, held that HAP Contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January 1997 decision, *National Leased Housing Association v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the “overall limitation” provision contained in the rent adjustment section in HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, adjustments provided for in that section of the HAP Contract shall not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable

unassisted units which are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAP Contracts permit HUD to reduce rents below a previous year's rent levels through the use of comparability studies, and that the "initial difference" referred to in the HAP Contract is determined by the initial dollar amount and not by a percentage of the initial rents.

At this time, the Agency is unable to predict what actions, if any, HUD or Congress will take in the future with respect to such rent adjustments. Actions by HUD in the future could have the effect of limiting upward adjustments in contract rents or of decreasing contract rents currently in effect to eliminate any material difference between the contract rents and rents charged for comparable unassisted units, except to the extent of the initial differences. Such actions, if taken, could adversely affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Resolutions. As noted above under "Adjustments in Contract Rents," Congress has passed legislation and HUD has implemented procedures to restrict contract rent increases above fair market rents for the 1997 and subsequent federal fiscal years.

Project-Based Vouchers

Recently, the Agency started to work with local housing and redevelopment authorities and public housing authorities to provide for project-based Section 8 Housing Choice Vouchers for a portion of the units in a Development financed under the LMIR Program. Under this program, approximately 20% of the units in a Development receive year-to-year project-based Housing Choice Vouchers with the rents set at the Section 8 Existing Housing Fair Market Rent ("FMR") or payment standard. The Agency has found that the HUD-published FMR or payment standard is typically less than the market rent that could be charged without the subsidy; therefore, staff considers there to be minimal risk in the event of nonrenewal of the year-to-year ACC.

Section 8 Contract Administration

In 2000, the Agency was awarded a contract with HUD to perform oversight of a portion of HUD's Section 8 portfolio as a Performance-Based Contract Administrator. Under this contract arrangement (often referred to as the PBCA program), HUD partners with qualified entities through an ACC for the administration and compliance oversight of HAP Contracts made directly between HUD and owners of these developments. Sometime in late 2010 or early 2011, HUD plans to hold a national competitive rebid to qualified entities for the work performed under the ACC. This national competitive rebid will require existing Contract Administrators, such as the Agency, to rebid on the work they are currently performing under the PBCA program. Release of the invitation for proposals and the form of new ACC has been delayed due to departmental clearance issues at HUD and the numerous comments received on the draft ACC. HUD has indicated that once a final draft of the ACC is released, bidders will have 60 days to prepare and submit their proposals. The Agency is planning to submit a proposal under the PBCA program.

Section 236 Interest Reduction Payments Program

Under the Section 236 program, HUD makes monthly interest reduction payments directly to the Agency as mortgage lender on behalf of the Mortgagor. The amount of the monthly HUD payment is calculated as the difference between the monthly payment that would be required for principal, if any, interest (not in excess of the maximum rate approved by HUD for loans insured by FHA as of the date of the agreement plus one half of one percent per annum) and fees and charges (not in excess of one half of one percent per annum of the principal amount of the Mortgage Loan) which the Mortgagor is obligated to pay with respect to the subsidized dwelling units and the monthly payment that would be required for principal, if any, and interest which the Mortgagor would be required to pay with respect to the subsidized dwelling units if the Mortgage were to bear interest at the rate of 1% per annum. The Section 236 program requires that the Mortgagor covenant, among other things, that (1) the Mortgagor will establish basic (subsidized) rents and fair market rents for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit shall be equal to 30% of the tenant's income or the basic rent, whichever is greater, up to a maximum of the fair market rent, (3) the Mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the federal income limits, and (4) the Mortgagor will remit to HUD monthly the amount by which the total rents collected on all subsidized dwelling units exceed the sum of the approved basic rents for all such units.

Beginning in 1999, the Agency has made loans to new and existing owners of Developments originally financed under the Section 236 program to refinance the original Mortgage Loan and make additional Mortgage Loans for rehabilitation and other project purposes in order to maintain the Developments as subsidized housing. For the Section 236 refinancings, the interest reduction payments are continued after the refinancing in various forms in accordance with the original payment schedule through the scheduled maturity date of the original Mortgage Loan. Since the new Mortgage Loans have had 30-year maturities, the term of the interest reduction payments is less than the term of the new Mortgage Loan. The reduction in project revenue at the end of the term of the Section 236 contract has been taken into account in the underwriting of the new Mortgage Loans. In the one instance where a Section 236 mortgage was refinanced for an existing owner, the loan was financed from Agency resources and not financed or pledged under the Bond Resolution.

For Developments with uninsured first mortgage loans or loans made under the HUD Risk-Sharing Program, the Agency enters into agreements for interest reduction payments among HUD, the Agency and the Mortgagor which provide for administration of the Section 236 program by the Agency and interest reduction payments by HUD. HUD shall terminate payments under the agreement if the Development is acquired by the Agency or any owner not eligible under Section 236(b) of the National Housing Act. HUD shall have discretion to terminate payments at any time under the agreement (1) upon default by the Mortgagor or the Agency under any provision of the agreement; or (2) if any action of foreclosure is instituted by the Agency, unless the Agency (i) gives to HUD in advance written notice of its intention to institute such foreclosure, and (ii) submits to HUD in advance a plan acceptable to HUD providing for continuity of the eligibility of the Development for receiving the benefits of Section 236. If payments are terminated or to be terminated pursuant to the agreement, such payments may be reinstated or continued by HUD at its discretion and on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Agency or by the Mortgagor without prior written approval by HUD; except that, in connection with the issuance of its notes and bonds for the purpose of providing financing under the Development's Mortgage, the Agency may assign or pledge the Development's Mortgage and its rights thereunder as security to its note or bond holders or to a trustee without such prior written approval of HUD.

Apartment Renovation Mortgage Program

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. The Agency has continued to make loans under this Program, although all of the recent loans have been financed from Agency resources outside of the Bond Resolution. This Program is intended to provide Mortgage Loans that will refinance existing debt or finance the purchase of rental housing and provide construction financing for moderate rehabilitation of the Developments. The intent of the Program is to stabilize rents by providing long-term financing. The Program is not intended to provide permanent mortgage funds to replace construction financing. An additional purpose of the Program is to provide funds for rehabilitation that will stabilize energy costs in addition to improving the property. In general, 10-20% of the total mortgage will be used for rehabilitation, which allows rents to remain close to their pre-rehabilitation level. Greater levels of rehabilitation may be financed provided certain conditions are met.

Market Rate Mortgage Loan Program

In its Market Rate Mortgage Loan Program, which is administered by the Multifamily Division of the Agency, the Agency issues Bonds under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. The Agency is not presently making any Mortgage Loans pursuant to this Program.

Monitoring of Developments

In an attempt to minimize the risk inherent in long-term Mortgage Loans, the Agency has established the following guidelines for the monitoring of Developments:

- The Agency's Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.
- The Agency's Asset Management Section is responsible for the supervision of all developments financed by the Agency, beginning with the feasibility processing and continuing through the new construction or rehabilitation stages. During the latter stages of construction or rehabilitation, the Asset Management Section works with sponsors and their marketing agents in reviewing marketing plans. The Section's primary responsibility is to assist in the preparation of the management plan and to monitor the implementation of the management plan. The management plan is prepared prior to occupancy of a Development and includes information on the management agent's proposed method of operating the Development. Such information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting budget and energy conservation information.

The Asset Management Section generally monitors the operations of Developments on an ongoing basis in generally the following ways:

- *On-Site Inspections.* After initial marketing has been completed, on-site inspections are periodically made to check on management performance. Reports summarizing findings of inspections are submitted to the owner and management agent along with a timetable for correcting deficiencies, if necessary.
- *Reporting Requirements.* Management agents for each Development are required to submit regular accounting and occupancy reports to the Agency's Asset Management Section. Smaller, non-subsidized Developments have proven to be erratic in meeting the Agency's reporting requirements. The reports are reviewed by the Housing Management Officer assigned to each Development in order to identify significant deviations from the operating budget or change in occupancy.

The Agency generally receives the following financial information related to each Development:

- (i) Monthly Operating Report—due the 15th day of the following month;
- (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of each quarter;
- (iii) Analysis of Reserve Accounts—prepared monthly by Asset Management staff;
- (iv) Annual Budget—due 60 days prior to the beginning of the fiscal year to which the budget relates; and
- (v) Annual Audited Financial Statements—due not more than 90 days (60 days for HUD Risk Share) following the end of each fiscal year.

For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.

- *Training Sessions.* The Agency holds training sessions for new management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Sessions are held for each Development prior to occupancy and periodically thereafter.

Applicable Federal Law Requirements

Applicable federal tax law imposes significant limitations on the financing of Mortgage Loans for Developments with the proceeds of a qualified residential rental property issue, such as the Series Bonds. (See “Tax Exemption and Related Considerations.”)

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. The assets devoted to these programs are briefly described in the notes to the Financial Statements in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). These requirements include, but are not limited to (1) provisions relating to the ownership, use and occupancy of the Developments financed by the Series Bonds, including the requirement that a certain portion of the Development be occupied or held for occupancy by low and moderate income persons and families, (2) provisions relating to the application of the proceeds of the Series Bonds, (3) provisions which prescribe yield and other limits relative to the investment of the proceeds of the Series Bonds and other amounts, and (4) provisions which require that certain investment earnings related to the Series Bonds be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained or occurs.

The Bond and Series Resolutions, and loan documentation pertaining to the Developments financed by the Series Bonds, contain provisions (the “Tax Covenants”), including covenants of the Agency and the Owner, pursuant to which, in the opinion of Bond Counsel, the current requirements of the Code can be satisfied.

Assuming compliance with the provisions of the Tax Covenants, and based upon representations of the Agency and the Owners as to the application of the proceeds of the Series Bonds and the nature, use, cost and useful life of the Developments, 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; provided that Bond Counsel expresses no opinion as to the exclusion from federal gross income of interest on any Series Bond for any period during which such Series Bond is held by a person who is a “substantial user” of a Development financed by the Series Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Code.

The Code imposes an alternative minimum tax with respect to individuals and other taxpayers on alternative minimum taxable income. In the opinion of Bond Counsel, interest on the Series Bonds will not be treated as a preference item in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series Bonds also 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, based upon existing law and assuming compliance with the provisions of the Tax Covenants, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes; provided that Bond Counsel expresses no opinion as to the exclusion from Minnesota taxable net income of interest on any Series Bond for any period during which such Series Bond is held by a person who is a “substantial user” of a Development financed by the Series Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Code. Interest on the Series Bonds is not

includable in the Minnesota alternative minimum taxable income of individuals, trusts and estates. Interest on the Series Bonds is includable in the income of financial institutions and corporations for purposes of the Minnesota franchise tax.

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

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

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES BONDS OR RECEIPT OF INTEREST ON THE SERIES BONDS. PROSPECTIVE PURCHASERS OR BONDHOLDERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO COLLATERAL TAX CONSEQUENCES AND APPLICABLE STATE AND LOCAL TAX RULES IN STATES OTHER THAN MINNESOTA.

Certain State Tax Legislation

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."

Since the Series Bonds are "private activity bonds" and 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 financial position or results of operations of the Agency.

LEGAL MATTERS

The validity of the Series Bonds and the tax exemption of interest thereon are subject to the legal opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. A copy of the opinions of said firm, substantially in the forms set forth in Appendix G hereto, will be available at the time of delivery of the Series Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Kutak Rock LLP, Atlanta, Georgia.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the "Financial Advisor") is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor 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.

RATINGS

The Series Bonds are rated "Aa1" by Moody's Investors Service, Inc. and "AA+" by Standard & Poor's Ratings Services. The ratings reflect only the views of the respective rating agencies. For an explanation of each rating as described by the related rating agency, please contact such rating agency. These ratings are subject to change or withdrawal by either or both 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.

UNDERWRITING

RBC Capital Markets, LLC, Morgan Stanley & Co. Incorporated and Piper Jaffray & Co. (collectively, the "Underwriters") will purchase the Series Bonds. The Underwriters are to be paid a fee of \$143,854 with respect to their purchase of the Series Bonds. The Underwriters may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

Morgan Stanley, the parent company of Morgan Stanley & Co. Incorporated, an underwriter of the Series Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets, Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co.

Incorporated will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with its allocation of Series Bonds.

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.

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 purpose. Any statement made in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Agency and the purchasers or holders of any of the Series Bonds.

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ DANIEL M. BARTHOLOMAY
Commissioner

November 17, 2010.

APPENDIX A

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY
FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY
UNDER THE RENTAL HOUSING BOND RESOLUTION
INCLUDING THOSE INTENDED TO BE FINANCED
WITH PROCEEDS OF THE SERIES BONDS**

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF JUNE 30, 2010

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance As of 6/30/2010 | Undisbursed Mortgage Amount | Development Reserves (1) As of 6/30/2010 | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|-------------------------|-----------------|--|--|--|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| ABBEY FIELD | St. Francis | 5.23% | \$ 342,794 | | \$ 239,281 | 08/01/13 | HAP | (A) | 42 | 42 |
| APPLEWOOD WEST | Duluth | 7.05 | 217,495 | | 73,675 | 02/01/12 | HAP | 05/06/11 | 42 | 42 |
| BIRCHWOOD EAST | Virginia | 6.75 | 630,415 | - | 2,070 | 05/01/18 | HAP | 06/01/17 | 30 | 60 |
| BIRMINGHAM | St. Paul | 7.05 | 168,507 | - | 115,125 | 11/01/12 | HAP | 10/30/11 | 21 | 21 |
| BLACKDUCK | Blackduck | 7.50 | 299,017 | - | 199,786 | 12/01/17 | HAP | 10/01/16 | 30 | 30 |
| BOARDWALK | Richfield | 6.50 | 1,017,469 | - | 250,141 | 12/01/19 | HAP | 10/23/18 | 77 | 77 |
| BOSSEN PARK APTS | Minneapolis | 6.68 | 2,367,676 | - | 283,189 | 02/01/30 | LMIR/HRS | N/A | 0 | 110 |
| CAMBER HILL | So. St. Paul | 5.23 | 426,400 | - | 97,375 | 09/01/13 | HAP | (A) | 44 | 44 |
| CANADIAN TERRACE | Minneapolis | 7.55 | 187,802 | - | 162,173 | 09/01/16 | MR | N/A | 0 | 19 |
| CASCADE | Walker | 0.00 | 462,667 | - | 73,591 | 05/30/38 | HAP | 05/31/18 | 36 | 36 |
| CASCADE | Walker | 0.00 | 130,179 | | See above | 12/01/21 | HAP | See above | See above | See above |
| CEDAR HILLS | Minnetonka | 8.15 | 332,333 | - | 319,922 | 10/01/13 | HAP | 12/29/12 | 30 | 30 |
| CEDAR TERRACE | St. Cloud | 7.05 | 152,292 | - | 4,475 | 05/01/12 | HAP | 06/24/11 | 24 | 24 |
| CEDAR VILLAS | Eagan | 6.00 | 10,979,693 | - | 361,941 | 12/01/44 | LMIR/HRS | N/A | 0 | 104 |
| CEDAR VILLAS | Eagan | 6.00 | 446,337 | - | See above | 01/01/21 | LMIR/HRS | See above | See above | See above |
| CENTENNIAL PLAZA | Le Center | 7.50 | 314,360 | - | 158,007 | 12/01/17 | HAP | 12/10/16 | 40 | 40 |
| CHICAGO AVE APT | Minneapolis | 7.45 | 811,989 | - | 262,191 | 12/01/22 | LMIR/HAP/FHA | (A) | 60 | 60 |
| CLOVERDALE | St. Joseph | 7.25 | 803,329 | - | 390,445 | 10/01/21 | HAP | 03/28/20 | 36 | 36 |
| COLONY APTS | North Mankato | 6.30 | 1,362,221 | - | See above | 05/01/30 | LMIR/HRS | See above | See above | See above |
| COLONY APTS (2) | North Mankato | 8.50 | 283,641 | - | 190,636 | 06/01/12 | LMIR/HRS/236 | 06/01/12 | 120 | 120 |
| COUNTRYSIDE T.H. | Fairmont | 6.50 | 1,005,621 | - | 529,565 | 12/01/19 | HAP | 09/22/18 | 71 | 71 |
| CROSSROADS | New Brighton | 5.87 | 7,104,866 | - | 437,640 | 07/01/28 | HAP | 08/30/19 | 172 | 172 |
| DEWEY PLACE/PINES | Foley | 7.05 | 217,892 | - | 135,737 | 08/01/12 | HAP | 06/02/11 | 36 | 36 |
| EASTGATE | Montevideo | 0.00 | 907,937 | - | 158,350 | 09/01/21 | HAP | 07/31/20 | 46 | 46 |
| EASTPORT | Mankato | 6.50 | 1,295,263 | - | 661,822 | 10/01/19 | HAP | 08/16/18 | 78 | 78 |
| EIGHTEENTH & CLINTON | Minneapolis | 7.05 | 48,707 | - | 17,058 | 07/01/12 | HAP | 08/28/11 | 8 | 8 |
| ELLIOT PARK APTS | Minneapolis | 8.15 | 243,496 | - | 165,049 | 12/01/13 | HAP | 01/31/13 | 30 | 30 |
| ENDION SCHOOL | Duluth | 8.15 | 261,135 | - | 620,920 | 11/01/13 | HAP | 11/17/12 | 26 | 26 |
| ETNA WOODS | St. Paul | 7.05 | 113,759 | - | 19,484 | 02/01/12 | HAP | 07/01/11 | 20 | 20 |
| FAIRVIEW APTS | St. Peter | 7.55 | 432,192 | - | See above | 05/01/30 | LMIR/HRS | See above | See above | See above |
| FAIRVIEW APTS (2) | St. Peter | 7.00 | 187,441 | - | 5,553 | 06/01/14 | LMIR/HRS/236 | 06/01/14 | 48 | 48 |
| FIFTEEN HUND PERKINS | Windom | 0.00 | 857,296 | - | 522,354 | 03/01/21 | HAP | 11/27/19 | 48 | 48 |
| FONTAINE TOWERS | Rochester | 8.15 | 2,610,539 | - | 812,308 | 12/01/15 | HAP | 06/30/13 | 151 | 151 |
| FRANKLIN LANE | Anoka | 7.35 | 272,192 | - | See above | 05/01/15 | LMIR/FHA | See above | See above | See above |
| FRANKLIN LANE | Anoka | 7.35 | 574,175 | - | See above | 05/01/27 | LMIR | See above | See above | See above |
| FRANKLIN LANE (2) | Anoka | 7.17 | 814,140 | - | 350,693 | 05/01/27 | LMIR/HRS/236 | 05/01/15 | 66 | 66 |
| GALWAY PLACE | Coon Rapids | 7.05 | 196,168 | - | 444,110 | 01/01/12 | HAP | 05/28/11 | 36 | 36 |
| GARDEN COURT | Winnebago | 0.00 | 361,597 | - | 104,243 | 01/01/19 | HAP | 05/01/18 | 36 | 36 |
| GENEVA VILLAGE | Oakdale | 7.21 | 3,653,948 | - | 344,675 | 01/01/28 | LMIR | N/A | 0 | 175 |
| GLENWOOD MANOR | Glenwood | 7.05 | 176,398 | - | 242,580 | 01/01/12 | HAP | 05/27/11 | 36 | 36 |
| GRAHEK APTS. | Ely | 7.25 | 618,128 | - | 247,905 | 11/01/19 | HAP | 03/30/19 | 42 | 42 |

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF JUNE 30, 2010

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance As of 6/30/2010 | Undisbursed Mortgage Amount | Development Reserves (1) As of 6/30/2010 | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|------------------------------|------------------|--|--|--|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| GREENWOOD PLACE | Faribault | 7.25 | 1,045,111 | - | 234,191 | 10/01/20 | HAP | 06/05/19 | 51 | 51 |
| GREYSOLON PLAZA | Duluth | 6.50 | 6,089,103 | - | 1,348,867 | 04/01/47 | HAP | 10/22/10 | 150 | 150 |
| HARBOR POINT | Two Harbors | 7.25 | 604,139 | - | 188,377 | 06/01/19 | HAP | 10/27/18 | 41 | 41 |
| HEIGHTS MANOR | Columbia Heights | 6.50 | 989,792 | - | 829,249 | 12/01/19 | HAP | 09/22/18 | 85 | 85 |
| HERITAGE HOUSE | St. Paul | 8.15 | 690,192 | - | 308,223 | 11/01/13 | HAP | 04/27/13 | 58 | 58 |
| HERITAGE PRAIRIE | Wabasso | 6.50 | 276,177 | - | 533,718 | 01/01/19 | HAP | 06/15/18 | 28 | 28 |
| HICKORY RIDGE | Maple Grove | 8.15 | 479,416 | - | 12,285 | 03/01/15 | HAP | 01/28/13 | 32 | 32 |
| HIGHLAND COMMONS | Arlington | 6.50 | 512,134 | - | 74,566 | 10/01/19 | HAP | 01/09/19 | 41 | 41 |
| HILLSIDE HOMES | Spring Valley | 6.50 | 413,227 | - | 123,127 | 10/01/19 | HAP | 12/14/18 | 37 | 37 |
| HILLSIDE MANOR EAST | Moose Lake | 7.25 | 86,373 | - | 243,870 | 03/01/11 | HAP | 07/08/10 | 41 | 41 |
| HILLSIDE TERRACE | Long Lake | 6.72 | 1,804,707 | - | 319,361 | 08/01/34 | LMIR/HRS | 12/02/10 | 44 | 44 |
| HILLSIDE TERRACE-MONTICELLO | Monticello | 7.05 | 226,050 | - | 181,444 | 05/01/12 | HAP | 06/30/11 | 36 | 36 |
| HOLMES GREENWAY | Minneapolis | 5.23 | 642,196 | - | 160,699 | 10/01/13 | HAP | (A) | 50 | 50 |
| HOMESTEAD APTS | Mankato | 7.55 | 1,221,810 | - | See above | 05/01/30 | LMIR/HRS | See above | See above | See above |
| HOMESTEAD APTS (2) | Mankato | 7.00 | 504,085 | - | 132,507 | 06/01/14 | LMIR/HRS/236 | 06/01/14 | 120 | 120 |
| HOPKINS VILLAGE | Hopkins | 5.20 | 770,472 | - | See above | 09/01/24 | LMIR/FHA | See above | See above | See above |
| HOPKINS VILLAGE | Hopkins | 5.20 | 311,605 | - | See above | 09/01/24 | LMIR | See above | See above | See above |
| HOPKINS VILLAGE (2) | Hopkins | 7.12 | 1,997,345 | - | 644,048 | 09/01/24 | LMIR/FHA/236 | 09/01/12 | 161 | 161 |
| HUNTERS RIDGE | Minnetonka | 6.50 | 2,017,150 | - | 663,648 | 08/01/21 | HAP | 09/04/20 | 25 | 123 |
| INNSBRUCK | Rochester | 8.15 | 444,599 | - | 220,641 | 10/01/13 | HAP | 10/15/12 | 40 | 40 |
| KALEVA | New York Mills | 7.25 | 26,926 | - | 91,449 | 11/01/29 | HAP | 11/01/29 | 30 | 30 |
| KENTUCKY LANE | Crystal | 7.29 | 2,584,054 | - | 183,851 | 12/01/31 | LMIR/HRS | N/A | 0 | 67 |
| KIMBERLY MEADOWS | Plymouth | 7.05 | 312,907 | - | 487,011 | 10/01/12 | HAP | 08/31/11 | 39 | 39 |
| KINGSWAY ESTATES | LeSueur | 8.15 | 244,088 | - | 114,759 | 10/01/13 | HAP | 10/26/12 | 24 | 24 |
| LAKE CRYSTAL | Lake Crystal | 7.25 | 803,821 | - | 521,156 | 03/01/21 | HAP | 06/12/19 | 43 | 43 |
| LANESBORO HTS. | Elk River | 8.15 | 313,944 | - | 258,125 | 10/01/13 | HAP | 09/28/12 | 30 | 30 |
| LARSON COMMONS | Cloquet | 6.52 | 2,569,476 | - | 263,074 | 06/01/37 | HAP | 03/07/20 | 85 | 85 |
| LINCOLN CENTER | Chisholm | 7.25 | 196,535 | - | 222,636 | 03/01/12 | HAP | 12/15/10 | 41 | 41 |
| LORING TOWERS APARTMENTS (2) | Minneapolis | 6.14 | 7,232,976 | - | 815,054 | 04/01/35 | LMIR/HRS/236 | 12/31/23 | 187 | 208 |
| MADISON APT. | Minneapolis | 8.15 | 522,438 | - | 98,118 | 05/01/14 | HAP | 02/15/13 | 51 | 51 |
| MANITOU RIDGE (2) | White Bear Lake | 6.63 | 3,712,561 | - | 244,356 | 03/01/33 | LMIR/HRS/236 | 10/01/14 | 118 | 118 |
| MAPLE GROVE ESTATES | Hermantown | 8.15 | 457,027 | - | 283,742 | 11/01/13 | HAP | 09/16/12 | 48 | 48 |
| MAPLE KNOLL | Maplewood | 7.05 | 510,329 | - | 262,302 | 01/01/13 | HAP | 10/15/11 | 57 | 57 |
| MAPLE RIDGE MANOR | Alexandria | 6.50 | 662,314 | - | 673,008 | 01/01/21 | HAP | 07/31/18 | 40 | 40 |
| MAPLE RIDGE MANOR | Alexandria | 0.00 | 460,000 | - | See above | 01/01/21 | HAP | See above | See above | See above |
| MARSHALL SQUARE APTS | Marshall | 6.45 | 1,542,429 | - | 174,241 | 02/01/36 | LMIR/HRS/HAP | 08/24/25 | 90 | 90 |
| MARYLAND HOUSE | Minneapolis | 7.25 | 1,880,395 | - | 607,620 | 01/01/22 | HAP | 01/08/21 | 79 | 79 |
| MATTHEWS PARK | Minneapolis | 7.50 | 286,399 | - | 222,555 | 12/01/17 | HAP | 09/28/16 | 24 | 24 |
| MEDLEY PARK | Golden Valley | 8.15 | 358,261 | - | 136,565 | 03/01/14 | HAP | 12/01/12 | 30 | 30 |
| MERIDIAN APTS | Duluth | 6.50 | 515,509 | - | 413,394 | 05/01/19 | HAP | 07/20/18 | 39 | 39 |
| MILACA PARK | Milaca | 0.00 | 1,516,413 | - | 149,431 | 03/01/22 | HAP | 11/14/20 | 71 | 71 |

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF JUNE 30, 2010

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance As of 6/30/2010 | Undisbursed Mortgage Amount | Development Reserves (1) As of 6/30/2010 | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|-------------------------|-------------------|--|--|--|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| MILL POND VIEW | Pelican Rapids | 7.25 | 1,165,633 | - | 1,044,897 | 09/01/20 | HAP | 09/20/19 | 66 | 66 |
| MILLIE BENEKE | Glencoe | 0.00 | 413,945 | - | 279,233 | 08/01/19 | HAP | 08/07/18 | 41 | 41 |
| MILLPOND APTS | New Prague | 7.05 | 287,414 | - | 231,454 | 05/01/12 | HAP | 08/14/11 | 44 | 44 |
| MISSION OAKS | Plymouth | 8.15 | 306,602 | - | 241,576 | 02/01/14 | HAP | 05/27/13 | 26 | 26 |
| MORGAN PARK | Duluth | 8.15 | 290,814 | - | 69,497 | 09/01/13 | HAP | 08/31/12 | 24 | 24 |
| MOWER COUNTY | LeRoy | 6.50 | 452,684 | - | 1,007,280 | 10/01/20 | HAP | 06/30/19 | 30 | 30 |
| MUNGER TERRACE | Duluth | 7.25 | 877,710 | - | 137,539 | 08/01/20 | HAP | 01/24/19 | 45 | 45 |
| MUNGER TERRACE | Duluth | 0.00 | 177,516 | - | See above | 12/01/21 | HAP | See above | See above | See above |
| NEVADA SQUARE | Benson | 7.25 | 737,812 | - | 306,041 | 04/01/20 | HAP | 03/30/19 | 40 | 40 |
| NORTH 44 fka TODD 27 | Long Prairie | 7.25 | 614,729 | - | 76,538 | 04/01/21 | HAP | 06/25/20 | 44 | 44 |
| NORTH MORA | Mora | 0.00 | 727,592 | - | 102,455 | 05/01/21 | HAP | 12/06/17 | 35 | 35 |
| NORTH STAR | Roseau | 7.25 | 780,548 | - | 362,269 | 02/01/20 | HAP | 05/14/19 | 51 | 51 |
| NORTHGATE WOODS | Blaine | 7.25 | 1,626,983 | - | 797,454 | 07/01/21 | HAP | 08/29/20 | 75 | 75 |
| NORTHWOOD COMMONS | Baudette | 6.50 | 332,805 | - | 188,731 | 05/01/19 | HAP | 12/19/18 | 32 | 32 |
| OAK HAVEN | Minneapolis | 8.15 | 95,755 | - | 85,074 | 02/01/13 | HAP | 12/21/12 | 10 | 10 |
| OAKLAND SQUARE | Minneapolis | 7.05 | 170,961 | - | 73,335 | 07/01/16 | HAP | 11/30/14 | 31 | 31 |
| OAKWOOD HOMES | Karlstad | 7.25 | 265,798 | - | 21,689 | 12/01/21 | HAP | 03/12/20 | 45 | 45 |
| OAKWOOD HOMES | Karlstad | 0.00 | 220,528 | - | See above | 12/01/21 | HAP | 03/12/20 | See above | See above |
| OKABENA | Worthington | 7.25 | 779,779 | - | 466,679 | 07/01/19 | HAP | 11/30/18 | 60 | 60 |
| OTTERKILL GARDEN | Bagley | 7.50 | 305,203 | - | 253,881 | 02/01/18 | HAP | 05/01/17 | 30 | 30 |
| PARK HAVEN | Brooklyn Park | 4.30 | 224,471 | - | See above | 01/01/13 | LMIR/FHA | See above | See above | See above |
| PARK HAVEN (2) | Brooklyn Park | 8.02 | 1,794,307 | - | 549,246 | 01/01/25 | LMIR/FHA/236 | 01/01/13 | 174 | 174 |
| PARK MANOR | Detroit Lakes | 7.25 | 1,570,455 | - | 1,245,887 | 08/01/20 | HAP | 05/18/19 | 97 | 97 |
| PARK VIEW TERRACE-M | Moorhead | 7.50 | 1,248,090 | - | 1,143,869 | 12/01/17 | HAP | 05/15/17 | 121 | 121 |
| PENNEL PARK APARTMENTS | Duluth | 6.20 | 2,802,337 | - | 240,264 | 07/01/35 | LMIR | 07/01/35 | 100 | 101 |
| PINE MANOR | Ely | 0.00 | 81,796 | - | 144,440 | 06/01/11 | HAP | 07/27/10 | 30 | 30 |
| PINE RIDGE | Grand Rapids | 5.75 | 970,313 | - | 609,393 | 11/01/18 | HAP | 02/15/18 | 60 | 100 |
| PRINCETON | Princeton | 7.25 | 722,627 | - | 363,276 | 04/01/20 | HAP | 04/12/19 | 48 | 48 |
| RED PINE ESTATE | Bemidji | 7.25 | 268,522 | - | 328,034 | 08/01/11 | HAP | 08/29/10 | 86 | 86 |
| RIPPLE RIVER | Aitkin | 7.05 | 292,388 | - | 79,908 | 07/01/13 | HAP | 11/11/11 | 32 | 32 |
| RIVER BEND | Fergus Falls | 7.25 | 585,532 | - | 1,018,753 | 08/01/12 | HAP | 10/31/10 | 100 | 100 |
| RIVERSIDE MANOR | Dawson | 0.00 | 414,473 | - | 126,525 | 09/01/20 | HAP | 11/30/19 | 24 | 24 |
| RIVERSIDE TERRACE | Thief River Falls | 7.25 | 143,610 | - | 293,033 | 05/01/11 | HAP | 05/02/10 | 66 | 66 |
| RIVERTOWN COMMONS | Stillwater | 6.15 | 3,426,535 | - | 147,359 | 03/01/38 | LMIR | 04/03/20 | 96 | 96 |
| RIVERVIEW APTS | Appleton | 6.50 | 408,786 | - | 400,285 | 12/01/19 | HAP | 10/13/18 | 37 | 37 |
| RIVERVIEW MANOR | Floodwood | 7.25 | 505,146 | - | 273,459 | 01/01/20 | HAP | 04/13/19 | 35 | 35 |
| ROSEMOUNT PLAZA | Rosemount | 8.15 | 484,156 | - | 312,103 | 12/01/13 | HAP | 01/21/13 | 39 | 39 |
| ROSEMOUNT TOWNHOUSES | Rosemount | 1.00 | 539,143 | - | 50,739 | 10/01/21 | LMIR | 01/31/28 | 28 | 28 |
| ROSEVILLE SENIORS | Roseville | 6.50 | 1,474,142 | - | 615,725 | 02/01/19 | HAP | 09/21/18 | 127 | 127 |
| RUSH RIVERVIEW | Rush City | 8.15 | 248,129 | - | 153,782 | 10/01/13 | HAP | 11/30/12 | 24 | 24 |
| RUSTIC CREEK | Two Harbors | 7.05 | 390,432 | - | 56,992 | 02/01/13 | HAP | 12/07/11 | 40 | 40 |

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF JUNE 30, 2010

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance As of 6/30/2010 | Undisbursed Mortgage Amount | Development Reserves (1) As of 6/30/2010 | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|-------------------------------------|---------------------|--|--|--|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| SAHLMAN EAST | Cloquet | 7.25 | 102,104 | - | 175,979 | 05/01/11 | HAP | 07/01/10 | 36 | 36 |
| SOUTHVIEW TERRACE | Hibbing | 6.75 | 1,417,992 | - | 173,739 | 06/01/18 | HAP | 08/01/17 | 43 | 145 |
| STONE CREEK TH fka ROCK MANOR | Luverne | 8.15 | 288,392 | - | 59,545 | 02/01/14 | HAP | 10/27/12 | 24 | 24 |
| SUNRISE ESTATES | Jackson | 0.00 | 251,277 | - | 214,990 | 12/01/14 | HAP | 10/30/10 | 40 | 40 |
| SUNRISE ESTATES | Jackson | 0.00 | 550,000 | - | See above | 01/01/22 | AMP | See above | See above | See above |
| SUNRISE MANOR | Sleepy Eye | 7.05 | 196,454 | - | 3,606 | 05/01/12 | HAP | 10/01/11 | 32 | 32 |
| SUNRISE MEADOW | St. Peter | 6.50 | 979,054 | - | 336,636 | 05/01/19 | HAP | 06/01/18 | 63 | 63 |
| THE CROSSROADS fka SOUTH PARK MANOR | Dodge Center | 0.00 | 784,945 | - | 14,571 | 05/01/22 | HAP | 09/12/20 | 37 | 37 |
| THE CROSSROADS fka SOUTH PARK MANOR | Dodge Center | 0.00 | 260,000 | - | See above | 05/01/22 | AMP | See above | See above | See above |
| THIRTYONE HUND FOURTH AVENUE | Minneapolis | 7.50 | 94,776 | - | 37,935 | 01/01/24 | LMIR | N/A | 0 | 10 |
| TOWN SQUARE | East Grand Forks | 7.25 | 1,648,657 | - | 494,510 | 12/01/21 | HAP | 10/08/19 | 81 | 81 |
| VADNAIS HIGHLANDS | Vadnais Heights | 6.60 | 1,657,593 | - | 174,050 | 03/01/34 | LMIR/HRS/HAP | (A) | 35 | 35 |
| VALLEY VIEW MANOR | Ada | 6.50 | 394,832 | - | 626,878 | 04/01/19 | HAP | 06/28/18 | 40 | 40 |
| VALLEYVIEW COMMONS | Mahnomen | 6.50 | 327,715 | - | 766,793 | 04/01/19 | HAP | 10/13/18 | 32 | 32 |
| VILLAGE TH | Chaska | 7.25 | 623,372 | - | 194,724 | 02/01/22 | HAP | 02/01/21 | 28 | 28 |
| WALNUT PLACE | Rockford | 7.05 | 193,258 | - | 157,750 | 04/01/12 | HAP | 07/21/11 | 30 | 30 |
| WARROAD | Warroad | 0.00 | 615,616 | - | 12,167 | 12/01/21 | HAP | 12/17/20 | 30 | 30 |
| WASHINGTON SQUARE | White Bear Lake | 7.25 | 1,333,656 | - | 531,399 | 03/01/21 | HAP | 05/24/19 | 81 | 81 |
| WAYBURY APARTMENTS | Carver | 6.35 | 4,519,183 | - | 516,254 | 08/01/37 | LMIR | 10/01/13 | 114 | 114 |
| WEST FALLS ESTATES | International Falls | 7.25 | 405,420 | - | 362,621 | 04/01/12 | HAP | 01/08/11 | 80 | 80 |
| WESTFALLS-R.W. FALL | Redwood Falls | 7.05 | 301,487 | - | 374,300 | 11/01/12 | HAP | 10/01/11 | 40 | 40 |
| WESTGATE | Gaylord | 6.50 | 300,679 | - | 83,519 | 03/01/19 | HAP | 07/01/18 | 31 | 31 |
| WESTGATE-HIBBING | Hibbing | 7.50 | 927,957 | - | 114,989 | 12/01/17 | HAP | 11/24/16 | 30 | 100 |
| WESTGATE-HIBBING | Hibbing | 0.00 | 984,848 | - | See above | 08/01/13 | HAP | 11/24/16 | See above | See above |
| WESTGATE-NEW PRAGUE | New Prague | 7.05 | 383,447 | - | 192,083 | 08/01/13 | HAP | 07/15/11 | 37 | 37 |
| WHISPERING PINES | Caledonia | 6.50 | 446,814 | - | 146,351 | 09/01/19 | HAP | 12/14/18 | 37 | 37 |
| WHITTIER COOP | Minneapolis | 7.25 | 594,352 | - | 63,240 | 10/01/18 | FHA | (A) | 45 | 45 |
| WILKINS TOWNHOMES | St. Paul | 8.15 | 190,208 | - | 199,571 | 01/01/13 | HAP | 12/02/12 | 23 | 23 |
| WIMBLEDON GREEN | St. Cloud | 8.15 | 629,198 | - | 381,100 | 01/01/15 | HAP | 02/25/13 | 45 | 45 |
| WOODCREST MANOR | Mora | 7.25 | 716,850 | - | 113,251 | 08/01/21 | HAP | 03/07/20 | 42 | 42 |
| WOODLAND GARDEN | Duluth | 7.25 | 936,815 | - | 194,770 | 01/01/20 | HAP | 06/15/19 | 60 | 60 |
| WOODLAND PARK APTS (2) | St. Cloud | 7.29 | 1,459,998 | - | 149,747 | 12/01/31 | LMIR/HRS/236 | 11/01/15 | 86 | 86 |
| YORKDALE | Edina | 7.25 | 1,627,483 | - | 271,471 | 05/01/20 | HAP | 01/08/19 | 90 | 90 |
| YORKDALE | Edina | 9.00 | 4,353,918 | - | See above | 05/01/20 | HAP | See above | See above | See above |
| | | | \$ 151,248,541 | \$ - | \$ 42,482,568 | | | | 7,233 | 8,080 |

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF JUNE 30, 2010

MORTGAGE LOANS AND DEVELOPMENTS PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance As of 6/30/2010 | Undisbursed Mortgage Amount | Development Reserves (1) As of 6/30/2010 | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|--|------------------|--|--|--|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| 116,118,120 S HOLMES | Shakopee | 9.50 | \$ 84,199 | \$ - | \$ 3,561 | 03/01/19 | ARM | N/A | 0 | 7 |
| 380-400 W LARPENTEUR | St. Paul | 9.75 | 302,466 | - | 125,808 | 11/01/21 | ARM | N/A | 0 | 34 |
| 924 WASHINGTON | Bemidji | 9.50 | 41,077 | - | 8,910 | 08/01/19 | ARM | N/A | 0 | 8 |
| CARRIAGE HOUSE | Moorhead | 6.50 | 675,811 | - | 103,280 | 07/01/21 | MR | N/A | 0 | 36 |
| CHESTER TERRACE | Duluth | 7.50 | 367,803 | - | 140,281 | 02/01/18 | ARM | N/A | 0 | 43 |
| CLIFTON | Shakopee | 7.25 | 1,228,673 | - | 9,742 | 03/01/21 | HAP | 11/19/19 | 56 | 56 |
| DELANCEY & SELBY STONE APTS. Fka 700-716 SELBY | St. Paul | 9.50 | 166,410 | - | 98,191 | 10/01/20 | ARM | N/A | 0 | 38 |
| DELTON MANOR (2) | Bemidji | 6.75 | 371,166 | - | 180,298 | 12/01/16 | 236 | 12/01/16 | 60 | 60 |
| DOVER HILL (2) | Golden Valley | 6.75 | 2,223,800 | - | 2,234,072 | 12/01/16 | 236 | 12/01/16 | 196 | 234 |
| HERITAGE PARK | Minneapolis | 6.50 | 3,827,873 | - | 605,104 | 11/01/43 | LMIR | N/A | 0 | 112 |
| HYLANDS | Rochester | 7.25 | 2,441,087 | - | 353,470 | 11/01/21 | HAP | 06/02/20 | 100 | 100 |
| LEWIS PARK | St. Paul | 7.25 | 2,683,055 | - | 1,798,568 | 01/01/22 | HAP | 08/01/20 | 103 | 103 |
| LIBERTY PLAZA | St. Paul | 6.50 | 4,859,897 | - | 973,888 | 02/01/34 | LMIR | 09/30/14 | 78 | 173 |
| MESABA VILLAS (2) | Duluth | 6.75 | 238,843 | - | 150,242 | 12/01/16 | 236 | 12/01/16 | 27 | 27 |
| MILWAUKEE AVE (2) | Minneapolis | 6.75 | 104,848 | - | 56,804 | 12/01/16 | 236 | 12/01/16 | 12 | 12 |
| NORTH RIDGE ESTATES | No. Mankato | 7.50 | 675,802 | - | 40,593 | 07/01/22 | MR | N/A | 0 | 30 |
| NORTHWOOD APTS. (2) | Glencoe | 6.75 | 281,214 | - | 516 | 12/01/16 | 236 | 12/01/16 | 31 | 39 |
| OAK GLEN OF EDINA | Edina | 5.75 | 5,626,960 | - | 189,245 | 11/01/32 | LMIR | 06/30/13 | 26 | 64 |
| PARK PLAZA St. fka 830 13th STREET | St. Cloud | 8.50 | 760,566 | - | 5,994 | 02/01/21 | ARM | N/A | 0 | 48 |
| PASSAGES | Minneapolis | 5.00 | 243,371 | - | 106,106 | 09/01/21 | MR | N/A | 0 | 17 |
| QUEENS LANE APT | Anoka | 3.50 | 104,238 | - | 354,143 | 01/01/12 | LMIR | N/A | 0 | 44 |
| SIBLEY COVE | Maplewood | 5.72 | 4,322,099 | - | 259,403 | 08/01/34 | LMIR | 07/01/33 | 40 | 80 |
| SLATER SQUARE | Minneapolis | 5.00 | 731,037 | - | 258,420 | 11/01/36 | MR | N/A | 0 | 163 |
| SLATER SQUARE | Minneapolis | 5.00 | 1,162,813 | - | See above | 11/01/36 | MR | See above | See above | See above |
| THEATER HEIGHTS | Columbia Heights | 3.50 | 8,208 | - | 62,084 | 10/01/11 | LMIR | N/A | 0 | 22 |
| THREE LINKS (2) | Northfield | 6.75 | 454,429 | - | 128,466 | 12/01/16 | 236 | 12/01/16 | 32 | 80 |
| VIKING TERRACE (2) | Worthington | 6.75 | 415,913 | - | 135,779 | 12/01/16 | 236 | 12/01/16 | 40 | 60 |
| VIRGINIA ROTARY (2) | Virginia | 7.25 | 166,558 | - | 78,870 | 11/01/15 | FHA/236 | 11/01/15 | 31 | 31 |
| WASHINGTON CROSSING | Winona | 5.75 | 1,708,194 | - | 105,947 | 01/01/36 | LMIR | N/A | 0 | 62 |
| WATERFORD | Oakdale | 7.09 | 317,640 | - | 68,779 | 10/01/13 | HAP/FHA | (A) | 31 | 31 |
| WESTVIEW APARTMENTS | Forest Lake | 6.50 | 2,714,936 | - | 360,138 | 06/01/33 | LMIR | N/A | 0 | 64 |
| | | | <u>\$ 39,310,985</u> | <u>\$ -</u> | <u>\$ 8,996,704</u> | | | | <u>863</u> | <u>1,878</u> |
| | | | <u>\$ 190,559,526</u> | <u>\$ -</u> | <u>\$ 51,479,272</u> | | | | <u>8,096</u> | <u>9,958</u> |

**DESCRIPTION OF MORTGAGE LOANS INTENDED TO BE FINANCED WITH PROCEEDS FROM
THE RENTAL HOUSING BONDS 2010 SERIES A-1, A-2, AND B**

| Development Name | Location | Estimated Mortgage Rate | Estimated Mortgage Amount | Estimated Development Reserves | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|-------------------------|-----------------|------------------------------------|--------------------------------------|---|-----------------------------------|-------------------------|-------------------------------|--|-------------------------------|
| Lyndale Green | Minneapolis | 6.00% | \$3,380,000 | \$306,000 | 11/10/2050 | LMIR/HUD Risk Share | N/A | 0 | 63 |
| | | 2.50 | 2,630,000 | - | 7/1/2012 | LMIR/ Bridge Loan | | | |
| Nicollet Tower | Minneapolis | 2.50 | 8,000,000 | - | 1/2/2013 | LMIR/ Bridge Loan | N/A | 306 | 306 |

Notes:

(1) Amounts listed under the heading "Development Reserves" are pledged by the project owner under the project regulatory agreement. The reserve can be applied for project purposes under the regulatory agreement, and are paid to the owner when the mortgage loan is paid or prepaid in full. The reserves are not pledged as security under the Bond Resolution. The real estate tax and insurance reserves are excluded.

(2) Refinancings of existing 236 projects: The original interest reduction payments have not been increased to cover the additional debt service and are for less than the maximum term of the mortgage.

(A) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.

Program Type Legend

236 = Section 236 Interest Reduction Payment Program
AMP = Asset Management Program
ARM = Apartment Renovation Mortgage Program
FHA = FHA Insured
HAP = Section 8 Housing Assistance Payment Program (Uninsured Developments)
HRS = FHA Risk Share Insurance
LMIR = Low And Moderate Income Rental Program
MR = Market Rate Loan Program

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2010

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MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

Recent years have presented many new challenges in the housing finance industry and 2010 was no exception. Minnesota Housing is fortunate to have skilled and dedicated staff who make it possible for the Agency to react swiftly and successfully to the changing needs of our marketplace. As part of laying the groundwork for the future, the Agency continues to examine our business model, work diligently to maintain the momentum towards meeting our strategic priorities, and has renewed a commitment to staff development that will prepare current employees for future leadership positions within the organization.

Financial Performance

Last year at this time Minnesota Housing was on the cusp of completing a transition of our homeownership business model from whole loans to mortgage-backed securities. I am pleased to report that we finished our transition in September 2009 and have been productively operating an MBS program since then. The MBS business model will better insulate the Agency from the loan loss exposure that is inherent in a whole loan portfolio. Since the transition, significant numbers of loans have been securitized and financed with agency resources or credit lines in anticipation of finalizing permanent financing under the US Treasury's New Issue Bond Program. The ability to internally warehouse MBS significantly mitigated the impact on revenues of the general decline in investment yields.

You will see in the accompanying financial report that in 2010 Minnesota Housing's core financial performance was strong yet it continued to be masked by loan loss allowances that exceeded historical averages. The Agency's homeownership loan portfolio continued to feel the effects of the nationwide recession as delinquency rates climbed during the first half of the year followed by some moderation thereafter. While it is too early to forecast sustained improvement in portfolio performance, Minnesota Housing is employing multiple approaches to assist households with remaining in their homes at mortgage payments they can afford for the long term.

Strategic Priorities

We continue to make progress in achieving our strategic priorities of (1) financing new affordable housing opportunities, (2) preserving existing affordable housing, (3) ending long-term homelessness, (4) increasing emerging market homeownership, and (5) addressing foreclosure. Progress is demonstrated by the following achievements:

- Over 1,500 new homeownership loans were committed during the year despite a challenging economic environment.
- Virtually all (99%) of the Section 8 units that were at risk of losing their federal assistance were preserved for at least the short term. For every \$1 of state funds used to preserve federally assisted housing \$5.70 in federal assistance is secured.
- At the end of 2009, 1,754 households were living in housing funded by Minnesota Housing under the state's Business Plan to End Long-term Homelessness. Eighty-eight percent (88%) of the households served in 2009 were still in housing at the end of the year or had moved to another permanent housing option.
- In the last half of FFY 2009, 35% of the first-time homebuyers with mortgages from Minnesota Housing were from emerging markets.
- Nearly 16,000 households received counseling to address the threat of foreclosure. Roughly 50% of the households served have avoided foreclosure and remained in their homes.
- Three hundred ninety (390) foreclosed or vacant and abandoned housing units have been addressed with federal funding to assist in neighborhood stabilization.

Recent infusions of federal monies through one-time or short term programs have been instrumental in assisting the agency in meeting its strategic priorities. The results of funding through the Neighborhood Stabilization Program and the National Foreclosure Mitigation Counseling Program are reflected above. In addition, the Tax Credit Assistance Program and Section 1602/Exchange Program provided the agency

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

with the means to move forward all of the housing tax credit projects that had been stalled from 2007 on. Federal energy conservation funds were combined with agency loan funds to incent approximately 1,200 homeowners to make energy efficiency improvements to their homes.

Despite another sizeable state budget deficit, the reductions to the state appropriations for the agency were relatively modest at 5.5%. The agency's authority to issue appropriation bonds was expanded by an additional \$6 million to take advantage of lower interest rates.

Organizational Governance

At this writing, the agency is about to formalize its risk management program with the hiring of a chief risk officer who will be responsible for structuring and overseeing a framework for agency-wide governance, risk and compliance activities and for providing improved accountability to senior management and the Board. With increasing frequency, we are saying "goodbye" to long-term Minnesota Housing employees, including agency leaders, as they retire. Growing talent internally and bringing in new talent is receiving increased emphasis.

Despite the challenges caused by the recession, Minnesota Housing continues to produce positive financial and programmatic results. By building on our strengths, encouraging integration, and developing a cohort of emerging leaders, we are optimistic that Minnesota Housing will continue to perform in the top tier of housing finance agencies in the years ahead.

Regards,

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

Dan Bartholomay, Commissioner
Minnesota Housing

August 25, 2010

Independent Auditors' Report

Members of the Board of Directors
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, Homeownership Finance, Multifamily Housing, 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, 2010, 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 2009 financial statements and, in our report dated August 26, 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, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2010, 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.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
August 25, 2010

MINNESOTA HOUSING FINANCE AGENCY

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

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. 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. 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's mission is to finance and advance 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 three program divisions — Multifamily, Single Family and Community Development — 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 of this report consists of three parts the independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements are prepared on an accrual basis and presented on an Agency-wide basis and by fund.

- Agency-wide financial statements 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 fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight 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.

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 issues bonds and other debt for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2009. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2010 in comparison to the prior fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

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

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). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues and Expenses for General Reserve. 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 is a high priority for Minnesota Housing; therefore, this portfolio receives a significant amount of oversight.

All of Minnesota Housing's bond-financed multifamily loans are financed in Rental Housing as of June 30, 2010. 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 resolutions, and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), the Housing Affordability Fund (Pool 3) and one or more limited obligation note accounts.

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and 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 has been the principal source of financing for bond-financed homeownership programs (see Homeownership Finance, below). 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 2010.

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 2010 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program, for warehousing purchases of single family first-mortgage loans and mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, contributions for limited obligation note 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: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2010 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, capital costs and rental assistance for permanent supportive housing, non-profit capacity building and organization support, and deferred, subordinated loans to support multifamily first mortgages.

MINNESOTA HOUSING FINANCE AGENCY

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

Discussion of Individual Funds (continued)

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 the principal source of financing for Minnesota Housing's bond-financed homeownership programs until fiscal year 2002 when Minnesota Housing began using the more flexible Residential Housing Finance fund as its principal source of financing for these programs. 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.

Homeownership Finance

The Agency adopted a new bond resolution for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program. In December 2009 the Homeownership Finance bond resolution was adopted for the purpose of facilitating the administration and financing of programs for the development or acquisition of owner-occupied housing in Minnesota, at prices that persons of low or moderate income can afford, by providing funds to acquire mortgage loans or mortgage-backed securities secured by mortgage loans for owner-occupied housing purposes. No mortgage loans or mortgage-backed securities had been funded by bonds issued under this resolution as of the end of fiscal 2010.

Multifamily Housing

The Agency adopted a new bond resolution for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. In December 2009 the Multifamily Housing bond resolution was adopted for the purpose of facilitating the acquisition, rehabilitation and improvement of a large multifamily rental housing development in Minnesota for persons of low or moderate income by providing funds to make one or more mortgage loans to the owners of the development. No mortgage loans had been funded by bonds issued under this resolution as of the end of fiscal 2010.

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, debt service and other costs associated with appropriation-backed bonds, 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 and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs.

General Overview

Minnesota Housing financial statements are presented in two formats: agency-wide and by fund. Funds include Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. 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. Agency-wide financial statements reflect totals of similar accounts for 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.

MINNESOTA HOUSING FINANCE AGENCY

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

General Overview (continued)

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 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. Unaudited quarterly disclosure reports will be published for the Homeownership Finance bond resolution once proceeds of bonds issued thereunder are released from escrow. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at 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 | | |
|--------------------|--|--------------------------|----------------------|----------------|
| | | June 30, 2010 | June 30, 2009 | Change |
| Assets | Cash and Investments | \$1,403,723 | \$1,025,277 | \$378,446 |
| | Loans receivable, Net | 2,268,115 | 2,428,625 | (160,510) |
| | Interest Receivable | 18,838 | 17,730 | 1,108 |
| | Total Assets | 3,785,148 | 3,541,415 | 243,733 |
| Liabilities | Bonds Payable | 2,704,507 | 2,473,733 | 230,774 |
| | Interest Payable | 48,211 | 49,956 | (1,745) |
| | Accounts Payable and Other Liabilities | 21,582 | 21,316 | 266 |
| | Funds Held for Others | 87,425 | 83,486 | 3,939 |
| | Total Liabilities | 2,900,100 | 2,655,696 | 244,404 |
| Net Assets | Restricted by Bond Resolution | 278,195 | 266,726 | 11,469 |
| | Restricted by Covenant | 476,902 | 481,528 | (4,626) |
| | Restricted by Law | 128,320 | 134,880 | (6,560) |
| | Total Net Assets | 885,048 | 885,719 | (671) |

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

| | | Agency-wide Total | | |
|----------------------|---------------------------|--------------------------|--------------------|---------------|
| | | Fiscal 2010 | Fiscal 2009 | Change |
| Revenues | Interest Earned | \$155,845 | \$172,092 | \$(16,247) |
| | Appropriations Received | 284,483 | 231,925 | 52,558 |
| | Fees and Reimbursements | 17,769 | 14,796 | 2,973 |
| | Total Revenues (1) | 486,313 | 439,805 | 46,508 |
| Expenses | Interest Expense | 101,516 | 112,286 | (10,770) |
| | Appropriations Disbursed | 270,185 | 213,779 | 56,406 |
| | Fees and Reimbursements | 6,725 | 7,067 | (342) |
| | Payroll, Gen. & Admin. | 32,263 | 29,990 | 2,273 |
| | Loan Loss/Value Adjust's | 56,486 | 76,046 | (19,560) |
| | Total Expenses (1) | 486,984 | 461,552 | 25,432 |
| | Revenues over Expenses | (671) | (21,747) | 21,076 |
| Beginning Net Assets | 885,719 | 907,466 | (21,747) | |
| Ending Net Assets | 885,048 | 885,719 | (671) | |

(1) Agency-wide totals include interfund amounts

| Combined General Reserve and Bond Funds | | | | | Combined State and Federal Appropriations Funds | | |
|--|---------------|--------------|----------------------|---------------|--|----------------------|---------------|
| June 30, 2010 | | | | | | | |
| Excluding Pool 3 | Pool 3 | Total | June 30, 2009 | Change | June 30, 2010 | June 30, 2009 | Change |
| \$1,252,406 | \$50,090 | \$1,302,496 | \$922,845 | \$379,651 | \$101,227 | \$102,432 | \$(1,205) |
| 2,208,963 | 23,226 | 2,232,189 | 2,392,222 | (160,033) | 35,926 | 36,403 | (477) |
| 18,262 | 239 | 18,501 | 17,016 | 1,485 | 337 | 714 | (377) |
| 3,568,948 | 73,558 | 3,642,506 | 3,373,128 | 269,378 | 142,642 | 141,082 | 1,560 |
| 2,704,507 | - | 2,704,507 | 2,473,733 | 230,774 | - | - | - |
| 48,211 | - | 48,211 | 49,956 | (1,745) | - | - | - |
| 14,970 | 75 | 15,045 | 17,384 | (2,339) | 6,537 | 3,932 | 2,605 |
| 80,301 | - | 80,301 | 81,124 | (823) | 7,124 | 2,362 | 4,762 |
| 2,885,715 | 63 | 2,885,778 | 2,622,289 | 263,489 | 14,322 | 6,202 | 8,120 |
| 278,195 | - | 278,195 | 266,726 | 11,469 | - | - | - |
| 403,407 | 73,495 | 476,902 | 481,528 | (4,626) | - | - | - |
| - | - | - | - | - | 128,320 | 134,880 | (6,560) |
| 683,233 | 73,495 | 756,728 | 750,839 | 5,889 | 128,320 | 134,880 | (6,560) |

| Combined General Reserve and Bond Funds | | | | | Combined State and Federal Appropriations Funds | | |
|--|---------------|--------------|--------------------|---------------|--|--------------------|---------------|
| Fiscal 2010 | | | | | | | |
| Excluding Pool 3 | Pool 3 | Total | Fiscal 2009 | Change | Fiscal 2010 | Fiscal 2009 | Change |
| \$151,997 | \$1,286 | \$153,283 | \$166,885 | \$(13,602) | \$2,562 | \$5,207 | \$(2,645) |
| - | - | - | - | - | 284,483 | 231,925 | 52,558 |
| 14,808 | (888) | 13,920 | 34,323 | (20,403) | 3,849 | 2,857 | 992 |
| 191,526 | 2,404 | 193,930 | 200,187 | (6,257) | 292,383 | 239,618 | 52,765 |
| 101,516 | - | 101,516 | 112,286 | (10,770) | - | - | - |
| - | - | - | - | - | 270,185 | 213,779 | 56,406 |
| 23,299 | 1,033 | 24,332 | 24,724 | (392) | 72 | 4,727 | (4,655) |
| 26,662 | 598 | 27,260 | 27,678 | (418) | 5,003 | 2,312 | 2,691 |
| 25,058 | 9,875 | 34,933 | 49,119 | (14,186) | 21,553 | 26,927 | (5,374) |
| 176,535 | 11,506 | 188,041 | 213,807 | (25,766) | 298,943 | 247,745 | 51,198 |
| 14,991 | (9,102) | 5,889 | (13,620) | 19,509 | (6,560) | (8,127) | 1,567 |
| 668,242 | 82,597 | 750,839 | 764,459 | (13,620) | 134,880 | 143,007 | (8,127) |
| 683,233 | 73,495 | 756,728 | 750,839 | 5,889 | 128,320 | 134,880 | (6,560) |

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

FINANCIAL HIGHLIGHTS

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements included as supplementary information in this 2010 Financial Report.

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

Loans receivable, investments, cash and cash equivalents, deferred loss on interest rate swap agreements, real estate owned, and interest receivable 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 decreased 7% to \$2,232.2 million at June 30, 2010 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans. The majority of the reduction in loans receivable during fiscal year 2010 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased substantially due to an increase in the estimated loss per delinquent loan and an increase in homeownership loan delinquency rates as displayed in the following delinquency data. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to decreased loan delinquency rates as displayed in the following delinquency data. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in delinquency rate and the aggregate loan receivable balance. The reserve for loan loss for the multifamily portfolio was relatively unchanged during fiscal year 2010. Minnesota Housing’s primary loan programs offer fixed interest rate 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, 2010 | | June 30, 2009 | |
|--|----------------------|-------|----------------------|-------|
| Current and less than 60 days past due | 16,732 | 90.8% | 18,224 | 92.3% |
| 60-89 days past due | 414 | 2.2% | 398 | 2.0% |
| 90-119 days past due | 232 | 1.3% | 240 | 1.2% |
| 120+ days past due and foreclosures ⁽¹⁾ | 1,057 | 5.7% | 891 | 4.5% |
| Total count | 18,435 | | 19,753 | |
| Total past due ⁽¹⁾ | 1,703 | 9.2% | 1,529 | 7.7% |

(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 not to be directly comparable to delinquency rates reported by the Mortgage Bankers Association of America.

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

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

| | June 30, 2010 | | June 30, 2009 | |
|--|----------------------|-------|----------------------|-------|
| Current and less than 60 days past due | 9,133 | 97.4% | 8,638 | 95.6% |
| 60-89 days past due | 76 | 0.8% | 86 | 1.0% |
| 90-119 days past due | 48 | 0.5% | 58 | 0.6% |
| 120+ days past due | 123 | 1.3% | 257 | 2.8% |
| Total count | 9,380 | | 9,039 | |
| Total past due | 247 | 2.6% | 401 | 4.4% |

The 60+ day delinquency rate as of June 30, 2010 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately two percentage points the delinquency rates of similar loan data available as of March 31, 2010 from the Mortgage Bankers Association of America for loans in Minnesota (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.

FHA/VA 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. FHA/VA insurance claims receivable increased 10% to \$11.407 million at June 30, 2010 as a result of increased delinquency rates on such loans.

Real estate owned consists of properties acquired upon foreclosure of homeownership loans. Real estate owned increased 83% to \$24.026 million at June 30, 2010 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 2010, and increases in FHA/VA insurance claims and real estate owned, the combined total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2010, being less than 1.59% 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 provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 41% to \$1,302.2 million at June 30, 2010. The increase is a result of two items. First, additional short-term investments held as of June 30, 2010 were generated from the escrowed proceeds of \$275 million of short-term bonds issued under the United States Treasury’s New Issue Bond Program. Second, at June 30, 2010 the Agency held certain mortgage-backed securities market valued at \$145 million. Of that amount, \$111 million is held in anticipation of the Agency issuing mortgage revenue bonds under the United States Treasury’s New Issue Bond Program. The remaining \$34 million of the mortgage-backed securities have been purchased with bond proceeds, are pledged as security for the payment of those bonds, and are held in an acquisition account. Mortgage-backed securities with these three characteristics are classified on the statement of net assets as “Investments- program mortgage-backed securities.” All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds (warehoused mortgage-backed securities), are classified as “Investment securities-other.”

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 9% to \$18.501

MINNESOTA HOUSING FINANCE AGENCY

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

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

million at June 30, 2010. Most of the increase is a result of an increase in interest receivable on loans due to increased delinquency in the homeownership portfolio.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending. Bonds payable increased 9% to \$2,704.5 million at June 30, 2010 largely as a result of \$275.490 million of short-term bonds issued under the United States Treasury's New Issue Bond Program. This increase was partially offset by a \$67.015 million decrease in general obligation bonds outstanding resulting from bond redemptions and maturities.

The companion category of interest payable decreased 3% to \$48.211 million at June 30, 2010 primarily due to a decrease in general obligation debt during fiscal 2010. This decrease was only partially offset by the increase in short-term bond interest payable, which carries a much lower rate of interest.

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 capital expenditures. Funds held for others in General Reserve decreased 1% to \$80.301 million at June 30, 2010 as multifamily escrows decreased slightly.

Accounts payable and other liabilities decreased 13% to \$15.045 million at June 30, 2010 primarily as a result of a reduction in arbitrage rebate liability. In addition, there was 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 will 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 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 increased 1% to \$756.728 million at June 30, 2010. If Pool 3 net disbursements were excluded, net assets would have increased 2%.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds increased 143% from fiscal year 2009 when considering Pool 3 net expenses 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 increased 75%. Total expenses, excluding Pool 3, decreased 7% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2010. Combined interest revenues of General Reserve and bond funds from loans and investments decreased 8% to \$153.283 million compared to the prior fiscal year. Loan interest revenue decreased 3% in fiscal year 2010 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model. Investment interest revenue decreased 37% in fiscal year 2010 because investment yields decreased and yields on investments made with short-term bond proceeds were minimal.

MINNESOTA HOUSING FINANCE AGENCY

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

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

Administrative reimbursements to General Reserve from bond funds were \$17.679 million in fiscal year 2010 compared to \$17.708 million during the prior fiscal year. The decrease is a result of a decrease 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 \$3.979 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2010 compared to \$6.667 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal 2010. Investment earnings within the State Appropriated fund were insufficient to reimburse \$2.353 million of fiscal 2010 overhead expense.

Other fee income to General Reserve and bond funds of \$9.941 million was essentially unchanged compared to the prior fiscal year. 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 \$9.048 million of unrealized gains on investment securities during fiscal year 2010, compared to \$1.021 million of unrealized losses during the prior year, an increase of \$10.069 million. Interest expense of the bond funds decreased 10% to \$101.516 million compared to the prior year as a result of low interest rates on short-term debt and a lower amount of outstanding general obligation bonds during fiscal year 2010.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds decreased by 2% to \$24.332 million compared to the prior fiscal year. \$17.679 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 of \$17.815 million were essentially unchanged from the prior year. Other general operating expense in General Reserve and bond funds decreased 5% to \$9.445 million compared to the prior year. The decrease is due to \$4.023 million of lower expenses for information technology consultants, lower disbursements under the ending long-term homeless initiative, and reductions to other program expenses. These reductions were partially offset by what at first appears to be a \$3.533 million increase relating to the HUD Home Investment Partnerships (HOME) Program. The reserve was established during fiscal year 2008 for potential payment to HUD for projects funded through the HOME Program which are not in compliance with certain HOME Program regulatory requirements. That reserve was reduced by \$4.288 million in fiscal 2009 and \$0.914 million in fiscal 2010 thereby creating a negative expense in both the current and prior fiscal years. A relatively smaller negative expense in fiscal 2010, along with \$0.159 million in related disbursements to HUD, results in a comparative expense increase of \$3.533 million. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 54% to \$9.403. Much of the decrease related to lower disbursements under the ending long-term homeless initiative.

Provision for loan loss expense in the bond funds decreased 11% to \$25.530 million. The provision for loan loss expense for the homeownership loan portfolio decreased \$1.321 million because the amount of new delinquencies (upon which a portion of the provision for loan loss expense is calculated as an estimate) plus the amount of actual loan losses that differed from estimated losses were slightly less than the prior fiscal year. The provision for loan loss expense for the home improvement loan portfolio decreased \$1.278 million also as a result of the decrease in loan delinquency rates. The provision for loan loss expense for the multifamily loan portfolio decreased \$0.912 million mainly due to a reduced amount of newly originated first mortgage loans. 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, periodic fiscal year end transfers to the Housing Investment Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2010, \$6.794 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Also, Pool 2 recorded a contribution of \$15.783 million to Single Family to extinguish the remaining balance of a note and accrued interest owed between the

MINNESOTA HOUSING FINANCE AGENCY

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

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

two funds. Single Family made a contribution to the Residential Housing Finance bond fund consisting of \$17.381 million of homeownership loans in connection with an economic refunding of debt. Pool 2 made a \$0.500 million contribution to Homeownership Finance bond fund (\$0.387 million) and Multifamily Housing bond fund (\$0.113 million) to cover issuance costs. Single Family made a \$0.573 million contribution to the Residential Housing Finance bond fund as a bond sale contribution.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, increased \$19.509 million to \$5.889 million compared to the prior fiscal year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses decreased 5% to \$6.923 million. 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) may be transferred periodically, with approval of the Board, to the Housing Affordability Fund (Pool 3) for use in more highly subsidized housing programs. Board policy establishes required balances for Pool 1 and Pool 2.

Total combined net assets of General Reserve and bond funds increased 1% to \$756.278 million as of June 30, 2010 as a result of revenues exceeding expenses for fiscal year 2010. The net assets of each individual bond fund increased 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 \$2.497 million as a result of a \$1.568 million decrease in Pool 1, which resides in General Reserve, due to a decrease in the balance of outstanding loans on which its requirement is based; a \$0.954 million decrease in net assets invested in capital assets; and a \$0.025 million increase in unrealized appreciation in investments.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of 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 categories of assets in the appropriated funds. The June 30, 2010 combined balance decreased 1% to \$101.227 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the fiscal year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2010 State Appropriated fund net loans receivable decreased 1% to \$35.926 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, 2010 decreased 53% to \$0.337 million primarily as a result of lower interest rates.

Accounts payable and other liabilities represent amounts payable for 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, 2010 was \$6.537 million compared to \$3.932 million at June 30, 2009. The increase in accounts payable and other liabilities is largely attributable to Section 1602/ Exchange program funds received by the Agency at the end of fiscal year 2010 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 owed to General Reserve. At June 30, 2010 the combined net interfund payable was \$0.661 million.

At June 30, 2010 the balance of funds held for others was \$7.124 million. In October, 2009 the Agency issued a series of bonds under a new indenture of trust. The indenture permits capital funding for long-

MINNESOTA HOUSING FINANCE AGENCY

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

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

term homeless households and other purposes through the issuance of Agency bonds secured solely by state appropriations. The proceeds of this series of bonds provided capital funding for permanent supportive housing in two multifamily housing developments. This debt is not a general obligation of the Agency and is 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. The bonds are not recorded as a liability by the Agency since they are not an obligation of the Agency. The balance of the undisbursed proceeds of the issued bonds in the amount of \$6.829 million is recorded as funds held for others. Excess federal housing assistance payments received for administration of the Section 8 program and the interest income earned on those unexpended funds in the amount of \$0.295 million is also recorded as funds held for others.

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 \$128.320 million as of June 30, 2010 compared to June 30, 2009, reflecting combined revenues less than disbursements and expenses during fiscal year 2010.

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 Minnesota Housing, the State of Minnesota or agencies of the federal government. Unexpended appropriations are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from \$231.925 million at June 30, 2009 to \$284.483 million at June 30, 2010. Federal appropriations received increased by \$56.029 million, mostly due to funds received in fiscal year 2010 for the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/Exchange Program. State appropriations received decreased by \$3.471 million.

Interest income from investments decreased as investment yields in general were below previous levels and the average balance of investment assets was less than the prior year. The combined interest income from investments decreased 53% to \$2.389 million for fiscal year 2010.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.173 million as relatively few loans bear interest.

Fees earned and other income in the amount of \$2.797 million were recorded in the State Appropriated fund during fiscal year 2010. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of \$3.182 million were recorded in the Federal Appropriation fund in fiscal year 2010. These were Energy Saver Rebate Program funds received from a Minnesota state agency to reimburse homeowners for qualifying energy improvements.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized losses of \$0.641 million were recorded at June 30, 2010 compared to \$0.371 million unrealized losses at June 30, 2009.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 54% to \$2.130 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended appropriations. During fiscal year 2010 investment earnings in the State Appropriated fund were insufficient to reimburse \$2.353 million of overhead expenses incurred in General Reserve. Combined appropriations disbursed increased 26% to \$270.185 million compared to the prior year, reflecting State Appropriations disbursed of \$25.999 million and federal appropriations disbursed of \$244.186 million to support housing policy objectives.

MINNESOTA HOUSING FINANCE AGENCY

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

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

Reduced expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in lower expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 23% to \$20.038 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund decreased 21% to \$1.822 million at June 30, 2010. Other general operating expenses in the Federal Appropriation fund of \$3.181 million is homeowner reimbursement for qualifying energy improvements from the Energy Saver Rebate Program.

Combined revenues were less than combined expenditures of the appropriated funds by \$6.560 million at June 30, 2010. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2010 long-term bonds totaling \$2,039.0 million and short-term bonds totaling \$607.9 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 may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2010, amounts held by the respective trustees in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During the 2010 fiscal year, Minnesota Housing issued eight series of bonds and notes aggregating \$1,384.9 million, compared to the issuance of 13 series totaling \$1,075.9 million the previous fiscal year. Long-term debt issuance to finance mortgage lending continued to be suppressed in fiscal year 2010 as it was in fiscal year 2009, due to compression of interest rates in the capital markets. Minnesota Housing used a combination of internal funds and short-term advances to finance its loan programs during much of fiscal 2010. 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, to warehouse purchases of mortgage-backed securities in advance of permanent financing and, in 2010, to participate in the United States Treasury's New Issue Bond Program. Short-term debt issued for these purposes totaled \$1,007.5 million and \$275.5 million respectively.

A total of \$1,208.1 million in principal payments and \$100.5 million of interest payments were made during the fiscal year 2010. Of the total principal payments, \$983.2 million were refundings of short-term debt and \$175.5 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 have also been 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 since 2003, enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates.

MINNESOTA HOUSING FINANCE AGENCY

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

Significant Long-Term Debt Activity (continued)

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.

At June 30, 2010 Minnesota Housing's issuer ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit 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

As part of budget balancing measures, state appropriations to the agency were reduced by \$4.217 million for the FY 10-11 biennium – a 4.9% base budget reduction. The base for the following biennium is set at \$683,000 less than the revised budget for the current biennium; the base budget for FY 12-13 is \$81.768 million. For a point of reference, the base for FY 08-09 was \$89.916 million.

The authority granted in 2008 to issue nonprofit housing bonds (appropriation-backed bonds) was amended to increase the total amount of bonds that can be issued from \$30 million to \$36 million. This action does not change the amount of debt service appropriated to pay off the bonds, but does allow the agency to take advantage of lower interest rates to issue more debt. The additional \$6 million in appropriation bond proceeds may be used for either permanent supportive housing or for acquisition and/or rehabilitation of foreclosed or vacant properties to be owned by nonprofit organizations and rented to low-and moderate-income households.

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 enacted in 2009 (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 Agency administers \$28.4 million under the Tax Credit Assistance Program (TCAP) and over \$62 million under the Section 1602/ Exchange Program.

Nationwide Foreclosure Crisis

The nationwide housing foreclosure crisis continued to impact borrowers in Minnesota Housing's loan portfolio despite the Agency's practice of providing only mortgage products designed to promote sustainable homeownership. Loan delinquencies and foreclosures were higher in fiscal year 2010 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. Economic conditions and their future impact on 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 additionally utilizes several loss mitigation techniques to assist homeowners with avoiding foreclosure and to minimize Agency losses on foreclosed loans.

The Agency transitioned to a mortgage-backed securities business model during fiscal year 2010. This model was adopted to minimize losses on future homeownership lending.

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).

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Net Assets (in thousands)****As of June 30, 2010 (with comparative totals as of June 30, 2009)**

| | Agency-wide Total as of June 30, 2010 | Agency-wide Total as of June 30, 2009 |
|--|--|--|
| Assets | | |
| Cash and cash equivalents | \$ 646,706 | \$410,786 |
| Investments-program mortgage-backed securities | 33,686 | - |
| Investment securities-other | 723,331 | 614,491 |
| Loans receivable, net | 2,268,115 | 2,428,625 |
| Interest receivable on loans | 16,287 | 15,249 |
| Interest receivable on investments | 2,551 | 2,481 |
| Deferred loss on interest rate swap agreements | 37,077 | 27,205 |
| FHA/VA insurance claims | 11,407 | 10,372 |
| Real estate owned | 24,026 | 13,101 |
| Unamortized bond issuance costs | 12,927 | 13,698 |
| Capital assets, net | 1,631 | 2,585 |
| Other assets | 7,404 | 2,822 |
| Total assets | <u>\$3,785,148</u> | <u>\$3,541,415</u> |
| Liabilities | | |
| Bonds payable, net | \$2,704,507 | \$2,473,733 |
| Interest payable | 48,211 | 49,956 |
| Interest rate swap agreements | 37,077 | 27,205 |
| Deferred revenue-service release fees | 1,298 | - |
| Accounts payable and other liabilities | 21,582 | 21,316 |
| Funds held for others | 87,425 | 83,486 |
| Total liabilities | <u>2,900,100</u> | <u>2,655,696</u> |
| Commitments and contingencies | | |
| Net Assets | | |
| Restricted by bond resolution | 278,195 | 266,726 |
| Restricted by covenant | 476,902 | 481,528 |
| Restricted by law | 128,320 | 134,880 |
| Invested in capital assets | 1,631 | 2,585 |
| Total net assets | <u>885,048</u> | <u>885,719</u> |
| Total liabilities and net assets | <u>\$3,785,148</u> | <u>\$3,541,415</u> |

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****As of June 30, 2010 (with comparative totals as of June 30, 2009)**

| | | Agency-wide Total for the Year Ended June 30, 2010 | Agency-wide Total for the Year Ended June 30, 2009 |
|-------------------|--|---|---|
| Revenue | Interest earned on loans | \$137,118 | \$141,193 |
| | Interest earned on investments-program mortgage-backed securities | 702 | - |
| | Interest earned on investments-other | 18,025 | 30,899 |
| | Appropriations received | 284,483 | 231,925 |
| | Administrative reimbursement | 1,849 | 1,991 |
| | Fees earned and other income | 15,920 | 12,805 |
| | Unrealized gains on investments | 8,407 | (1,392) |
| | Total revenues | <u>466,504</u> | <u>417,421</u> |
| Expenses | Interest | 101,516 | 112,286 |
| | Loan administration and trustee fees | 6,725 | 7,067 |
| | Salaries and benefits | 17,815 | 17,743 |
| | Other general operating | 14,448 | 12,247 |
| | Appropriations disbursed | 270,185 | 213,779 |
| | Reduction in carrying value of certain low interest rate deferred loans | 29,441 | 46,196 |
| | Provision for loan losses | 27,045 | 29,850 |
| | Total expenses | <u>467,175</u> | <u>439,168</u> |
| | Change in net assets | (671) | (21,747) |
| Net Assets | Total net assets, beginning of year | 885,719 | 907,466 |
| | Total net assets, end of year | <u>\$885,048</u> | <u>\$885,719</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, 2010 (with comparative totals as of June 30, 2009)

| | | Bond Funds | | | |
|--------------------|--|----------------------------|---------------------------|----------------------------|--------------------------|
| | | Residential | | | |
| | | General Reserve | Rental Housing | Housing Finance | Single Family |
| Assets | Cash and cash equivalents | \$ 52,134 | \$ 36,257 | \$ 209,177 | \$ 41,634 |
| | Investments-program mortgage-backed securities | - | - | 33,686 | - |
| | Investment securities-other | 55,803 | 32,134 | 560,690 | 5,330 |
| | Loans receivable, net | - | 179,380 | 1,916,872 | 135,937 |
| | Interest receivable on loans | - | 973 | 14,214 | 1,086 |
| | Interest receivable on investments | 417 | 649 | 1,104 | 58 |
| | Deferred loss on interest rate swap agreements | - | - | 37,077 | - |
| | FHA/VA insurance claims | - | - | 9,561 | 1,846 |
| | Real estate owned | - | - | 23,271 | 755 |
| | Unamortized bond issuance costs | - | 1,556 | 9,956 | 898 |
| | Capital assets, net | 1,631 | - | - | - |
| | Other assets | 1,266 | 3 | 265 | 718 |
| | Total assets | <u>\$111,251</u> | <u>\$ 250,952</u> | <u>\$ 2,815,873</u> | <u>\$188,262</u> |
| Liabilities | Bonds payable, net | \$ - | \$150,085 | \$2,162,527 | \$116,405 |
| | Interest payable | - | 3,029 | 42,022 | 3,021 |
| | Interest rate swap agreements | - | - | 37,077 | - |
| | Deferred revenue-service release fees | - | - | 1,298 | - |
| | Accounts payable and other liabilities | 5,306 | 4,645 | 4,667 | 382 |
| | Interfund payable (receivable) | 1,475 | - | (1,736) | (400) |
| | Funds held for others | 80,301 | - | - | - |
| | Total liabilities | <u>87,082</u> | <u>157,759</u> | <u>2,245,855</u> | <u>119,408</u> |
| | Commitments and contingencies | | | | |
| Net Assets | Restricted by bond resolution | - | 93,193 | 115,654 | 68,854 |
| | Restricted by covenant | 22,538 | - | 454,364 | - |
| | Restricted by law | - | - | - | - |
| | Invested in capital assets | 1,631 | - | - | - |
| | Total net assets | <u>24,169</u> | <u>93,193</u> | <u>570,018</u> | <u>68,854</u> |
| | Total liabilities and net assets | <u>\$111,251</u> | <u>\$ 250,952</u> | <u>\$ 2,815,873</u> | <u>\$188,262</u> |

See accompanying notes to financial statements

| Bond Funds | | Appropriated Funds | | | |
|------------------------------|----------------------------|---------------------------|-----------------------------|----------------------------------|----------------------------------|
| Homeownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | Total as of June 30, 2010 | Total as of June 30, 2009 |
| \$ 260,638 | \$ 15,013 | \$ 28,383 | \$ 3,470 | \$ 646,706 | \$ 410,786 |
| - | - | - | - | 33,686 | - |
| - | - | 60,610 | 8,764 | 723,331 | 614,491 |
| - | - | 35,926 | - | 2,268,115 | 2,428,625 |
| - | - | 14 | - | 16,287 | 15,249 |
| - | - | 278 | 45 | 2,551 | 2,481 |
| - | - | - | - | 37,077 | 27,205 |
| - | - | - | - | 11,407 | 10,372 |
| - | - | - | - | 24,026 | 13,101 |
| 409 | 108 | - | - | 12,927 | 13,698 |
| - | - | - | - | 1,631 | 2,585 |
| - | - | - | 5,152 | 7,404 | 2,822 |
| <u>\$ 261,047</u> | <u>\$ 15,121</u> | <u>\$ 125,211</u> | <u>\$ 17,431</u> | <u>\$ 3,785,148</u> | <u>\$ 3,541,415</u> |
| \$ 260,490 | \$ 15,000 | \$ - | \$ - | \$ 2,704,507 | \$ 2,473,733 |
| 132 | 7 | - | - | 48,211 | 49,956 |
| - | - | - | - | 37,077 | 27,205 |
| - | - | - | - | 1,298 | - |
| 39 | 6 | 925 | 5,612 | 21,582 | 21,316 |
| - | - | 248 | 413 | - | - |
| - | - | 6,829 | 295 | 87,425 | 83,486 |
| <u>260,661</u> | <u>15,013</u> | <u>8,002</u> | <u>6,320</u> | <u>2,900,100</u> | <u>2,655,696</u> |
| 386 | 108 | - | - | 278,195 | 266,726 |
| - | - | - | - | 476,902 | 481,528 |
| - | - | 117,209 | 11,111 | 128,320 | 134,880 |
| - | - | - | - | 1,631 | 2,585 |
| <u>386</u> | <u>108</u> | <u>117,209</u> | <u>11,111</u> | <u>885,048</u> | <u>885,719</u> |
| <u>\$ 261,047</u> | <u>\$ 15,121</u> | <u>\$ 125,211</u> | <u>\$ 17,431</u> | <u>\$ 3,785,148</u> | <u>\$ 3,541,415</u> |

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement Revenues, Expenses, and Changes in Net Assets (in thousands)

Proprietary Funds

As of June 30, 2010 (with comparative totals as of June 30, 2009)

| | | Bond Funds | | |
|----------------------|---|-------------------|------------------|--------------------|
| | | General | Rental | Residential |
| | | Reserve | Housing | Housing |
| | | Finance | | |
| Revenue | Interest earned on loans | \$ - | \$ 11,993 | \$ 113,681 |
| | Interest earned on investments-program mortgage-backed securities | - | - | 702 |
| | Interest earned on investments-other | 342 | 1,895 | 9,300 |
| | Appropriations received | - | - | - |
| | Administrative reimbursement | 21,658 | - | - |
| | Fees earned and other income | 8,907 | 656 | 378 |
| | Unrealized gains (losses) on investments | 25 | 48 | 8,948 |
| | Total revenues | 30,932 | 14,592 | 133,009 |
| Expenses | Interest | - | 8,081 | 83,689 |
| | Loan administration and trustee fees | - | 133 | 5,878 |
| | Administrative reimbursement | - | 1,571 | 14,539 |
| | Salaries and benefits | 17,815 | - | - |
| | Other general operating | 8,820 | - | 625 |
| | Appropriations disbursed | - | - | - |
| | Reduction in carrying value of certain low interest rate deferred loans | - | 748 | 8,655 |
| | Provision for loan losses | - | (505) | 27,513 |
| | Total expenses | 26,635 | 10,028 | 140,899 |
| | Revenues over (under) expenses | 4,297 | 4,564 | (7,890) |
| Other Changes | Non-operating transfer of assets between funds | (6,794) | - | 8,465 |
| | Change in net assets | (2,497) | 4,564 | 575 |
| Net Assets | Total net assets, beginning of year | <u>26,666</u> | <u>88,629</u> | <u>569,443</u> |
| | Total net assets, end of year | <u>\$24,169</u> | <u>\$ 93,193</u> | <u>\$ 570,018</u> |

See Accompanying notes to financial statements.

| Bond Funds | | | Appropriated Funds | | Total for the | Total for the |
|-------------------|----------------------|--------------------|---------------------------|---------------------|----------------------|----------------------|
| Single | Homeownership | Multifamily | State | Federal | Year Ended | Year Ended |
| Family | Finance | Housing | Appropriated | Appropriated | June 30, 2010 | June 30, 2009 |
| \$ 11,271 | \$ - | \$ - | \$ 173 | \$ - | \$ 137,118 | \$ 141,193 |
| - | - | - | - | - | 702 | - |
| 3,959 | 132 | 8 | 2,137 | 252 | 18,025 | 30,899 |
| - | - | - | 40,734 | 243,749 | 284,483 | 231,925 |
| - | - | - | - | - | 21,658 | 24,375 |
| - | - | - | 2,797 | 3,182 | 15,920 | 12,805 |
| 27 | - | - | (614) | (27) | 8,407 | (1,392) |
| 15,257 | 132 | 8 | 45,227 | 247,156 | 486,313 | 439,805 |
| 9,606 | 132 | 8 | - | - | 101,516 | 112,286 |
| 636 | 1 | 5 | 72 | - | 6,725 | 7,067 |
| 1,569 | - | - | 2,130 | - | 19,809 | 22,384 |
| - | - | - | - | - | 17,815 | 17,743 |
| - | - | - | 1,822 | 3,181 | 14,448 | 12,247 |
| - | - | - | 25,999 | 244,186 | 270,185 | 213,779 |
| - | - | - | 20,038 | - | 29,441 | 46,196 |
| (1,478) | - | - | 1,515 | - | 27,045 | 29,850 |
| 10,333 | 133 | 13 | 51,576 | 247,367 | 486,984 | 461,552 |
| 4,924 | (1) | (5) | (6,349) | (211) | (671) | (21,747) |
| (2,171) | 387 | 113 | - | - | - | - |
| 2,753 | 386 | 108 | (6,349) | (211) | (671) | (21,747) |
| 66,101 | - | - | 123,558 | 11,322 | 885,719 | 907,466 |
| <u>\$ 68,854</u> | <u>\$ 386</u> | <u>\$ 108</u> | <u>\$ 117,209</u> | <u>\$ 11,111</u> | <u>\$ 885,048</u> | <u>\$ 885,719</u> |

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

As of June 30, 2010 (with comparative totals as of June 30, 2009)

| | | Bond Funds | | |
|---|---|-------------------|------------------|--------------------|
| | | General | Rental | Residential |
| | | Reserve | Housing | Housing |
| | | | Finance | |
| Cash flows from operating activities: | Principal repayments on loans and mortgage-backed securities | \$ - | \$ 15,060 | \$ 132,376 |
| | Investment in loans and mortgage-backed securities | - | (767) | (141,074) |
| | Interest received on loans | - | 11,977 | 108,094 |
| | Other operating | - | - | (3,038) |
| | Fees and other income received | 8,865 | 656 | 1,679 |
| | Salaries, benefits and vendor payments | (22,646) | (135) | (6,233) |
| | Appropriations received | - | - | - |
| | Appropriations disbursed | - | - | - |
| | Administrative reimbursement from funds | 21,092 | (1,571) | (14,539) |
| | Deposits into funds held for others | 29,480 | - | - |
| | Disbursements made from funds held for others | (31,551) | - | - |
| | Interfund transfers and other assets | (1,534) | (1) | 306 |
| Net cash provided (used) by operating activities | <u>3,706</u> | <u>25,219</u> | <u>77,571</u> | |
| Cash flows from noncapital financing activities: | Proceeds from sale of bonds and notes | - | - | 1,165,420 |
| | Principal repayment on bonds and notes | - | (12,590) | (1,106,110) |
| | Interest paid on bonds and notes | - | (7,666) | (82,242) |
| | Financing costs paid related to bonds issued | - | - | (2,164) |
| | Interest paid/received between funds | - | - | 1,392 |
| | Principal paid/received between funds | - | - | 6,315 |
| | Agency contribution to program funds | - | - | (500) |
| | Transfer of cash between funds | (12,403) | - | 12,403 |
| Net cash provided (used) by noncapital financing activities | <u>(12,403)</u> | <u>(20,256)</u> | <u>(5,486)</u> | |
| Cash flows from investing activities: | Investment in real estate owned | - | - | (2,901) |
| | Interest received on investments | 1,850 | 2,126 | 8,600 |
| | Proceeds from sale of mortgage insurance claims/real estate owned | - | - | 59,928 |
| | Proceeds from maturity, sale or transfer of investment securities | 19,000 | 29,187 | 1,262,542 |
| | Purchase of investment securities | (55,383) | (26,189) | (1,324,287) |
| | Purchase of loans between funds | - | - | (47,603) |
| | Net cash provided (used) by investing activities | <u>(34,533)</u> | <u>5,124</u> | <u>(43,721)</u> |
| Net increase (decrease) in cash and cash equivalents | | (43,230) | 10,087 | 28,364 |
| Cash and cash equivalents: | Beginning of year | <u>95,364</u> | <u>26,170</u> | <u>180,813</u> |
| | End of year | <u>\$ 52,134</u> | <u>\$ 36,257</u> | <u>\$ 209,177</u> |

See accompanying notes to financial statements

| Bond Funds | | | Appropriated Funds | | | |
|---------------|-----------------------|---------------------|--------------------|----------------------|--|--|
| Single Family | Homeownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | Total for the Year Ended June 30, 2010 | Total for the Year Ended June 30, 2009 |
| \$ 17,704 | \$ - | \$ - | \$ 3,207 | \$ - | \$ 168,347 | \$ 153,628 |
| (13) | - | - | (22,665) | - | (164,519) | (294,714) |
| 10,138 | - | - | 173 | - | 130,382 | 137,146 |
| - | - | - | (1,824) | - | (4,862) | (7,689) |
| - | - | - | 3,047 | - | 14,247 | 12,896 |
| (662) | (1) | (5) | (72) | - | (29,754) | (31,900) |
| - | - | - | 40,734 | 243,602 | 284,336 | 231,069 |
| - | - | - | (25,651) | (245,318) | (270,969) | (213,470) |
| (1,569) | - | - | (1,326) | - | 2,087 | 1,653 |
| - | - | - | 13,189 | 1 | 42,670 | 29,104 |
| - | - | - | (6,360) | (2,076) | (39,987) | (33,183) |
| (46) | - | - | 96 | - | (1,179) | 186 |
| 25,552 | (1) | (5) | 2,548 | (3,791) | 130,799 | (15,274) |
| - | 260,490 | 15,000 | - | - | 1,440,910 | 1,075,810 |
| (89,385) | - | - | - | - | (1,208,085) | (1,011,545) |
| (10,641) | - | - | - | - | (100,549) | (112,060) |
| (14) | (370) | (102) | - | - | (2,650) | (2,534) |
| (1,392) | - | - | - | - | - | - |
| (6,315) | - | - | - | - | - | - |
| - | 387 | 113 | - | - | - | - |
| - | - | - | - | - | - | - |
| (107,747) | 260,507 | 15,011 | - | - | 129,626 | (50,329) |
| (656) | - | - | - | - | (3,557) | (1,599) |
| 1,714 | 132 | 7 | 2,463 | 279 | 17,171 | 37,063 |
| 4,869 | - | - | - | - | 64,797 | 25,164 |
| 4,982 | - | - | 42,000 | 4,820 | 1,362,531 | 638,001 |
| (2,843) | - | - | (52,049) | (4,696) | (1,465,447) | (877,989) |
| 49,699 | - | - | (2,096) | - | - | - |
| 57,765 | 132 | 7 | (9,682) | 403 | (24,505) | (179,360) |
| (24,430) | 260,638 | 15,013 | (7,134) | (3,388) | 235,920 | (244,963) |
| 66,064 | - | - | 35,517 | 6,858 | 410,786 | 655,749 |
| \$ 41,634 | \$ 260,638 | \$ 5,013 | \$ 28,383 | \$ 3,470 | \$ 646,706 | \$ 410,786 |

(continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

As of June 30, 2010 (with comparative totals as of June 30, 2009)

| | | <u>Bond Funds</u> | | |
|---|--|------------------------|-----------------------|------------------------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> | <u>Residential Housing Finance</u> |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities: | | | | |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities: | Revenues over (under) expenses | \$ 4,297 | \$ 4,564 | \$ (7,890) |
| | Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | | |
| | Amortization of premiums (discounts) and fees on loans | - | (53) | 1,485 |
| | Depreciation | 2,590 | - | - |
| | Realized losses (gains) on sale of securities, net | (2) | 141 | 473 |
| | Unrealized losses (gains) on securities, net | (25) | (48) | (8,948) |
| | Provision for loan losses | - | (505) | 27,513 |
| | Reduction in carrying value of certain low interest rate and/or deferred loans | - | 749 | 8,655 |
| | Capitalized interest on loans and real estate owned | - | (179) | (6,234) |
| | Interest earned on investments | (340) | (1,963) | (9,919) |
| | Interest expense on bonds and notes | - | 8,081 | 83,689 |
| | Changes in assets and liabilities: | | | |
| | Decrease (increase) in loans receivable, excluding loans transferred between funds | - | 14,293 | (8,698) |
| | Decrease (increase) in interest receivable on loans | - | 95 | (1,535) |
| | Increase (decrease) in arbitrage rebate liability | - | 47 | 141 |
| | Increase (decrease) in accounts payable | 1,399 | (2) | (1,467) |
| | Increase (decrease) in interfund payable, affecting operating activities only | (567) | - | 342 |
| | Increase (decrease) in funds held for others | (2,071) | - | - |
| | Other | (1,575) | (1) | (36) |
| | Total | <u>(591)</u> | <u>20,655</u> | <u>85,461</u> |
| | Net cash provided (used) by operating activities | <u>\$ 3,706</u> | <u>\$ 25,219</u> | <u>\$ 77,571</u> |

See accompanying notes to financial statements.

| Bond Funds | | | Appropriated Funds | | Total for the Year Ended June 30, 2010 | Total for the Year Ended June 30, 2009 |
|------------------|--------------------------|------------------------|-----------------------|-------------------------|--|--|
| Single Family | Homeownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | | |
| \$ 4,924 | \$ (1) | \$ (5) | \$ (6,349) | \$ (211) | \$ (671) | \$ (21,747) |
| (742) | - | - | - | - | 690 | 1,630 |
| - | - | - | - | - | 2,590 | 1,966 |
| (143) | - | - | - | - | 469 | (952) |
| (27) | - | - | 614 | 27 | (8,407) | 1,392 |
| (1,478) | - | - | 1,515 | - | 27,045 | 29,850 |
| - | - | - | 20,038 | - | 29,442 | 46,196 |
| (311) | - | - | - | - | (6,724) | (2,971) |
| (3,754) | (132) | (7) | (2,137) | (252) | (18,504) | (30,184) |
| 9,606 | 132 | 7 | - | - | 101,515 | 112,285 |
| 17,691 | - | - | (19,458) | - | 3,828 | (141,086) |
| 402 | - | - | - | - | (1,038) | (2,940) |
| (62) | - | - | - | - | 126 | 472 |
| (26) | - | - | 346 | 2,737 | 2,987 | (3,399) |
| (528) | - | - | 900 | (147) | - | - |
| - | - | - | 6,829 | (2,076) | 2,682 | (4,079) |
| - | - | - | 250 | (3,869) | (5,231) | (1,707) |
| 20,628 | - | - | 8,897 | (3,580) | 131,470 | 6,473 |
| <u>\$ 25,552</u> | <u>\$ (1)</u> | <u>\$ (5)</u> | <u>\$ 2,548</u> | <u>\$ (3,791)</u> | <u>\$ 130,799</u> | <u>\$ (15,274)</u> |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

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 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, Single Family, Homeownership Finance and Multifamily Housing.

Rental Housing

Bond proceeds for most 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), the Housing Affordability Fund (Pool 3) and a limited obligation note account, all of which are restricted by a covenant with bondholders.

Bonds

This bond resolution had been the principal source of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans, although no bonds were issued to support home improvement lending during fiscal year 2010. 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 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 three subfunds: Housing Investment Fund (Pool 2), Housing Affordability Fund (Pool 3) and one or more limited obligation note accounts. Except for funds in a limited obligation note account, funds deposited therein

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

**Nature of
Business and
Fund Structure
(continued)**

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 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 2010 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 mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, contributions for limited obligation note expenses 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 interest-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: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2010 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, capital costs and rental assistance for permanent supportive housing, nonprofit capacity building and organization support, and deferred, subordinated loans to support multifamily 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 were issued under Single Family until 2002 when the Agency began using Residential Housing Finance. The Agency generally expects to issue bonds for homeownership programs under Residential Housing Finance and the newer Homeownership Finance. Loans in Single Family 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.

Homeownership Finance

The Agency adopted a new bond resolution for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program. In December 2009 the Homeownership Finance bond resolution was adopted for the purpose of facilitating the administration and financing of programs for the development or acquisition of owner-occupied housing in Minnesota, at prices that persons of low or moderate income can afford, by providing funds to acquire mortgage loans or mortgage-backed securities secured by mortgage loans for owner-occupied housing purposes. No mortgage loans or mortgage-backed securities had been funded by bonds issued under this resolution as of the end of fiscal year 2010.

Multifamily Housing

The Agency concluded it was to its advantage to adopt a new bond resolution for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. In December 2009 the Multifamily Housing Bonds resolution was adopted for the purpose of facilitating the acquisition, rehabilitation and improvement of a large multifamily rental housing development in Minnesota for persons of low or moderate income by providing funds to make one or more mortgage loans to the owners of the development. No mortgage loans had been funded by bonds issued under this resolution as of the end of fiscal year 2010.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Nature of Business and Fund Structure (continued)

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, debt service and other costs associated with appropriation-backed bonds, 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 and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments 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 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 ended June 30, 2010. The adoption of this Statement did not 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 was adopted by the Agency for fiscal year ended June 30, 2010. The adoption of this statement did not

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Summary of Significant Accounting Policies (continued)

affect net assets for fiscal year 2010 since the Agency's interest rate swap agreements were determined to be effective hedges and, therefore, did not result in unrealized gain or loss.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides amendments for the following: National Council on Governmental Accounting Statement No. 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences; Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans; Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools; Statement No. 40, Deposit and Investment Risk Disclosures; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The provisions of GASB Statement No. 59 are effective for the Agency's fiscal year ending June 30, 2011. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, State investment pool holdings and any other investments, primarily U.S. treasury and agency securities that have 90 or less days remaining to maturity at the time of purchase. Investment agreements are also classified as cash and cash equivalents.

Investments-Program Mortgage-backed Securities and Investment Securities-Other

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. Investments-program mortgage-backed securities as previously described are shown separately on the statement of net assets.

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: FHA insurance, RD guarantee, 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, 2010.

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Summary of Significant Accounting Policies (continued)

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.

Deferred Loss on Interest Rate Swaps Agreements

The Agency’s interest rate swap agreements have a negative fair value as of the end of fiscal 2010. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss in this category.

FHA/VA 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, Residential Housing Finance, Homeownership Finance, and Multifamily Housing 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.

Interest Rate Swap Agreements

Because the Agency’s interest rate swap agreements have a negative fair value as of the end of fiscal 2010, they are recorded here as a liability.

Deferred Revenue-Service Release Fees

The Agency’s master servicer pays the Agency a fee for the right to service the pooled loans backing mortgage-backed securities that are purchased by the Agency. These fees are initially recorded as Deferred Revenue-Service Release Fees then amortized to Fees Earned and Other Income using the effective interest method over the expected life of the pooled 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Summary of Significant Accounting Policies (continued)

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 Minnesota Housing's enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board establishes 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 2009 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 excluding the reserve for loan loss, unearned discounts on loans, the proceeds of short-term debt, premiums on loans, deferred bond issuance costs, unrealized appreciation and depreciation on investments, and deferred loss on interest rate swap agreements.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs but only to the extent of interest earnings on unexpended 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 \$1.850 million are reflected as administrative reimbursement revenues in the General Reserve.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Summary of Significant Accounting Policies (continued)

Administrative reimbursements in the amount of \$19.809 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 bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2010 were \$79.7 million and \$3.6 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 was being repaid according to the original debt repayment schedule but was extinguished in fiscal year 2010.

Change in Accounting Principle

In fiscal year 2010 the Agency adopted GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. This resulted in the recording of the fair value of the Agency's interest rate swap contracts as

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Summary of Significant Accounting Policies (continued)

liability and as a deferred loss. Included in the comparison totals for fiscal year 2009 is the fair value of those interest rate swap contracts as of June 30, 2009 as estimated by the respective counterparties.

Income Taxes

The Agency, as an agency 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), the 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 value. Certain investment agreements are stated at an amount that is less than cost. The balances were composed of the following at June 30, 2010 (in thousands):

Cash and Cash Equivalents

| Funds | Deposits | Money Market Fund | State Investment Pool | Investment Agreements | Combined Totals |
|-----------------------------|----------------|-------------------|-----------------------|-----------------------|------------------|
| General Reserve | \$ — | \$ — | \$ 52,134 | \$ — | \$ 52,134 |
| Rental Housing | — | 12,226 | — | 24,031 | 36,257 |
| Multifamily Housing | — | 15,013 | — | — | 15,013 |
| Residential Housing Finance | 2,497 | 89,676 | — | 117,004 | 209,177 |
| Single Family | 394 | 11,133 | — | 30,107 | 41,634 |
| Homeownership Finance | — | 260,638 | — | — | 260,638 |
| State Appropriated | 133 | 6,830 | 21,420 | — | 28,383 |
| Federal Appropriated | 380 | 2,795 | 295 | — | 3,470 |
| Agency-wide Totals | <u>\$3,404</u> | <u>\$398,311</u> | <u>\$73,849</u> | <u>\$171,142</u> | <u>\$646,706</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 U.S. treasury securities, U.S. 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, 2010, 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 (\$31.679 million) and Credit Agricole CIB (\$22.437 million) require downgrade to the

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Cash, Cash
Equivalents
and Investment
Securities
(continued)**

ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating was downgraded to "BBB" by Standard & Poor's. The Agency reduced the carrying value of those agreements by \$1.107 million as of June 30, 2010.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2010 (in thousands):

| Investment Securities | | | | |
|------------------------------|--|---|--|--|
| Funds | Investment Securities- Other Amortized Cost | Program Mortgage- backed Securities Amortized Cost | Unrealized Appreciation (Depreciation) in Fair Market Value | Estimated Fair Market Value |
| General Reserve | \$ 55,336 | \$ — | \$ 467 | \$ 55,803 |
| Rental Housing | 31,357 | — | 777 | 32,134 |
| Multifamily Housing | — | — | — | — |
| Residential Housing Finance | 553,727 | 32,024 | 8,625 | 594,376 |
| Single Family | 4,739 | — | 591 | 5,330 |
| Homeownership Finance | — | — | — | — |
| State Appropriated | 60,051 | — | 559 | 60,610 |
| Federal Appropriated | 8,510 | — | 254 | 8,764 |
| Agency-wide Totals | <u>\$713,720</u> | <u>\$32,024</u> | <u>\$11,273</u> | <u>\$757,017</u> |

U.S. Treasury securities, U.S. 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. U.S. treasury and U.S. 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 of Des Moines are held by the Federal Home Loan Bank of Des Moines 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. Treasury securities are not classified because they are not considered to have credit risk. Investment securities' credit rating categories (without qualifiers) at June 30, 2010 were (in thousands):

| Credit Ratings of Investment Securities | | | |
|--|------------------|------------------|------------------|
| Type | Par Value | AAA/Aaa | AA/Aa |
| Certificates of Deposit | \$332,355 | \$332,355 | \$ — |
| U.S. Agencies | 366,221 | 336,221 | — |
| Municipals | 36,970 | — | 36,970 |
| Agency-wide Totals | <u>\$735,546</u> | <u>\$668,576</u> | <u>\$ 36,970</u> |
| U.S. Treasuries | 10,683 | — | — |
| Agency-wide Totals | <u>\$746,229</u> | — | — |

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of \$9.909 million and net discounts of \$0.783 million), along with the weighted average maturities (in years) as of June 30, 2010, consisted of the following (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Cash, Cash
Equivalents
and Investment
Securities
(continued)**

| Type | Par Value | Cash, Cash Equivalents and Investment Securities | | | | | | | |
|---------------------------|--------------------|--|-------------------|-----------------------------------|------------------|-------------------------------|------------------------|-----------------------|-------------------------|
| | | Weighted Average Maturity, in Years | | | | | | | |
| | | General Reserve | Rental Housing | Residential Housing Finance | Single Family | Home- ownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated |
| Deposits | \$ 3,404 | — | — | — | — | — | — | — | — |
| Certificates of Deposit | 332,355 | — | — | — | — | — | — | — | — |
| Money market fund | 398,311 | — | — | — | — | — | — | — | — |
| State Investment Pool | 73,849 | — | — | — | — | — | — | — | — |
| Investment agreements | 171,142 | — | — | — | — | — | — | — | — |
| U.S. Agencies | 366,221 | 2.6 | 8.0 | 24.1 | 12.8 | — | — | 3.2 | 5.3 |
| U.S. Treasuries | 10,683 | — | — | 9.8 | 6.6 | — | — | — | 7.4 |
| Municipals | 36,970 | — | — | — | — | — | — | — | — |
| Agency-wide Totals | <u>\$1,392,935</u> | | | | | | | | |
| Weighted Average Maturity | | 1.3 | 3.3 | 6.6 | 1.2 | — | — | 2.2 | 2.2 |

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, 2010 were as follows (in thousands):

| Investment Issuer | Amount |
|---|-----------|
| Federal Home Loan Bank of Des Moines, Certificates of Deposit | \$332,355 |
| Federal National Mortgage Association, U.S. Agencies | 95,754 |
| Federal Home Loan Mortgage Corporation, U.S. Agencies | 58,846 |
| Federal Home Loan Bank, U.S. Agencies | 53,310 |
| Assured Guaranty Municipal Corporation, Investment Agreements | 53,181 |

The Agency maintained certain deposits and investments throughout fiscal year 2010 that were subject to custodial credit risk. As of June 30, 2010, the amounts subject to this risk consisted of the following (in thousands):

| | Amount |
|--|--------------------|
| Deposits not covered by depository insurance and uncollateralized (including \$398,311 in a money market fund and \$73,849 in the State investment pool) | \$ 475,564 |
| Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name | 802,982 |
| Agency-wide Total | <u>\$1,278,546</u> |

Net realized gain on sale of investment securities of \$0.469 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, 2010 were as follows (in thousands):

| Funds | Amount |
|-----------------------------|-----------------|
| Rental Housing | \$19,722 |
| Residential Housing Finance | 52,820 |
| Single Family | 7,646 |
| Totals | <u>\$80,188</u> |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Loans Receivable,
Net

Loans receivable, net at June 30, 2010 consisted of (in thousands):

| Funds | Outstanding Principal | Allowance for Loan Losses | Unamortized Premiums (Discounts) and Fees | Loans Receivable, Net |
|-----------------------------|----------------------------------|--|--|--------------------------------------|
| General Reserve | \$ — | \$ — | \$ — | \$ — |
| Rental Housing | 187,731 | (7,110) | (1,241) | 179,380 |
| Residential Housing Finance | 1,949,823 | (35,857) | 2,906 | 1,916,872 |
| Single Family | 138,020 | (1,155) | (928) | 135,937 |
| Homeownership Finance | — | — | — | — |
| Multifamily Housing | — | — | — | — |
| State Appropriated | 37,301 | (1,375) | — | 35,926 |
| Federal Appropriated | — | — | — | — |
| Agency-wide Totals | <u>\$2,312,875</u> | <u>\$(45,497)</u> | <u>\$ 737</u> | <u>\$2,268,115</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 carried 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 fiscal year 2010 the unpaid principal amount of loans with such characteristics aggregated \$10.666 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), \$0.768 million in Rental Housing and \$22.187 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, 2010 consist of a variety of loans as follows (in thousands):

| Description | Net Outstanding Amount | Gross Outstanding Amount |
|--|---------------------------------------|---|
| Residential Housing Finance Bonds: | | |
| Homeownership, first mortgage loans | \$1,593,427 | \$1,606,426 |
| Other homeownership loans, generally secured by a second mortgage | 2,091 | 2,167 |
| Alternative Loan Fund, Housing Investment Fund (Pool 2): | | |
| Home Improvement loans, generally secured by a second mortgage | 116,713 | 119,199 |
| Homeownership, first mortgage loans | 26,230 | 27,193 |
| Multifamily, first mortgage loans | 155,185 | 170,610 |
| Alternative Loan Fund, Housing Affordability Fund (Pool 3): | | |
| Other homeownership loans, the majority secured by a second mortgage | 23,226 | 24,228 |
| Residential Housing Finance Totals | <u>\$1,916,872</u> | <u>\$1,949,823</u> |

The Agency is limited by statute to financing real estate located within the State of Minnesota. Collectability depends on local economic conditions.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Other Assets

Other assets, including receivables, at June 30, 2010 consisted of the following (in thousands):

| Funds | Receivables Due from the Federal Government | Other Assets and Receivables | Total |
|-----------------------------|--|---|----------------|
| General Reserve | \$1,262 | \$ 4 | \$1,266 |
| Rental Housing | — | 3 | 3 |
| Residential Housing Finance | — | 265 | 265 |
| Single Family | — | 718 | 718 |
| Homeownership Finance | — | — | — |
| Multifamily Housing | — | — | — |
| State Appropriated | — | — | — |
| Federal Appropriated | 5,152 | — | 5,152 |
| Agency-wide Totals | <u>\$6,414</u> | <u>\$990</u> | <u>\$7,404</u> |

**Bonds Payable,
Net**

Bonds payable, net at June 30, 2010 were as follows (in thousands):

| Funds | Par Bonds Outstanding | Net Unamortized Deferred Variable Rate Fees | Net Unamortized Premium and Deferred Fees | Net Unamortized Deferred Loss | Bonds Payable, Net |
|--|----------------------------------|--|--|--|-------------------------------|
| Rental Housing | \$ 151,955 | \$ — | \$ — | \$(1,870) | \$ 150,085 |
| Residential Housing Finance | 2,103,005 | (96) | 4,109 | (491) | 2,106,527 |
| Single Family | 116,405 | — | — | — | 116,405 |
| Homeownership Finance | 260,490 | — | — | — | 260,490 |
| Multifamily Housing | 15,000 | — | — | — | 15,000 |
| Sub-totals | <u>\$2,646,855</u> | <u>\$(96)</u> | <u>\$4,109</u> | <u>\$(2,361)</u> | <u>\$2,648,507</u> |
| Residential Housing Finance- Line of Credit Advances | 56,000 | — | — | — | 56,000 |
| Totals | <u>\$2,702,855</u> | <u>\$(96)</u> | <u>\$4,109</u> | <u>\$(2,361)</u> | <u>\$2,704,507</u> |

Summary of bond activity from June 30, 2009 to June 30, 2010 (in thousands):

| Funds | June 30, 2009 Bonds Outstanding, at Par | Par Issued | Par Repaid | June 30, 2010 Bonds Outstanding, at Par |
|--------------------------------|--|--------------------|--------------------|--|
| Rental Housing | \$ 164,545 | \$ — | \$ 12,590 | \$ 151,955 |
| Residential Housing Finance | 2,099,675 | 1,109,440 | 1,106,110 | 2,103,005 |
| Single Family | 205,790 | — | 89,385 | 116,405 |
| Homeownership Finance | — | 260,490 | — | 260,490 |
| Multifamily Housing | — | 15,000 | — | 15,000 |
| Totals | <u>\$2,470,010</u> | <u>\$1,384,930</u> | <u>\$1,208,085</u> | <u>\$2,646,855</u> |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Bonds Payable,
Net
(continued)

Bonds payable at June 30, 2010 were as follows (in thousands):

| <u>Series</u> | <u>Interest rate</u> | <u>Final Maturity</u> | <u>Original Par</u> | <u>June 30, 2010 Bonds Outatanding, at Par</u> |
|---|----------------------|-----------------------|---------------------|--|
| <u>Rental Housing Bonds</u> | | | | |
| 1995 Series C-2 | 5.85% to 5.95% | 2015 | \$ 38,210 | \$ 5,480 |
| 1995 Series D | 5.80% to 6.00% | 2022 | 234,590 | 9,050 |
| 1997 Series A | 5.40% to 5.875% | 2028 | 4,750 | 3,775 |
| 1998 Series A | 5.375% | 2028 | 5,505 | 5,505 |
| 1998 Series B | 6.60% | 2019 | 4,180 | 2,510 |
| 1998 Series C | 4.75% to 5.20% | 2029 | 2,865 | 2,290 |
| 1999 Series A | 4.65% to 5.10% | 2024 | 4,275 | 3,125 |
| 1999 Series B | 5.50% to 6.15% | 2025 | 3,160 | 2,030 |
| 2000 Series A | 5.55% to 6.15% | 2030 | 9,290 | 5,700 |
| 2000 Series B | 5.90% | 2031 | 5,150 | 4,270 |
| 2001 Series A | 4.50% to 5.35% | 2033 | 4,800 | 4,215 |
| 2002 Series A | 3.55% to 4.05% | 2014 | 27,630 | 12,795 |
| 2003 Series A | 4.55% to 4.95% | 2045 | 12,770 | 12,040 |
| 2003 Series B | 4.15% to 5.08% | 2031 | 1,945 | 1,725 |
| 2003 Series C-1 | 4.35% to 5.20% | 2034 | 2,095 | 1,915 |
| 2004 Series A | 3.35% to 5.00% | 2035 | 9,345 | 7,820 |
| 2004 Series B | 4.00% to 4.85% | 2035 | 3,215 | 2,980 |
| 2004 Series C | 3.20% to 4.40% | 2022 | 80,000 | 45,380 |
| 2005 Series A-1 | 4.25% to 4.85% | 2035 | 1,725 | 1,620 |
| 2006 Series A-1 | 4.40% to 5.10% | 2047 | 6,615 | 6,480 |
| 2006 Series B | 4.89% | 2037 | 5,020 | 4,835 |
| 2006 Series C-1 | 4.96% | 2037 | 2,860 | 2,750 |
| 2007 Series A-1 | 4.65% | 2038 | 3,775 | 3,665 |
| | | | 473,770 | 151,955 |
| <u>Residential Housing Finance Bonds</u> | | | | |
| 2002 Series A | 4.75% to 5.30% | 2019 | 14,035 | 3,515 |
| 2002 Series B | 4.90% to 5.65% | 2033 | 59,650 | 12,570 |
| 2002 Series A-1 | 4.20% to 4.90% | 2019 | 6,860 | 4,410 |
| 2002 Series B-1 | 4.20% to 5.35% | 2033 | 25,760 | 13,065 |
| 2002 Series E | 4.30% to 5.00% | 2020 | 12,805 | 7,630 |
| 2002 Series F | 4.30% to 5.40% | 2032 | 52,195 | 21,515 |
| 2002 Series H | 4.93% | 2012 | 20,000 | 10,000 |
| 2003 Series A | 3.05% to 4.30% | 2034 | 40,000 | 16,950 |
| 2003 Series B | Variable | 2033 | 25,000 | 25,000 |
| 2003 Series I | 3.95% to 5.25% | 2020 | 25,000 | 9,400 |
| 2003 Series J | Variable | 2033 | 25,000 | 21,220 |
| 2004 Series A | 3.20% to 4.25% | 2018 | 22,480 | 19,440 |
| 2004 Series B | 3.35% to 5.00% | 2033 | 94,620 | 48,765 |
| 2004 Series C | 4.70% | 2035 | 14,970 | 13,100 |
| 2004 Series E-1 | 4.10% to 4.60% | 2016 | 5,110 | 3,845 |
| 2004 Series E-2 | 4.40% to 4.60% | 2016 | 6,475 | 4,875 |
| 2004 Series F-1 | 4.20% to 4.50% | 2012 | 4,600 | 620 |
| 2004 Series F-2 | 4.20% to 5.25% | 2034 | 36,160 | 23,130 |

continued

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

| Bonds Payable, Net (continued) | Series | Interest rate | Final Maturity | Original Par | June 30, 2010 Bonds Outstanding, at Par |
|---|---------------|-----------------|-------------------|--------------|--|
| <u>Residential Housing Finance Bonds (continued)</u> | | | | | |
| | 2004 Series G | Variable | 2032 | \$ 50,000 | \$ 39,160 |
| | 2005 Series A | 3.20% to 4.125% | 2018 | 14,575 | 9,595 |
| | 2005 Series B | 4.75% to 5.00% | 2035 | 20,425 | 15,405 |
| | 2005 Series C | Variable | 2035 | 25,000 | 20,110 |
| | 2005 Series G | 4.25% to 4.30% | 2018 | 8,950 | 8,430 |
| | 2005 Series H | 4.00% to 5.00% | 2036 | 51,050 | 37,765 |
| | 2005 Series I | Variable | 2036 | 40,000 | 32,395 |
| | 2005 Series J | 3.625% to 4.00% | 2015 | 11,890 | 11,450 |
| | 2005 Series K | 3.70% to 4.40% | 2028 | 41,950 | 30,760 |
| | 2005 Series L | 4.75% to 5.00% | 2036 | 48,165 | 38,485 |
| | 2005 Series M | Variable | 2036 | 60,000 | 48,090 |
| | 2005 Series O | 3.90% to 4.20% | 2015 | 4,510 | 4,510 |
| | 2005 Series P | 4.00% to 5.00% | 2036 | 65,490 | 54,265 |
| | 2006 Series A | 3.50% to 4.00% | 2016 | 13,150 | 9,430. |
| | 2006 Series B | 4.60% to 5.00% | 2037 | 43,515 | 37,785 |
| | 2006 Series C | Variable | 2037 | 28,335 | 25,060 |
| | 2006 Series F | 3.75% to 4.25% | 2016 | 11,015 | 8,050 |
| | 2006 Series G | 4.85% to 5.50% | 2037 | 58,985 | 54,650 |
| | 2006 Series H | 5.85% | 2036 | 15,000 | 8,370 |
| | 2006 Series I | 4.10% to 5.75% | 2038 | 95,000 | 81,120 |
| | 2006 Series J | 6.00% to 6.51% | 2038 | 45,000 | 38,395 |
| | 2006 Series L | 3.55% to 3.95% | 2016 | 6,740 | 5,450 |
| | 2006 Series M | 4.625% to 5.75% | 2037 | 35,260 | 34,350 |
| | 2006 Series N | 5.20% to 5.76% | 2037 | 18,000 | 14,910 |
| | 2007 Series C | 3.625% to 3.95% | 2017 | 12,515 | 10,550 |
| | 2007 Series D | 4.60% to 5.50% | 2038 | 62,485 | 58,525 |
| | 2007 Series E | Variable | 2038 | 25,000 | 20,545 |
| | 2007 Series H | 3.65% to 3.95% | 2017 | 12,230 | 12,230 |
| | 2007 Series I | 3.95% to 5.50% | 2038 | 100,270 | 91,745 |
| | 2007 Series J | Variable | 2038 | 37,500 | 31,565 |
| | 2007 Series L | 3.00% to 5.50% | 2048 | 105,000 | 98,545 |
| | 2007 Series M | 6.345% | 2038 | 70,000 | 65,950 |
| | 2007 Series P | 3.50% to 3.90% | 2017 | 4,305 | 4,155 |
| | 2007 Series Q | 3.80% to 5.50% | 2038 | 42,365 | 40,195 |
| | 2007 Series R | 4.46% to 4.76% | 2013 | 2,840 | 2,000 |
| | 2007 Series S | Variable | 2038 | 18,975 | 18,975 |
| | 2007 Series T | Variable | 2048 | 37,160 | 35,840 |
| | 2008 Series A | 2.60% to 4.65% | 2023 | 25,090 | 23,290 |
| | 2008 Series B | 5.50% to 5.65% | 2033 | 34,910 | 34,620 |
| | 2008 Series C | Variable | 2048 | 40,000 | 40,000 |
| | 2009 Series A | 1.85% to 5.20% | 2023 | 26,795 | 25,175 |
| | 2009 Series B | 5.00% to 5.90% | 2038 | 33,205 | 31,795 |
| | 2009 Series C | Variable | 2036 | 40,000 | 40,000 |
| | 2009 Series D | 1.20% to 4.00% | 2020 | 19,830 | 19,830 |
| | 2009 Series E | 2.05% to 5.10% | 2040 | 103,960 | 103,960 |

continued

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Bonds Payable,
Net
(continued)

| Series | Interest rate | Final Maturity | Original Par | June 30, 2010 Bonds Outstanding, at Par |
|---|-----------------|-------------------|--------------|--|
| <u>Residential Housing Finance Bonds (continued)</u> | | | | |
| 2009 Series F | Variable | 2031 | \$ 34,120 | \$ 34,120 |
| | | | 2,191,280 | 1,770,650 |
| <u>Limited Obligation Notes</u> | | | | |
| 2010-A | 0.27% | 2010 | 332,355 | 332,355 |
| | | | 332,355 | 332,355 |
| <u>Single Family Mortgage Bonds</u> | | | | |
| 1994 Series E | 5.60% to 5.90% | 2025 | 31,820 | 10,720 |
| 1994 Series T | 6.125% | 2017 | 16,420 | 340 |
| 1996 Series A | 6.375% | 2028 | 34,480 | 2,130 |
| 1996 Series B | 6.35% | 2019 | 7,990 | 1,090 |
| 1996 Series C | 6.10% | 2015 | 12,345 | 525 |
| 1996 Series D | 6.00% | 2017 | 23,580 | 615 |
| 1996 Series E | 6.25% | 2023 | 14,495 | 955 |
| 1996 Series F | 6.30% | 2028 | 18,275 | 1,200 |
| 1996 Series G | 6.25% | 2028 | 41,810 | 1,925 |
| 1996 Series H | 6.00% | 2021 | 13,865 | 630 |
| 1996 Series I | 8.00% | 2017 | 14,325 | 320 |
| 1997 Series D | 5.80% to 5.85% | 2021 | 15,885 | 2,035 |
| 1997 Series E | 5.90% | 2029 | 23,495 | 1,740 |
| 1998 Series F-1 | 5.05% to 5.45% | 2017 | 10,650 | 775 |
| 1998 Series G-1 | 5.60% | 2022 | 6,150 | 975 |
| 1998 Series H-1 | 5.65% | 2031 | 14,885 | 2,360 |
| 1998 Series F-2 | 5.00% to 5.70% | 2017 | 11,385 | 1,750 |
| 1998 Series G-2 | 6.00% | 2022 | 6,605 | 2,105 |
| 1998 Series H-2 | 6.05% | 2031 | 15,965 | 5,110 |
| 1999 Series H | 5.30% to 5.80% | 2021 | 16,350 | 3,050 |
| 1999 Series I | 5.35% to 6.05% | 2031 | 34,700 | 3,870 |
| 1999 Series J | 5.00% | 2017 | 4,745 | 1,870 |
| 1999 Series K | 4.40% to 5.35% | 2033 | 44,515 | 15,405 |
| 2000 Series F | Variable | 2031 | 20,000 | 6,535 |
| 2000 Series G | 4.50% to 5.40% | 2025 | 39,990 | 13,470 |
| 2000 Series H | 5.50% | 2023 | 32,475 | 7,920 |
| 2001 Series A | 5.35% to 5.45% | 2022 | 14,570 | 5,365 |
| 2001 Series B | 4.90% to 5.675% | 2030 | 34,855 | 6,525 |
| 2001 Series E | 3.30% to 4.90% | 2035 | 23,000 | 15,095 |
| | | | 599,625 | 116,405 |
| <u>Homeownership Finance Bonds</u> | | | | |
| 2009 A | Variable | 2011 | 260,490 | 260,490 |
| | | | 260,490 | 260,490 |
| <u>Multifamily Housing Bonds</u> | | | | |
| 2009 | Variable | 2011 | 15,000 | 15,000 |
| | | | 15,000 | 15,000 |
| Combined Totals | | | \$3,872,520 | \$2,646,855 |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

**Bonds Payable,
Net
(continued)**

The final maturities of the Homeownership Finance Bonds, 2009 Series A and the Multifamily Housing Bonds, Series 2009 are listed in the foregoing table as 2011, because the conditions for release of proceeds of these bonds under the Treasury Department's New Issue Bond Program had not been met as of June 30, 2010. If the conditions for release of proceeds are satisfied, some or all of the bonds will bear interest at a long-term rate and amortize over a term ending for the Homeownership Finance Bonds, 2009 Series A, on July 1, 2041 and for the Multifamily Housing Bonds, Series 2009, on August 1, 2051.

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, 2010, are as follows (in thousands):

| Fiscal Year | Rental Housing | | Residential Housing Finance (1) | |
|-------------|----------------|-----------|---------------------------------|-------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 12,030 | \$ 7,145 | \$ 362,765 | \$ 67,581 |
| 2012 | 12,280 | 6,629 | 33,335 | 65,788 |
| 2013 | 11,275 | 6,097 | 44,640 | 64,328 |
| 2014 | 12,715 | 5,611 | 36,830 | 62,790 |
| 2015 | 7,270 | 5,091 | 39,480 | 61,398 |
| 2016-2020 | 36,845 | 20,145 | 214,580 | 283,628 |
| 2021-2025 | 19,750 | 12,691 | 256,080 | 240,337 |
| 2026-2030 | 16,785 | 8,104 | 356,755 | 183,870 |
| 2031-2035 | 11,655 | 4,356 | 418,505 | 112,170 |
| 2036-2040 | 5,855 | 2,054 | 314,040 | 32,920 |
| 2041-2045 | 4,600 | 885 | 13,865 | 1,919 |
| 2046-2050 | 895 | 67 | 12,130 | 461 |
| Totals | \$151,955 | \$ 78,874 | \$ 2,103,005 | \$1,177,191 |

| Fiscal Year | Single Family | | Homeownership Finance | |
|-------------|---------------|----------|-----------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$ 3,405 | \$ 6,036 | \$260,490 | \$230 |
| 2012 | 3,600 | 5,865 | - | - |
| 2013 | 3,775 | 5,679 | - | - |
| 2014 | 4,170 | 5,472 | - | - |
| 2015 | 4,505 | 5,246 | - | - |
| 2016-2020 | 26,765 | 22,227 | - | - |
| 2021-2025 | 29,080 | 14,426 | - | - |
| 2026-2030 | 28,345 | 6,999 | - | - |
| 2031-2035 | 12,760 | 1,334 | - | - |
| 2036-2040 | - | - | - | - |
| 2041-2045 | - | - | - | - |
| 2046-2050 | - | - | - | - |
| Totals | \$116,405 | \$73,285 | \$260,490 | \$230 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Bonds Payable,
Net
(continued)

| Fiscal Year | Multifamily Housing | | Combined Totals | |
|-------------|---------------------|-------------|--------------------|--------------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$15,000 | \$13 | \$ 653,690 | \$ 81,005 |
| 2012 | - | - | 49,215 | 78,283 |
| 2013 | - | - | 59,690 | 76,105 |
| 2014 | - | - | 53,715 | 73,873 |
| 2015 | - | - | 51,255 | 71,736 |
| 2016-2020 | - | - | 278,190 | 326,000 |
| 2021-2025 | - | - | 304,910 | 267,454 |
| 2026-2030 | - | - | 401,885 | 198,973 |
| 2031-2035 | - | - | 442,920 | 117,859 |
| 2036-2040 | - | - | 319,895 | 34,973 |
| 2041-2045 | - | - | 18,465 | 2,804 |
| 2046-2050 | - | - | 13,025 | 527 |
| | <u>\$15,000</u> | <u>\$13</u> | <u>\$2,646,855</u> | <u>\$1,329,593</u> |

(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.

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 and F 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, 2010. Variable rate bond interest payments will vary as general short-term interest 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, 2010. 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, under the respective resolutions. The bond resolutions contain covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2010, 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, 2010 for the redemption of certain bonds thereafter. See Subsequent Events.

Interest Rate
Swaps

The Agency has entered into certain interest rate swap agreements which are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2010. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2010. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Interest Rate Swaps (continued)

statement of net assets. The fair values exclude accrued interest. As of June 30, 2010, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value of the interest rate swap agreements as of June 30, 2009, as determined by the counterparties to the agreements, is displayed for the prior year on the statement of net assets for comparison purposes. The fair value is displayed on the statement of net assets as a liability named "Interest rate swap agreements." The change in fair value for fiscal year 2010 is included in the asset account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under Residential Housing Finance 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, 2010, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming interest rates 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.

| Fiscal Year | Principal | Interest | Interest Rate Swaps, Net | Total |
|--------------------|------------------|-----------------|---------------------------------|--------------|
| 2011 | \$ 21,010 | \$2,052 | \$15,123 | \$ 38,185 |
| 2012 | 10,935 | 1,158 | 15,368 | 27,461 |
| 2013 | 820 | 1,157 | 14,450 | 16,427 |
| 2014 | 870 | 1,154 | 13,679 | 15,703 |
| 2015 | 1,215 | 1,151 | 12,954 | 15,320 |
| 2016-2020 | 28,530 | 6,753 | 66,446 | 101,729 |
| 2021-2025 | 66,225 | 6,140 | 48,201 | 120,566 |
| 2026-2030 | 111,705 | 4,971 | 33,698 | 150,374 |
| 2031-2035 | 138,785 | 3,236 | 22,282 | 164,303 |
| 2036-2040 | 92,190 | 1,291 | 9,267 | 102,748 |
| 2041-2045 | 9,745 | 305 | 1,846 | 11,896 |
| 2046-2050 | 6,240 | 115 | 670 | 7,025 |

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2010, are contained in the three tables below (in thousands). All swaps are pay-fixed. 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 (except for the 2009 F swap), 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 match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Interest Rate Swaps (continued)

Counterparty: UBS AG

Moody's / Standard & Poor's Credit Ratings ⁽²⁾: Aa3/A+

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of June 30, 2010 | Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010 |
|------------------------|-------------------------------------|-------------------|--------------------|--------------------|--|------------------------------------|---|
| RHFB 2003B | \$ 25,000 | July 23, 2003 | January 1, 2033 | 3.532% | 65% of 1 month LIBOR* plus 0.23% per annum | \$ (1,346) | \$ (877) |
| RHFB 2003J | 21,220 | October 15, 2003 | July 1, 2033 | 4.183% | 65% of 1 month LIBOR* plus 0.23% per annum | (2,210) | (488) |
| RHFB 2005C | 20,110 | March 2, 2005 | January 1, 2035 | 3.587% | 64% of 1 month LIBOR* plus 0.28% per annum | (1,376) | (392) |
| RHFB 2006C | 25,060 | March 21, 2006 | January 1, 2037 | 3.788% | 64% of 1 month LIBOR* plus 0.29% per annum | (2,241) | (541) |
| RHFB 2007S | 18,975 | December 19, 2007 | July 1, 2038 | 4.340% | 100% of SIFMA**** Index plus 0.06% per annum | (838) | (670) |
| RHFB 2007T (Taxable) | 35,840 | December 19, 2007 | July 1, 2026 | 4.580% | 100% of 1 month LIBOR* | (3,188) | (838) |
| | \$146,205 | | | | | \$ (11,199) | \$ (3,806) |

Counterparty: Royal Bank of Canada

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

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of June 30, 2010 | Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010 |
|------------------------|-------------------------------------|-------------------|--------------------|--------------------|---|------------------------------------|---|
| RHFB 2004G | \$ 39,160 | July 22, 2004 | January 1, 2032 | 4.165% | 64% of 1 month LIBOR* plus 0.26% per annum | \$ (3,624) | \$ (765) |
| RHFB 2007E (Taxable) | 20,545 | March 7, 2007 | July 1, 2038 | 5.738% | 100% of 1 month LIBOR* | (2,313) | (166) |
| RHFB 2007J (Taxable) | 31,565 | May 17, 2007 | July 1, 2038 | 5.665% | 100% of 1 month LIBOR* | (3,478) | (342) |
| RHFB 2008C (Taxable) | 40,000 | August 7, 2008 | July 1, 2048 | 4.120% | 64% of 1 month LIBOR* plus 0.30% per annum | (4,421) | (1,171) |
| RHFB 2009C (Taxable) | 40,000 | February 12, 2009 | July 1, 2039 | 3.070% | 64% of 1 month LIBOR* plus 0.30% per annum | (5,557) | (982) |
| RHFB 2009F | 34,120 | December 1, 2009 | September 12, 2017 | 2.365% | 100% of weekly SIFMA**** plus 0.80% per annum | (891) | (891) |
| | \$205,390 | | | | | \$ (20,284) | \$ (4,317) |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Interest Rate Swaps (continued)

Counterparty: Citibank, N.A.

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

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of June 30, 2010 | Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010 |
|------------------------|-------------------------------------|----------------|--------------------|--------------------|--|------------------------------------|---|
| RHFB 2005I | \$ 32,395 | June 2, 2005 | January 1, 2036 | 3.570% | 64% of 1 month LIBOR* plus .28% per annum | \$ (2,401) | \$ (692) |
| RHFB 2005M | 48,090 | August 4, 2005 | January 1, 2036 | 3.373% | 64% of 1 month LIBOR* plus 0.29% per annum | (3,193) | (1,056) |
| | <u>\$ 80,485</u> | | | | | <u>\$ (5,594)</u> | <u>\$(1,748)</u> |
| Combined Totals | <u>\$432,080</u> | | | | | <u>\$ (37,077)</u> | <u>\$(9,871)</u> |

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

(2) Moody's has given the "Aa3" rating of this counterparty (UBS AG) a negative outlook and Standard & Poor's has given the "A+" rating of this counterparty (UBS AG) a stable outlook.

(3) Moody's has given the "Aaa" rating of this counterparty (Royal Bank of Canada) a negative outlook and Standard & Poor's has give the "AA-" rating of this counterparty (Royal Bank of Canada) a positive outlook.

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

- * London Inter-Bank Offered Rate
- ** Moody's Investor Service, Inc.
- *** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
- **** Securities Industry and Financial Markets Association

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 party 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 generally 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 potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2010, 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. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$3 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Interest Rate Swaps (continued) requirements are established to mitigate potential credit risk exposure. As of June 30, 2010, 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 index 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, 2010, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.29% to 0.31% per annum while the variable interest rate on the associated swaps ranged from 0.37% to 0.52% per annum. As of June 30, 2010, the interest rate on the Agency's variable rate taxable debt was 0.33% per annum while the variable interest rate on the corresponding swaps was 0.35% 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 to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. 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, 2010, \$31.1 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.

Appropriation Debt Obligation In October, 2009 the Agency issued a series of bonds under a new indenture of trust that permits capital funding for permanent supportive housing for long-term homeless households and other purposes. As of June 30, 2010, \$13.3 million of the bonds were outstanding. These bonds are secured solely by state appropriations. This debt is not a general obligation of the Agency and is 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. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Defeased Debt On December 1, 2009, the Agency issued \$157,910,000 of Residential Housing Finance Bonds, 2009 Series DEF, a portion of which defeased \$52,910,000 of the Agency's outstanding Single Family Mortgage Bonds, 1995 Series M, 1996 Series JK, 1997 Series ABC, 1997 Series IJKL, 1998 Series AB, 1998 Series

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Deceased Debt
(continued)**

CDE, 1999 Series BCD, 2000 Series ABC, and 2000 Series IJ. Consequently, the trust account assets and the liability for the deceased bonds were not included in the Agency's statement of net assets after that date. The reacquisition price exceeded the net carrying amount of the deceased debt by \$0.573 million, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately \$18.931 million and resulted in a present value savings of approximately \$13.917 million. At June 30, 2010, the outstanding principal of the deceased bonds was \$0.

**Accounts Payable
and Other
Liabilities**

Accounts payable and other liabilities at June 30, 2010 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 | \$ | \$3,205 | \$ 2,101 | \$ 5,306 |
| Rental Housing | 4,626 | — | 19 | 4,645 |
| Residential Housing Finance | 3,987 | — | 680 | 4,667 |
| Single Family | 348 | — | 34 | 382 |
| Homeownership Finance | — | — | 39 | 39 |
| Multifamily Housing | — | — | 6 | 6 |
| State Appropriated | — | — | 925 | 925 |
| Federal Appropriated | — | — | 5,612 | 5,612 |
| Agency-wide Totals | <u>\$8,961</u> | <u>\$3,205</u> | <u>\$9,416</u> | <u>\$21,582</u> |

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is \$4.575 million, in Residential Housing Finance is \$3.048 million and in Single Family is \$0.200 million, for a total of \$8.043 million.

**Interfund
Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2010 consisted of the following (in thousands):

| Funds | Due from | | | | | | | | Total |
|-----------------------------|--------------------|-------------------|-----------------------------------|------------------|-------------------------------|------------------------|-----------------------|-------------------------|----------------|
| | General Reserve | Rental Housing | Residential Housing Finance | Single Family | Home- ownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | |
| General Reserve | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 410 | \$ 413 | \$ 823 |
| Rental Housing | — | — | — | — | — | — | — | — | — |
| Residential Housing Finance | 2,298 | — | — | — | — | — | — | — | 2,298 |
| Single Family | — | — | 482 | — | — | — | — | — | 482 |
| Homeownership Finance Bonds | — | — | — | — | — | — | — | — | — |
| Multifamily Housing Bonds | — | — | — | — | — | — | — | — | — |
| State Appropriated | — | — | 80 | 82 | — | — | — | — | 162 |
| Federal Appropriated | — | — | — | — | — | — | — | — | — |
| Agency-wide Totals | <u>\$2,298</u> | <u>\$ —</u> | <u>\$562</u> | <u>\$82</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$410</u> | <u>\$413</u> | <u>\$3,765</u> |

All 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Interfund
Transfers**

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2010 consisted of the following (in thousands)

| Funds | Transfer from | | | | | | | | Total |
|-----------------------------|-----------------|----------------|-----------------------------|-----------------|------------------------|---------------------|--------------------|----------------------|-----------------|
| | General Reserve | Rental Housing | Residential Housing Finance | Single Family | Home-ownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | |
| General Reserve | \$— | \$1,571 | \$14,539 | \$1,569 | \$— | \$— | \$1,720 | \$2,089 | \$21,488 |
| Rental Housing | — | — | — | — | — | — | — | — | — |
| Residential Housing Finance | — | — | — | 7,707 | — | — | 2,115 | 2,465 | 12,287 |
| Single Family | — | — | 49,699 | — | — | — | — | — | 49,699 |
| Homeownership Finance Bonds | — | — | — | — | — | — | — | — | — |
| Multifamily Housing Bonds | — | — | — | — | — | — | — | — | — |
| State Appropriated | 395 | — | 40 | 46 | — | — | — | — | 481 |
| Federal Appropriated | — | 310 | 92 | — | — | — | — | — | 402 |
| Agency-wide Totals | <u>\$395</u> | <u>\$1,881</u> | <u>\$64,370</u> | <u>\$49,322</u> | <u>\$—</u> | <u>\$—</u> | <u>\$3,835</u> | <u>\$4,554</u> | <u>\$84,357</u> |

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 \$2.0 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds and to move nonprofit housing bond principal and interest payments to Residential Housing Finance.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2010, consisted of the following (in thousands):

| Funds | Transfer from | | | | | | | | Total |
|-----------------------------|-----------------|----------------|-----------------------------|-----------------|------------------------|---------------------|--------------------|----------------------|-----------------|
| | General Reserve | Rental Housing | Residential Housing Finance | Single Family | Home-ownership Finance | Multifamily Housing | State Appropriated | Federal Appropriated | |
| General Reserve | \$— | \$— | \$— | \$— | \$— | \$— | \$— | \$— | \$— |
| Rental Housing | — | — | — | — | — | — | — | — | — |
| Residential Housing Finance | 12,403 | — | — | 17,954 | — | — | — | — | 30,357 |
| Single Family | — | — | 15,783 | — | — | — | — | — | 15,783 |
| Homeownership Finance Bonds | — | — | 387 | — | — | — | — | — | 387 |
| Multifamily Housing Bonds | — | — | 113 | — | — | — | — | — | 113 |
| State Appropriated | — | — | — | — | — | — | — | — | — |
| Federal Appropriated | — | — | — | — | — | — | — | — | — |
| Agency-wide Totals | <u>\$12,403</u> | <u>\$0</u> | <u>\$16,283</u> | <u>\$17,954</u> | <u>\$—</u> | <u>\$—</u> | <u>\$—</u> | <u>\$—</u> | <u>\$46,640</u> |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2010

Interfund Transfers (continued)

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 (Pool 1) 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 excess 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 Minnesota Housing's 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 \$476.902 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 \$668.242 million as of June 30, 2009 and are \$683.233 million as of June 30, 2010.

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, 2010 (in thousands):

| | 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 |
|--|---|---|---|--|
| Net Assets — Restricted By Covenant | | | | |

Housing Endowment Fund (Pool 1),

General Reserve

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

| | | | |
|-----------|-----|-----|-----------|
| \$ 22,513 | \$— | \$— | \$ 22,513 |
|-----------|-----|-----|-----------|

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Net Assets
(continued)

| Net Assets — Restricted By Covenant | Certain Balances Maintained According to Agency's Board Guidelines | Unrealized Appreciation (Depreciation) in Fair Market Value of Investments | Mitigate Pool 1 Unrealized Depreciation in Fair Market Value | Total Net Assets Restricted by Covenant |
|--|---|---|---|--|
| Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments | — | 25 | — | 25 |
| Subtotal, Housing Endowment Fund (Pool 1), General Reserve | \$ 22,513 | \$25 | \$— | \$ 22,538 |
| Housing Investment Fund (Pool 2), Residential Housing Finance | | | | |
| An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of 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 year 2010). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities. | 376,364 | — | — | 376,364 |
| Unrealized depreciation in fair market value of investments | — | 4,505 | — | 4,505 |
| Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance | 376,364 | 4,505 | — | 380,869 |
| Housing Affordability Fund (Pool 3), Residential Housing Finance | | | | |
| Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be 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, pending use, investment-grade securities. | 71,769 | — | — | 71,769 |
| Unrealized appreciation in fair market value of investments | — | 1,726 | — | 1,726 |
| Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance | 71,769 | 1,726 | — | 73,495 |
| Agency-wide Total | <u>\$470,646</u> | <u>\$6,256</u> | <u>\$—</u> | <u>\$476,902</u> |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Net Assets
(continued)**

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$11.111 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2010 are restricted by federal requirements that control the use of the funds. The \$117.209 million of net assets restricted by law in the State Appropriated fund as of June 30, 2010 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 |
|-----------------------|-----------------|-----------------|
| 07/01/09 | 4.75% | 4.75% |
| 07/01/10 | 5.00% | 5.00% |

The Agency’s pension contribution to the System for the fiscal year ended June 30, 2010 was \$666 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 |
|---|--|--|--|-------------------------|---|---|
| 07/01/09 | \$9,030,401 | \$10,512,760 | \$1,482,359 | 85.90% | \$2,329,499 | 63.63% |
| 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% |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Defined Benefit
Pension Plan
(continued)**

**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 |
|-----------------------------------|---|---------------------------------------|--|---|---|--------------------------------|
| 2009 | 12.39% | \$2,329,499 | \$108,866 | \$179,759 | \$107,211 | 59.64% |
| 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% |

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

The information presented was as of July 1, 2009, 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. 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 \$151 thousand for fiscal 2010. 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Other
 Postemployment
 Benefits
 (continued)

The funding status 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 | Covered Payroll | UAAL as a % of Covered Payroll |
| 07/01/06 | \$0 | \$564,809 | \$564,809 | 0.0% | \$1,961,643 | 28.79% |
| 07/01/08 | 0 | 664,452 | 664,452 | 0.0 | 1,891,300 | 35.13 |

| Schedule of Employer Contributions (dollars in thousands) | | | | |
|--|------------------|-----------------------|------------------------|---------------------|
| Fiscal Year Ended | Annual OPEB Cost | Employer Contribution | Percentage Contributed | Net OPEB Obligation |
| 06/30/08 | \$56,314 | \$24,611 | 43.70% | \$31,703 |
| 06/30/09 | 65,480 | 24,055 | 36.74 | 73,127 |
| 06/30/10 | 67,663 | 28,343 | 41.89 | 112,447 |

| Development of NOO and Annual OPEB Cost Pursuant to GASB No. 45 (dollars in thousands) | | | | | | | | |
|---|---------------------------|-----------------------|------------------|---|---------------------|----------------------------------|-------------------------|----------------------|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) |
| Fiscal Year Ended | Annual Contribution (ARC) | Employer Contribution | Interests on NOO | ARC Adjustment with Interest (h) / (e) * 1.0475 | Amortization Factor | Annual OPEB Cost (a) + (c) - (d) | Change in NOO (f) - (b) | NOO Balance LY + (g) |
| 06/30/08 | \$56,314 | \$24,611 | \$ — | \$ — | 27.0839* | \$56,314 | \$31,703 | \$ 31,703 |
| 06/30/09 | 65,200 | 24,055 | 1,506 | 1,226 | 27.0839* | 65,480 | 41,425 | 73,127 |
| 06/30/10 | 67,018 | 28,343 | 3,474 | 2,828 | 27.0839* | 67,663 | 39,320 | 112,447 |

*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 | \$ 4,781,597 |
| 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 fiscal 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 fiscal years.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

Commitments

As of June 30, 2010, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

| <u>Funds</u> | <u>Amount</u> |
|-----------------------------|------------------|
| General Reserve | \$ — |
| Rental Housing | 16,694 |
| Multifamily Finance | — |
| Residential Housing Finance | 193,326 |
| Single Family | — |
| Homeownership Finance | — |
| State Appropriated | 109,876 |
| Federal Appropriated | 97,411 |
| Agency-wide Totals | <u>\$417,307</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 cancellable lease commitments for office facilities through May 2012 and for parking through February 2012. Combined office facilities and parking lease expense for fiscal year 2010 was \$1.106 million. Commitments for future minimum lease payments under cancellable leases for office facilities and parking are (in thousands):

| | <u>Fiscal Year</u> | | |
|--------|--------------------|-------------|--------------|
| | <u>2011</u> | <u>2012</u> | <u>Total</u> |
| Amount | \$1,011 | \$927 | \$1,938 |

On June 30, 2010 the Agency had in place a \$68.3 million revolving line of credit with the Federal Home Loan Bank of Des Moines collateralized with \$6.5 million of homeownership loans and \$61.8 million of mortgage-backed securities, all of which reside in Pool 2. The advances taken during fiscal year 2010 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2010, is summarized as follows (in thousands):

| <u>Beginning Balance</u> | <u>Draws</u> | <u>Repayments</u> | <u>Ending Balance</u> |
|--------------------------|--------------|-------------------|-----------------------|
| \$0 | \$66,000 | \$10,000 | \$56,000 |

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 financial position or results of operations of the Agency.

Subsequent Events

The Agency called for redemption subsequent to June 30, 2010 the following bonds (in thousands):

| <u>Program</u> | <u>Redemption Date</u> | <u>Par</u> |
|-----------------------------|------------------------|--------------|
| Residential Housing Finance | July 1, 2010 | \$52,615,000 |
| Single Family | July 1, 2010 | 9,290,000 |
| Rental Housing | July 6, 2010 | 200,000 |
| Rental Housing | July 16, 2010 | 60,000 |
| Rental Housing | August 20, 2010 | 710,000 |
| Rental Housing | September 17, 2010 | 505,000 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2010

**Subsequent
Events
(continued)**

On July 22, 2010 the Board of the Agency adopted a bond resolution authorizing the issuance of up to \$332.355 million of limited obligation bonds for the purpose of preserving volume cap for future use. A Limited Obligation Bonds Note 2010B in the amount of \$332.355 million was delivered on August 24, 2010. The proceeds of the Limited Obligation Note Series 2010B were used to retire the Limited Obligation Note Series 2010A in the amount of \$332.355 million on August 24, 2010.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2006 – 2010

| | | <u>2006</u> | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> |
|--|---|---------------------------|---------------------------|--------------------|--------------------|--------------------|
| Loan Receivable, net (as of June 30) | Multifamily programs | \$ 350,661 | \$ 348,974 | \$ 346,509 | \$ 348,563 | \$ 334,565 |
| | Homeownership programs | 1,302,544 | 1,588,871 | 1,899,313 | 1,934,766 | 1,780,911 |
| | Home Improvement programs | 123,531 | 121,977 | 115,452 | 108,893 | 116,713 |
| | Total | <u>\$1,776,736</u> | <u>\$2,059,822</u> | <u>\$2,361,274</u> | <u>\$2,392,222</u> | <u>\$2,232,189</u> |
| Mortgage-backed securities net, at par (as of June 30) | Program mortgage-backed securities | \$ - | \$ - | \$ - | \$ - | \$ 32,321 |
| | Warehoused mortgaged-backed securities | - | - | - | - | \$ 107,330 |
| | Total | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 139,651</u> |
| Bonds Payable, net (as of June 30) | Multifamily programs | \$ 200,744 | \$ 191,691 | \$ 178,431 | \$ 162,288 | \$ 165,085 |
| | Homeownership programs | 1,725,347 | 2,187,297 | 2,217,945 | 2,296,445 | 2,524,422 |
| | Home Improvement programs | 20,000 | 20,000 | 15,000 | 15,000 | 15,000 |
| | Total | <u>\$1,946,091</u> | <u>\$2,398,988</u> | <u>\$2,411,376</u> | <u>\$2,473,733</u> | <u>\$2,704,507</u> |
| Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year | Multifamily programs | \$ 29,534 | \$ 19,306 | \$ 30,169 | \$ 41,897 | \$ 20,874 |
| | Homeownership programs | 393,866 | 424,436 | 436,263 | 207,050 | 55,891 |
| | Program and warehoused mortgage-backed securities | - | - | - | - | 140,992 |
| | Home Improvement programs | 51,119 | 29,456 | 19,883 | 17,977 | 32,299 |
| | Total | <u>\$ 474,519</u> | <u>\$ 473,198</u> | <u>\$ 486,315</u> | <u>\$ 266,924</u> | <u>\$ 250,056</u> |
| Net Assets (as of June 30) | Total Net Assets | \$ 719,887 ⁽¹⁾ | \$ 750,990 ⁽¹⁾ | \$ 662,124 | \$ 668,242 | \$ 683,233 |
| | Percent of total assets | 25.7% ⁽¹⁾ | 22.8% ⁽¹⁾ | 19.9% | 20.2% | 19.1% |
| Revenue over Expenses | Revenues over expenses for the fiscal year | \$ 22,695 ⁽¹⁾ | \$ 31,103 ⁽¹⁾ | \$ 35,352 | \$ 6,118 | \$ 14,991 |

Notes:

Does not include State Appropriated

(1) Includes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2010 (with comparative totals as of June 30, 2009)

| | | Bond Funds | | | |
|--------------------|--|--------------------|------------------|--------------------|------------------|
| | | Residential | | | |
| | | Housing | | | |
| | | Finance | | | |
| | | General | Rental | Excluding | Single |
| | | Reserve | Housing | Pool 3 | Family |
| Assets | Cash and cash equivalents | \$ 52,134 | \$ 36,257 | \$ 204,570 | \$ 41,634 |
| | Investments-program mortgage-backed securities | - | - | 33,686 | - |
| | Investment securities-other | 55,803 | 32,134 | 515,207 | 5,330 |
| | Loans receivable, net | - | 179,380 | 1,893,646 | 135,937 |
| | Interest receivable on loans | - | 973 | 14,136 | 1,086 |
| | Interest receivable on investments | 417 | 649 | 943 | 58 |
| | Deferred loss on interest rate swap agreements | - | - | 37,077 | - |
| | FHA/VA insurance claims | - | - | 9,561 | 1,846 |
| | Real estate owned | - | - | 23,271 | 755 |
| | Unamortized bond issuance costs | - | 1,556 | 9,956 | 898 |
| | Capital assets, net | 1,631 | - | - | - |
| | Other assets | 1,266 | 3 | 262 | 718 |
| | Total assets | <u>\$111,251</u> | <u>\$250,952</u> | <u>\$2,742,315</u> | <u>\$188,262</u> |
| Liabilities | Bonds payable, net | \$ - | \$150,085 | \$2,162,527 | \$116,405 |
| | Interest payable | - | 3,029 | 42,022 | 3,021 |
| | Interest rate swap agreements | - | - | 37,077 | - |
| | Deferred revenue-service release fees | - | - | 1,298 | - |
| | Accounts payable and other liabilities | 5,306 | 4,645 | 4,592 | 382 |
| | Interfund payable (receivable) | 1,475 | - | (1,724) | (400) |
| | Funds held for others | 80,301 | - | - | - |
| | Total liabilities | <u>87,082</u> | <u>157,759</u> | <u>2,245,792</u> | <u>119,408</u> |
| | Commitments and contingencies | | | | |
| Net Assets | Restricted by bond resolution | - | 93,193 | 115,654 | 68,854 |
| | Restricted by covenant | 22,538 | - | 380,869 | - |
| | Restricted by law | - | - | - | - |
| | Invested in capital assets | 1,631 | - | - | - |
| | Total net assets | <u>24,169</u> | <u>93,193</u> | <u>496,523</u> | <u>68,854</u> |
| | Total liabilities and net assets | <u>\$111,251</u> | <u>\$250,952</u> | <u>\$2,742,315</u> | <u>\$188,262</u> |

Bond Funds

| Homeownership Finance | Multifamily Housing | General Reserve & Bond Funds Excluding Pool 3 Total As Of June 30, 2010 | General Reserve & Bond Funds Excluding Pool 3 Total As Of June 30, 2009 | Residential Housing Finance Excluding Pool 3 | General Reserve & Bond Funds Total as of June 30, 2010 | General Reserve & Bond Funds Total as of June 30, 2009 |
|------------------------------|----------------------------|--|--|---|---|---|
| \$260,638 | \$15,013 | \$ 610,246 | \$ 366,283 | \$ 4,607 | \$ 614,853 | \$ 368,411 |
| - | - | 33,686 | - | - | 33,686 | - |
| - | - | 608,474 | 493,648 | 45,483 | 653,957 | 554,434 |
| - | - | 2,208,963 | 2,370,170 | 23,226 | 2,232,189 | 2,392,222 |
| - | - | 16,195 | 15,166 | 78 | 16,273 | 15,235 |
| - | - | 2,067 | 1,549 | 161 | 2,228 | 1,781 |
| - | - | 37,077 | 27,205 | - | 37,077 | 27,205 |
| - | - | 11,407 | 10,372 | - | 11,407 | 10,372 |
| - | - | 24,026 | 13,101 | - | 24,026 | 13,101 |
| 409 | 108 | 12,927 | 13,698 | - | 12,927 | 13,698 |
| - | - | 1,631 | 2,585 | - | 1,631 | 2,585 |
| - | - | 2,249 | 1,289 | 3 | 2,252 | 1,289 |
| \$261,047 | \$15,121 | \$3,568,948 | \$3,315,066 | \$73,558 | \$3,642,506 | \$3,400,333 |
| 260,490 | 15,000 | 2,704,507 | 2,473,733 | \$ - | 2,704,507 | 2,473,733 |
| 132 | 7 | 48,211 | 49,956 | - | 48,211 | 49,956 |
| - | - | 37,077 | 27,205 | - | 37,077 | 27,205 |
| - | - | 1,298 | - | - | 1,298 | - |
| 39 | 6 | 14,970 | 14,802 | 75 | 15,045 | 17,384 |
| - | - | (649) | 4 | (12) | (661) | 92 |
| - | - | 80,301 | 81,124 | - | 80,301 | 81,124 |
| 260,661 | 15,013 | 2,885,715 | 2,646,824 | 63 | 2,885,778 | 2,649,494 |
| 386 | 108 | 278,195 | 266,726 | - | 278,195 | 266,726 |
| - | - | 403,407 | 398,931 | 73,495 | 476,902 | 481,528 |
| - | - | - | - | - | - | - |
| - | - | 1,631 | 2,585 | - | 1,631 | 2,585 |
| 386 | 108 | 683,233 | 668,242 | 73,495 | 756,728 | 750,839 |
| \$261,047 | \$15,121 | \$3,568,948 | \$3,315,066 | \$73,558 | \$3,642,506 | \$3,400,333 |

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2010 (with comparative totals as of June 30, 2009)

| | | Bond Funds | | | |
|----------------------|---|----------------------------|---------------------------|---|--------------------------|
| | | | | Residential Housing Finance Excluding Pool 3 | Single Family |
| | | General Reserve | Rental Housing | | |
| Revenues | Interest earned on loans | \$ - | \$11,993 | \$113,358 | \$11,271 |
| | Interest earned on investments-program | | | | |
| | mortgage-backed securities | - | - | 702 | - |
| | Interest earned on investments-other | 342 | 1,895 | 8,337 | 3,959 |
| | Administrative reimbursement | 21,658 | - | - | - |
| | Fees earned and other income | 8,907 | 656 | 240 | - |
| | Unrealized gains (losses) on Investments | 25 | 48 | 7,968 | 27 |
| | Total revenues | <u>30,932</u> | <u>14,592</u> | <u>130,605</u> | <u>15,257</u> |
| Expenses | Interest | - | 8,081 | 83,689 | 9,606 |
| | Loan administration and trustee fees | - | 133 | 5,871 | 636 |
| | Administrative reimbursement | - | 1,571 | 13,513 | 1,569 |
| | Salaries and benefits | 17,815 | - | - | - |
| | Other general operating | 8,820 | - | 27 | - |
| | Reduction in carrying value of certain low interest | | | | |
| | rate deferred loans | - | 748 | - | - |
| | Provision for loan losses | - | (505) | 26,293 | (1,478) |
| | Total expenses | <u>26,635</u> | <u>10,028</u> | <u>129,393</u> | <u>10,333</u> |
| | Revenues over (under) expenses | 4,297 | 4,564 | 1,212 | 4,924 |
| Other changes | Non-operating transfer of assets between funds | (6,794) | - | 8,465 | (2,171) |
| | Non-operating transfer of contribution to (from) | | | | |
| | program funds | - | - | - | - |
| | Change in net assets | <u>(2,497)</u> | <u>4,564</u> | <u>9,677</u> | <u>2,753</u> |
| Net Assets | Total net assets, beginning of year | <u>26,666</u> | <u>88,629</u> | <u>486,846</u> | <u>66,101</u> |
| | Total net assets, end of year | <u>\$24,169</u> | <u>\$93,193</u> | <u>\$496,523</u> | <u>\$68,854</u> |

Bond Funds

| Homeownership Finance | Multifamily Housing | General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010 | General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2009 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds Total for the Year Ended June 30, 2010 | General Reserve & Bond Funds Total for the Year Ended June 30, 2009 |
|------------------------------|----------------------------|---|---|---|--|--|
| \$ - | \$ - | \$136,622 | \$140,655 | \$ 323 | \$136,945 | \$141,023 |
| - | - | 702 | - | - | 702 | - |
| 132 | 8 | 14,673 | 22,968 | 963 | 15,636 | 25,862 |
| - | - | 21,658 | 24,375 | - | 21,658 | 24,375 |
| - | - | 9,803 | 9,870 | 138 | 9,941 | 9,948 |
| - | - | 8,068 | (1,190) | 980 | 9,048 | (1,021) |
| <u>132</u> | <u>8</u> | <u>191,526</u> | <u>196,678</u> | <u>2,404</u> | <u>193,930</u> | <u>200,187</u> |
| 132 | 8 | 101,516 | 112,286 | - | 101,516 | 112,286 |
| 1 | 5 | 6,646 | 7,007 | 7 | 6,653 | 7,016 |
| - | - | 16,653 | 16,728 | 1,026 | 17,679 | 17,708 |
| - | - | 17,815 | 17,743 | - | 17,815 | 17,743 |
| - | - | 8,847 | 8,710 | 598 | 9,445 | 9,935 |
| - | - | 748 | - | 8,655 | 9,403 | 20,302 |
| - | - | 24,310 | 28,086 | 1,220 | 25,530 | 28,817 |
| <u>133</u> | <u>13</u> | <u>176,535</u> | <u>190,560</u> | <u>11,506</u> | <u>188,041</u> | <u>213,807</u> |
| (1) | (5) | 14,991 | 6,118 | (9,102) | 5,889 | (13,620) |
| 387 | 113 | - | - | - | - | - |
| - | - | - | - | - | - | - |
| <u>386</u> | <u>108</u> | <u>14,991</u> | <u>6,118</u> | <u>(9,102)</u> | <u>5,889</u> | <u>(13,620)</u> |
| - | - | 668,242 | 662,124 | 82,597 | 750,839 | 764,459 |
| <u>\$386</u> | <u>\$108</u> | <u>\$683,233</u> | <u>\$668,242</u> | <u>\$73,495</u> | <u>\$756,728</u> | <u>\$750,839</u> |

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information (Unaudited)

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds

Year ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

| | | Bond Funds | | | |
|---|---|------------------------|-----------------------|---|----------------------|
| | | General Reserve | Rental Housing | Residential Housing Finance Excluding Pool 3 | Single Family |
| Cash flows from operating activities: | Principal repayments on loans | \$ - | \$15,060 | \$129,305 | \$17,704 |
| | Investment in loans | - | (767) | (124,885) | (13) |
| | Interest received on loans | - | 11,977 | 107,807 | 10,138 |
| | Other operating | - | - | (27) | - |
| | Fees and other income received | 8,865 | 656 | 1,541 | - |
| | Salaries, benefits and vendor payments | (22,646) | (135) | (6,132) | (662) |
| | Administrative reimbursement from funds | 21,092 | (1,571) | (13,513) | (1,569) |
| | Deposits into funds held for others | 29,480 | - | - | - |
| | Disbursements made from funds held for others | (31,551) | - | - | - |
| | Interfund transfers and other assets | (1,534) | (1) | 18,809 | (46) |
| | Net cash provided (used) by operating activities | <u>3,706</u> | <u>25,219</u> | <u>112,905</u> | <u>25,552</u> |
| Cash flows from noncapital financing activities: | Proceeds from sale of bonds and notes | - | - | 1,165,420 | - |
| | Principal repayment on bonds and notes | - | (12,590) | (1,106,110) | (89,385) |
| | Interest paid on bonds and notes | - | (7,666) | (82,242) | (10,641) |
| | Financing costs paid related to bonds issued | - | - | (2,164) | (14) |
| | Interest paid/received between funds | - | - | 1,353 | (1,392) |
| | Principal paid/received between funds | - | - | (12,085) | (6,315) |
| | Agency contribution to program funds | - | - | (500) | - |
| | Transfer of cash between funds | (12,403) | - | 12,403 | - |
| | Net cash provided (used) by noncapital financing activities | <u>(12,403)</u> | <u>(20,256)</u> | <u>(23,925)</u> | <u>(107,747)</u> |
| Cash flows from investing activities: | Investment in real estate owned | - | - | (2,901) | (656) |
| | Interest received on investments | 1,850 | 2,126 | 7,274 | 1,714 |
| | Proceeds from sale of mortgage insurance claims/real estate owned | - | - | 59,928 | 4,869 |
| | Proceeds from maturity, sale or transfer of investment securities | 19,000 | 29,187 | 1,176,578 | 4,982 |
| | Purchase of investment securities | (55,383) | (26,189) | (1,254,275) | (2,843) |
| | Purchase of loans between funds | - | - | (49,699) | 49,699 |
| | Net cash provided (used) by investing activities | <u>(34,533)</u> | <u>5,124</u> | <u>(63,095)</u> | <u>57,765</u> |
| | Net increase (decrease) in cash and cash equivalents | (43,230) | 10,087 | 25,885 | (24,430) |
| Cash and cash equivalents: | Beginning of year | <u>95,364</u> | <u>26,170</u> | <u>178,685</u> | <u>66,064</u> |
| | End of year | <u>\$52,134</u> | <u>\$36,257</u> | <u>\$204,570</u> | <u>\$41,634</u> |

| Bond Funds | | General Reserve & Bond Funds Excluding Pool 3 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds Year Ended June 30, 2010 | General Reserve & Bond Funds Year Ended June 30, 2009 |
|--|--|--|---|--|--|
| Homeownership Finance Bonds | Multifamily Housing Bonds | Total For The Year Ended June 30, 2010 | | | |
| \$ - | \$ - | \$ 162,069 | \$ 3,071 | \$ 165,140 | \$ 150,698 |
| - | - | (125,665) | (16,189) | (141,854) | (266,924) |
| - | - | 129,922 | 287 | 130,209 | 136,976 |
| - | - | (27) | (3,011) | (3,038) | (5,374) |
| - | - | 11,062 | 138 | 11,200 | 9,914 |
| (1) | (5) | (29,581) | (101) | (29,682) | (31,849) |
| - | - | 4,439 | (1,026) | 3,413 | 6,661 |
| - | - | 29,480 | - | 29,480 | 28,817 |
| - | - | (31,551) | - | (31,551) | (33,154) |
| - | - | 17,228 | (18,503) | (1,275) | 3,234 |
| (1) | (5) | 167,376 | (35,334) | 132,042 | (1,001) |
| 260,490 | 15,000 | 1,440,910 | - | 1,440,910 | 1,075,810 |
| - | - | (1,208,085) | - | (1,208,085) | (1,011,545) |
| - | - | (100,549) | - | (100,549) | (112,060) |
| (370) | (102) | (2,650) | - | (2,650) | (2,534) |
| - | - | (39) | 39 | - | - |
| - | - | (18,400) | 18,400 | - | - |
| 387 | 113 | - | - | - | - |
| - | - | - | - | - | - |
| 260,507 | 15,011 | 111,187 | 18,439 | 129,626 | (50,329) |
| - | - | (3,557) | - | (3,557) | (1,599) |
| 132 | 7 | 13,103 | 1,326 | 14,429 | 31,678 |
| - | - | 64,797 | - | 64,797 | 25,164 |
| - | - | 1,229,747 | 85,964 | 1,315,711 | 590,501 |
| - | - | (1,338,690) | (70,012) | (1,408,702) | (873,319) |
| - | - | - | 2,096 | 2,096 | 1,312 |
| 132 | 7 | (34,600) | 19,374 | (15,226) | (226,263) |
| 260,638 | 15,013 | 243,963 | 2,479 | 246,442 | (277,593) |
| - | - | 366,283 | 2,128 | 368,411 | 646,004 |
| \$260,638 | \$15,013 | \$ 610,246 | \$ 4,607 | \$ 614,853 | \$ 368,411 |

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

| | | <u>Bond Funds</u> | | | |
|---|---|----------------------------|---------------------------|--|--------------------------|
| | | | | Residential Housing Finance | |
| | | <u>General Reserve</u> | <u>Rental Housing</u> | <u>Excluding Pool 3</u> | <u>Single Family</u> |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities: | Revenues over (under) expenses | \$4,297 | \$ 4,564 | \$ 1,212 | \$ 4,924 |
| | Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | | | |
| | Amortization of premiums (discounts) and fees on loans | - | (53) | 1,512 | (742) |
| | Depreciation | 2,590 | - | - | - |
| | Realized losses (gains) on sale of securities, net | (2) | 141 | 486 | (143) |
| | Unrealized losses (gains) on securities, net | (25) | (48) | (7,968) | (27) |
| | Provision for loan losses | - | (505) | 26,293 | (1,478) |
| | Reduction in carrying value of certain low interest rate and/or deferred loans | - | 749 | - | - |
| | Capitalized interest on loans and real estate owned | - | (179) | (6,234) | (311) |
| | Interest earned on investments | (340) | (1,963) | (8,969) | (3,754) |
| | Interest expense on bonds and notes | - | 8,081 | 83,689 | 9,606 |
| | Changes in assets and liabilities: | | | | |
| | Decrease (increase) in loans receivable, excluding loans transferred between funds | - | 14,293 | 4,420 | 17,691 |
| | Decrease (increase) in interest receivable on loans | - | 95 | (1,526) | 402 |
| | Increase (decrease) in arbitrage rebate liability | - | 47 | 141 | (62) |
| | Increase (decrease) in accounts payable | 1,399 | (2) | 1,040 | (26) |
| | Increase (decrease) in interfund payable, affecting operating activities only | (567) | - | 18,842 | (528) |
| | Decrease in funds held for others | (2,071) | - | - | - |
| | Other | (1,575) | (1) | (33) | - |
| | Total | (591) | 20,655 | 111,693 | 20,628 |
| Net cash provided (used) by operating activities | <u>\$3,706</u> | <u>\$25,219</u> | <u>\$112,905</u> | <u>\$25,552</u> | |

| <u>Bond Funds</u> | | General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds Year Ended June 30, 2010 | General Reserve & Bond Funds Year Ended June 30, 2009 |
|----------------------------------|--------------------------------|---|---|--|--|
| Homeownership Finance | Multifamily Housing | | | | |
| <u>\$ (1)</u> | <u>\$(5)</u> | <u>\$ 14,991</u> | <u>\$ (9,102)</u> | <u>\$ 5,889</u> | <u>\$(13,620)</u> |
| | | | | | 0 |
| - | - | 717 | (27) | 690 | 1,630 |
| - | - | 2,590 | - | 2,590 | 1,966 |
| - | - | 482 | (13) | 469 | (952) |
| - | - | (8,068) | (980) | (9,048) | 1,021 |
| - | - | 24,310 | 1,220 | 25,530 | 28,817 |
| - | - | 749 | 8,655 | 9,404 | 20,302 |
| - | - | (6,724) | - | (6,724) | (2,971) |
| (132) | (7) | (15,165) | (950) | (16,115) | (25,147) |
| 132 | 7 | 101,515 | - | 101,515 | 112,285 |
| - | - | 36,404 | (13,118) | 23,286 | (116,226) |
| - | - | (1,029) | (9) | (1,038) | (2,940) |
| - | - | 126 | - | 126 | 472 |
| - | - | 2,411 | (2,507) | (96) | (4,508) |
| - | - | 17,747 | (18,500) | (753) | 4,183 |
| - | - | (2,071) | - | (2,071) | (4,337) |
| - | - | (1,609) | (3) | (1,612) | (976) |
| - | - | 152,385 | (26,232) | 126,153 | 12,619 |
| <u>\$ (1)</u> | <u>\$(5)</u> | <u>\$167,376</u> | <u>\$(35,334)</u> | <u>\$132,042</u> | <u>\$ (1,001)</u> |

Other Information

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Financial Advisor
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Certified Public Accountants
LarsonAllen® LLP

Location

Minnesota Housing is located at 400 Sibley Street, Suite 300, Saint Paul, Minnesota 55101-1998.

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

(651) 296-7608 (general phone number)

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

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

APPENDIX C

**FINANCIAL STATEMENTS OF CERTAIN FUNDS
OF THE AGENCY (EXCLUDING STATE
APPROPRIATED AND FEDERAL APPROPRIATED FUNDS)**

(Unaudited)

As of September 30, 2010 and for the three months then ended

As prepared by the Agency's Accounting Department

DISCLAIMER

The following information with respect to the General Reserve, Rental Housing, Residential Housing Finance (“RHFB”) excluding Pool 3, Single Family, Homeownership Finance Bonds, Multifamily Housing Bonds, and RHFB Pool 3 (the “Funds”) as of September 30, 2010 and for the three-month period then ended was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of these Funds as of September 30, 2010 and for the three-month period then ended, subject to year-end adjustments.

State and federal appropriated funds are excluded from this presentation because assets and revenues of these funds are not pledged or available to pay bonds or other obligations of the Agency.

Financial results for RHFB Pool 3 are reported separately from other Funds’ results because the Agency has made no commitment to maintain any net asset balance in that fund. This fund is not pledged to the payment of any debt obligations of the Agency but, to the extent net assets are available in this fund, they are generally available to pay any debt obligation of the Agency.

This presentation excludes management’s discussion and analysis, the Agency-wide financial statements, and various notes to the financial statements that are required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix C should be read in connection with the audited financial statements included in Appendix B, including the notes to those financial statements.

General Reserve & Bond Funds
Statement of Net Assets
as of
September 30, 2010
(unaudited)
(with comparative totals as of September 30, 2009)
(in thousands)

| | Bond Funds | | | | | | | Fiscal 2010 General Reserve and Bond Funds Total As Of September 30, 2010 | Fiscal 2009 General Reserve and Bond Funds Total As Of September 30, 2009 | |
|--|------------------|-------------------|-----------------------|-------------------|-----------------------------|---------------------------|---|---|---|---------------------|
| | General Reserve | Rental Housing | RHFB Excluding Pool 3 | Single Family | Homeownership Finance Bonds | Multifamily Housing Bonds | General Reserve and Bond Funds Excluding Pool 3 | | | RHFB Pool 3 |
| Assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 73,026 | \$ 31,399 | \$ 158,473 | \$ 29,992 | \$ 261,471 | \$ 15,018 | \$ 569,379 | \$ 4,002 | \$ 573,381 | \$ 305,977 |
| Investments-program mortgage-backed securities | - | - | 33,756 | - | - | - | 33,756 | - | 33,756 | - |
| Investment securities-other | 37,715 | 33,811 | 618,447 | 9,950 | - | - | 699,923 | 41,733 | 741,656 | 530,225 |
| Loans receivable, net | - | 174,852 | 1,846,255 | 130,627 | - | - | 2,151,734 | 25,039 | 2,176,773 | 2,373,805 |
| Interest receivable on loans | - | 967 | 13,686 | 1,011 | - | - | 15,664 | 75 | 15,739 | 15,902 |
| Interest receivable on investments | 246 | 442 | 2,169 | 428 | - | - | 3,285 | 115 | 3,400 | 3,310 |
| Deferred loss on interest rate swap agreements | - | - | 43,729 | - | - | - | 43,729 | - | 43,729 | 30,149 |
| FHA/VA insurance claims | - | - | 10,094 | 2,139 | - | - | 12,233 | - | 12,233 | 10,363 |
| Real estate owned | - | - | 23,315 | 769 | - | - | 24,084 | - | 24,084 | 16,825 |
| Unamortized bond issuance costs | - | 1,505 | 9,616 | 750 | 409 | 107 | 12,387 | - | 12,387 | 13,176 |
| Capital assets, net | 977 | - | - | - | - | - | 977 | - | 977 | 2,301 |
| Other assets | 988 | 4 | 2 | 718 | - | - | 1,712 | - | 1,712 | 2,044 |
| Total assets | \$112,952 | \$ 242,980 | \$ 2,759,542 | \$ 176,384 | \$ 261,880 | \$ 15,125 | \$ 3,568,863 | \$ 70,964 | \$ 3,639,827 | \$ 3,304,077 |
| Liabilities | | | | | | | | | | |
| Bonds payable, net | \$ - | \$ 142,727 | \$ 2,186,146 | \$ 105,380 | \$ 260,490 | \$ 15,000 | \$ 2,709,743 | \$ - | \$ 2,709,743 | \$ 2,401,019 |
| Interest payable | - | 1,160 | 19,950 | 1,362 | 261 | 14 | 22,747 | - | 22,747 | 23,905 |
| Interest rate swap agreements | - | - | 43,729 | - | - | - | 43,729 | - | 43,729 | 30,149 |
| Deferred revenue-service release fees | - | - | 2,056 | - | - | - | 2,056 | - | 2,056 | - |
| Accounts payable and other liabilities | 4,485 | 5,247 | 3,761 | 479 | 720 | - | 14,692 | - | 14,692 | 15,724 |
| Interfund payable (receivable) | 1,908 | - | (2,501) | 67 | - | - | (526) | (12) | (538) | (563) |
| Funds held for others | 83,599 | - | 1,627 | - | - | - | 85,226 | - | 85,226 | 84,126 |
| Total liabilities | 89,992 | 149,134 | 2,254,768 | 107,288 | 261,471 | 15,014 | 2,877,667 | (12) | 2,877,655 | 2,554,360 |
| Commitments and contingencies | | | | | | | | | | |
| Net Assets | | | | | | | | | | |
| Restricted by bond resolution | - | 93,846 | 112,981 | 69,096 | 409 | 111 | 276,443 | - | 276,443 | 262,085 |
| Restricted by covenant | 21,983 | - | 391,793 | - | - | - | 413,776 | 70,976 | 484,752 | 485,331 |
| Invested in capital assets | 977 | - | - | - | - | - | 977 | - | 977 | 2,301 |
| Total net assets | 22,960 | 93,846 | 504,774 | 69,096 | 409 | 111 | 691,196 | 70,976 | 762,172 | 749,717 |
| Total liabilities and net assets | \$112,952 | \$ 242,980 | \$ 2,759,542 | \$ 176,384 | \$ 261,880 | \$ 15,125 | \$ 3,568,863 | \$ 70,964 | \$ 3,639,827 | \$ 3,304,077 |

General Reserve & Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
for the three months ended
September 30, 2010
(unaudited)
(with comparative totals for the three months ended September 30, 2009)
(in thousands)

| | Bond Funds | | | | | | | Fiscal 2010 General Reserve and Bond Funds Three Months Ended September 30, 2010 | Fiscal 2009 General Reserve and Bond Funds Three Months Ended September 30, 2009 | |
|---|-----------------|----------------|-----------------------|---------------|-----------------------------|---------------------------|---|--|--|---------------|
| | General Reserve | Rental Housing | RHFB Excluding Pool 3 | Single Family | Homeownership Finance Bonds | Multifamily Housing Bonds | General Reserve and Bond Funds Excluding Pool 3 | | | RHFB Pool 3 |
| Revenues | | | | | | | | | | |
| Interest earned on loans | \$ - | \$ 2,196 | \$ 27,396 | \$ 2,071 | \$ - | \$ - | \$ 31,663 | \$ 75 | \$ 31,738 | \$ 34,847 |
| Interest earned on investments-program mortgage-backed securities | - | - | 368 | - | - | - | 368 | - | 368 | - |
| Interest earned on investments-other | 75 | 424 | 4,049 | 374 | 129 | 7 | 5,058 | 769 | 5,827 | 4,702 |
| Administrative reimbursement | 5,153 | - | - | - | - | - | 5,153 | - | 5,153 | 5,795 |
| Fees earned and other income | 1,993 | 163 | 123 | - | - | - | 2,279 | 5 | 2,284 | 2,066 |
| Unrealized gains (losses) on securities | (1) | 62 | 5,031 | 109 | - | - | 5,201 | (561) | 4,640 | 937 |
| Total revenues | 7,220 | 2,845 | 36,967 | 2,554 | 129 | 7 | 49,722 | 288 | 50,010 | 48,347 |
| Expenses | | | | | | | | | | |
| Interest | - | 1,911 | 20,390 | 1,516 | 129 | 7 | 23,953 | - | 23,953 | 25,673 |
| Loan administration and trustee fees | - | 28 | 1,396 | 112 | 4 | (3) | 1,537 | 1 | 1,538 | 1,652 |
| Administrative reimbursement | - | 387 | 3,533 | 282 | - | - | 4,202 | 259 | 4,461 | 4,504 |
| Salaries and benefits | 4,351 | - | - | - | - | - | 4,351 | - | 4,351 | 4,465 |
| Other general operating | 1,487 | - | - | - | - | - | 1,487 | 585 | 2,072 | 1,889 |
| Reduction in carrying value of certain low interest rate deferred loans | - | - | - | - | - | - | - | 1,578 | 1,578 | 1,924 |
| Provision for loan losses | - | (134) | 5,961 | 402 | - | - | 6,229 | 384 | 6,613 | 9,362 |
| Total expenses | 5,838 | 2,192 | 31,280 | 2,312 | 133 | 4 | 41,759 | 2,807 | 44,566 | 49,469 |
| Revenues over (under) expenses | 1,382 | 653 | 5,687 | 242 | (4) | 3 | 7,963 | (2,519) | 5,444 | (1,122) |
| Other changes | | | | | | | | | | |
| Non-operating transfer of assets between funds | (2,591) | - | 2,564 | - | 27 | - | - | - | - | - |
| Change in net assets | (1,209) | 653 | 8,251 | 242 | 23 | 3 | 7,963 | (2,519) | 5,444 | (1,122) |
| Net Assets | | | | | | | | | | |
| Total net assets, beginning of period | 24,169 | 93,193 | 496,523 | 68,854 | 386 | 108 | 683,233 | 73,495 | 756,728 | 750,839 |
| Total net assets, end of period | \$ 22,960 | \$ 93,846 | \$ 504,774 | \$ 69,096 | \$ 409 | \$ 111 | \$ 691,196 | \$ 70,976 | \$ 762,172 | \$ 749,717 |

General Reserve & Bond Funds
Statement of Cash Flows
for the three months ended
September 30, 2010
(unaudited)
(with comparative totals for the nine months ended September 30, 2009)
(in thousands)

| | Bond Funds | | | | | | | Fiscal 2010 General Reserve and Bond Funds Three Months Ended September 30, 2010 | Fiscal 2009 General Reserve and Bond Funds Three Months Ended September 30, 2009 | |
|---|-----------------|----------------|-----------------------|---------------|-----------------------------|---------------------------|---|--|--|------------|
| | General Reserve | Rental Housing | RHFB Excluding Pool 3 | Single Family | Homeownership Finance Bonds | Multifamily Housing Bonds | General Reserve and Bond Funds Excluding Pool 3 | | | |
| Cash flows from operating activities: | | | | | | | | | | |
| Principal repayments on loans | \$ - | \$ 4,678 | \$ 39,792 | \$ 3,525 | \$ - | \$ - | \$ 47,995 | \$ 420 | \$ 48,415 | \$ 41,448 |
| Investment in loans | - | - | (13,728) | (12) | - | - | (13,740) | (4,184) | (17,924) | (52,250) |
| Interest received on loans | - | 2,816 | 26,500 | 1,911 | - | - | 31,227 | 67 | 31,294 | 33,137 |
| Other operating | - | - | - | - | - | - | - | (585) | (585) | (688) |
| Fees and other income received | 2,268 | 163 | 2,181 | - | - | - | 4,612 | 5 | 4,617 | 2,109 |
| Salaries, benefits and vendor payments | (5,851) | (12) | (3,023) | (119) | 677 | (1) | (8,329) | (76) | (8,405) | (8,036) |
| Administrative reimbursement from funds | 5,277 | (387) | (3,533) | (282) | - | - | 1,075 | (259) | 816 | 1,251 |
| Deposits into funds held for others | 8,020 | - | - | - | - | - | 8,020 | - | 8,020 | 7,399 |
| Disbursements made from funds held for others | (4,966) | - | - | - | - | - | (4,966) | - | (4,966) | (4,737) |
| Interfund transfers and other assets | (135) | (1) | 258 | (15) | - | - | 107 | 3 | 110 | (1,241) |
| Net cash provided (used) by operating activities | 4,613 | 7,257 | 48,447 | 5,008 | 677 | (1) | 66,001 | (4,609) | 61,392 | 18,392 |
| Cash flows from noncapital financing activities: | | | | | | | | | | |
| Proceeds from sale of bonds and notes | - | - | 743,355 | - | - | - | 743,355 | - | 743,355 | 323,075 |
| Principal repayment on bonds and notes | - | (7,450) | (719,360) | (11,025) | - | - | (737,835) | - | (737,835) | (395,370) |
| Interest paid on bonds and notes | - | (3,638) | (42,231) | (3,027) | - | - | (48,896) | - | (48,896) | (51,025) |
| Financing costs paid related to bonds issued | - | - | (22) | - | - | (1) | (23) | - | (23) | (16) |
| Interest paid/received between funds | - | - | (482) | 482 | - | - | - | - | - | - |
| Agency contribution to program funds | - | - | (27) | - | 27 | - | - | - | - | - |
| Transfer of cash between funds | (2,298) | - | 2,298 | - | - | - | - | - | - | - |
| Net cash provided (used) by noncapital financing activities | (2,298) | (11,088) | (16,469) | (13,570) | 27 | (1) | (43,399) | - | (43,399) | (123,336) |
| Cash flows from investing activities: | | | | | | | | | | |
| Investment in real estate owned | - | - | (1,356) | (299) | - | - | (1,655) | - | (1,655) | (735) |
| Interest received on investments | 577 | 707 | 2,121 | 103 | 129 | 7 | 3,644 | 407 | 4,051 | 2,233 |
| Proceeds from sale of mortgage insurance claims/real estate owned | - | - | 17,996 | 1,622 | - | - | 19,618 | - | 19,618 | 14,647 |
| Proceeds from maturity, sale or transfer of investment securities | 18,000 | 21,848 | 355,207 | 5,500 | - | - | 400,555 | 35,996 | 436,551 | 379,760 |
| Purchase of investment securities | - | (23,582) | (452,043) | (10,006) | - | - | (485,631) | (32,399) | (518,030) | (354,800) |
| Purchase of loans between funds | - | - | - | - | - | - | - | - | - | 1,405 |
| Net cash provided (used) by investing activities | 18,577 | (1,027) | (78,075) | (3,080) | 129 | 7 | (63,469) | 4,004 | (59,465) | 42,510 |
| Net increase (decrease) in cash and cash equivalents | 20,892 | (4,858) | (46,097) | (11,642) | 833 | 5 | (40,867) | (605) | (41,472) | (62,434) |
| Cash and cash equivalents: | | | | | | | | | | |
| Beginning of period | 52,134 | 36,257 | 204,570 | 41,634 | 260,638 | 15,013 | 610,246 | 4,607 | 614,853 | 368,411 |
| End of period | \$ 73,026 | \$ 31,399 | \$ 158,473 | \$ 29,992 | \$ 261,471 | \$ 15,018 | \$ 569,379 | \$ 4,002 | \$ 573,381 | \$ 305,977 |

General Reserve & Bond Funds
Statement of Cash Flows, continued
for the three months ended
September 30, 2010
(unaudited)
(with comparative totals for the nine months ended September 30, 2009)
(in thousands)

| | Bond Funds | | | | | | | Fiscal 2010 General Reserve and Bond Funds Three Months Ended September 30, 2010 | Fiscal 2009 General Reserve and Bond Funds Three Months Ended September 30, 2009 | |
|--|-----------------|-----------------|-----------------------|-----------------|-----------------------------|---------------------------|---|--|--|------------------|
| | General Reserve | Rental Housing | RHFB Excluding Pool 3 | Single Family | Homeownership Finance Bonds | Multifamily Housing Bonds | General Reserve and Bond Funds Excluding Pool 3 | | | RHFB Pool 3 |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities: | | | | | | | | | | |
| Revenues over (under) expenses | \$ 1,382 | \$ 653 | \$ 5,687 | \$ 242 | \$ (4) | \$ 3 | \$ 7,963 | \$ (2,519) | \$ 5,444 | \$ (1,122) |
| Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | | | | | | | | | |
| Amortization of (discounts) premiums and fees on loans | - | (17) | 327 | (47) | - | - | 263 | (11) | 252 | 295 |
| Depreciation | 432 | - | - | - | - | - | 432 | - | 432 | 606 |
| Realized (gains) losses on securities, net | (5) | 110 | (11) | (10) | - | - | 84 | (429) | (345) | - |
| Unrealized losses (gains) on securities, net | 1 | (62) | (5,031) | (109) | - | - | (5,201) | 561 | (4,640) | (937) |
| Provision for loan losses | - | (134) | 5,961 | 402 | - | - | 6,229 | 384 | 6,613 | 9,362 |
| Reduction in carrying value of certain low interest rate and/or deferred loans | - | - | - | - | - | - | - | 1,578 | 1,578 | 1,924 |
| Capitalized interest on loans and real estate owned | - | - | (2,041) | (188) | - | - | (2,229) | - | (2,229) | (1,380) |
| Interest earned on investments | (70) | (540) | (3,286) | (468) | (129) | (7) | (4,500) | (340) | (4,840) | (4,646) |
| Interest expense on bonds and notes | - | 1,911 | 20,390 | 1,516 | 129 | 7 | 23,953 | - | 23,953 | 25,673 |
| Changes in assets and liabilities: | | | | | | | | | | |
| Decrease (increase) in loans receivable, excluding loans transferred between funds | - | 4,678 | 26,064 | 3,513 | - | - | 34,255 | (3,764) | 30,491 | (10,802) |
| Decrease (increase) in interest receivable on loans | - | 6 | 450 | 75 | - | - | 531 | 3 | 534 | (667) |
| Increase (decrease) in arbitrage rebate liability | - | 637 | (752) | 104 | - | - | (11) | - | (11) | (26) |
| (Decrease) increase in accounts payable | (449) | 16 | 431 | (7) | 681 | (4) | 668 | (75) | 593 | (1,337) |
| Increase (decrease) in interfund payable, affecting operating activities only | 140 | - | (2) | (15) | - | - | 123 | - | 123 | (655) |
| Increase (decrease) in funds held for others | 3,054 | - | - | - | - | - | 3,054 | - | 3,054 | 2,662 |
| Other | 128 | (1) | 260 | - | - | - | 387 | 3 | 390 | (558) |
| Total | <u>3,231</u> | <u>6,604</u> | <u>42,760</u> | <u>4,766</u> | <u>681</u> | <u>(4)</u> | <u>58,038</u> | <u>(2,090)</u> | <u>55,948</u> | <u>19,514</u> |
| Net cash provided (used) by operating activities | <u>\$ 4,613</u> | <u>\$ 7,257</u> | <u>\$ 48,447</u> | <u>\$ 5,008</u> | <u>\$ 677</u> | <u>\$ (1)</u> | <u>\$ 66,001</u> | <u>\$ (4,609)</u> | <u>\$ 61,392</u> | <u>\$ 18,392</u> |

**General Reserve & Bond Funds
Cash and Cash Equivalents
(unaudited)**

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and comprise the following at September 30, 2010 (in thousands):

| <u>Funds</u> | <u>Deposits</u> | <u>Money Market Funds</u> | <u>State Investment Pool</u> | <u>Investment Agreements</u> | <u>Combined Totals</u> |
|-----------------------------|-----------------|-----------------------------------|--------------------------------------|----------------------------------|----------------------------|
| General Reserve | \$ - | \$ - | \$ 73,026 | \$ - | \$ 73,026 |
| Rental Housing | - | 9,502 | - | 21,897 | 31,399 |
| Residential Housing Finance | 5,142 | 58,177 | - | 95,154 | 158,473 |
| Single Family | 43 | 9,660 | - | 20,289 | 29,992 |
| Homeownership Finance | - | 261,471 | - | - | 261,471 |
| Multifamily Housing | - | 15,018 | - | - | 15,018 |
| Subtotal | <u>5,185</u> | <u>353,828</u> | <u>73,026</u> | <u>137,340</u> | <u>569,379</u> |
| RHFB Pool 3 | 5 | 3,997 | - | - | 4,002 |
| Total | <u>\$ 5,190</u> | <u>\$ 357,825</u> | <u>\$ 73,026</u> | <u>\$ 137,340</u> | <u>\$ 573,381</u> |

**General Reserve & Bond Funds
Investment Securities
(unaudited)**

Investment Securities

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper, corporate notes and mortgage-backed securities*) are recorded at fair market value and were allocated to the following funds at September 30, 2010 (in thousands)

| <u>Funds</u> | Amortized Cost | Unrealized Appreciation in Fair Market Value | Estimated Fair Market Value |
|-----------------------------|-------------------|--|--------------------------------------|
| General Reserve | \$ 37,302 | \$ 413 | \$ 37,715 |
| Rental Housing | 32,972 | 839 | 33,811 |
| Residential Housing Finance | 638,646 | 13,557 | 652,203 |
| Single Family | 9,250 | 700 | 9,950 |
| Homeownership Finance | - | - | - |
| Multifamily Housing | - | - | - |
| Subtotal | 718,170 | 15,509 | 733,679 |
| RHFB Pool 3 | 40,568 | 1,165 | 41,733 |
| Total | <u>\$758,738</u> | <u>\$ 16,674</u> | <u>\$775,412</u> |

*Mortgage-backed Securities Investments

Mortgage-backed securities (MBS) that are pledged as security for the payment of Agency bonds and are held in an acquisition account are presented as "Investments- program mortgage-backed securities" on the financial statements. The Agency may also hold non-program MBS which are included with "Investment securities-other." All investments, including program and non-program MBS, are reported at fair market value on the statement of net assets. The difference between the fair market value and the amortized cost is presented as "unrealized gains (losses) on securities" on the statement of revenues, expenses and changes in net assets, except as noted in the following paragraph.

The difference between the fair market value and amortized cost for MBS warehoused for the Dakota County Community Development Agency and the Minneapolis/St. Paul Housing Finance Board are not reflected in the Unrealized Gain/Loss income account. Instead, it is displayed as a liability in Funds Held for Others. This treatment reflects the agreement between the Agency and these two entities which states that the Agency will sell the MBS to them at par, not market value.

General Reserve & Bond Funds
Loans Receivable, net
unaudited

Loans Receivable, net

Loans receivable, net at September 30, 2010 consist of the following (in thousands):

| <u>Funds</u> | <u>Gross Loans Receivable</u> | <u>Allowance for Loan Losses</u> | <u>Unamortized (Discounts)/ Premiums</u> | <u>Loans Receivable, net</u> |
|-----------------------------|-----------------------------------|--|--|--------------------------------------|
| General Reserve | \$ - | \$ - | \$ - | \$ - |
| Rental Housing | 184,897 | (8,820) | (1,225) | 174,852 |
| Residential Housing Finance | 1,880,428 | (36,372) | 2,199 | 1,846,255 |
| Single Family | 132,717 | (1,209) | (881) | 130,627 |
| Homeownership Finance | - | - | - | - |
| Multifamily Housing | - | - | - | - |
| Subtotal | <u>2,198,042</u> | <u>(46,401)</u> | <u>93</u> | <u>2,151,734</u> |
| RHFB Pool 3 | 127,974 | (102,304) | (631) | 25,039 |
| Total | <u>\$ 2,326,016</u> | <u>\$ (148,705)</u> | <u>\$ (538)</u> | <u>\$ 2,176,773</u> |

Included in the table above are certain loans residing in Pool 3 that are originated at interest rates ranging from 0% to 5% and repayment is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination most are fully reserved resulting in a net carrying value of zero. As of September 30, 2010, the principal amount of loans with such characteristics aggregated \$113.060 million in RHFB Pool 3.

General Reserve & Bond Funds
Bonds Payable, net
unaudited

Bonds Payable, net

Bonds payable, net at September 30, 2010 consist of the following (in thousands):

| <u>Funds</u> | <u>Par Bonds Outstanding</u> | <u>Net Unamortized Premium and Deferred Fees</u> | <u>Net Unamortized Deferred Loss</u> | <u>Bonds Payable, Net</u> |
|-----------------------------|----------------------------------|--|--|-------------------------------|
| General Reserve | \$ - | \$ - | \$ - | \$ - |
| Rental Housing | 144,505 | - | (1,778) | 142,727 |
| Residential Housing Finance | 2,183,000 | 3,697 | (551) | 2,186,146 |
| Single Family | 105,380 | - | - | 105,380 |
| Homeownership Finance | 260,490 | - | - | 260,490 |
| Multifamily Housing | 15,000 | - | - | 15,000 |
| Subtotal | <u>2,708,375</u> | <u>3,697</u> | <u>(2,329)</u> | <u>2,709,743</u> |
| RHFB Pool 3 | - | - | - | - |
| Total | <u><u>\$ 2,708,375</u></u> | <u><u>\$ 3,697</u></u> | <u><u>\$ (2,329)</u></u> | <u><u>\$ 2,709,743</u></u> |

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



Swap Disclosure

New Accounting Pronouncement

The Agency has entered into certain interest rate swap agreements which are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of September 30, 2010. The fair values approximate the termination payments that would have been due had the swaps been terminated as of September 30, 2010. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the statement of net assets. The fair values exclude accrued interest. As of September 30, 2010, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value of the interest rate swap agreements as of September 30, 2009, as determined by the counterparties to the agreements, is displayed for the prior year on the statement of net assets for comparison purposes. The fair value is displayed on the statement of net assets as a liability named "Interest rate swap agreements." The change in fair value for the period ended September 30, 2010 is included in the asset account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency has entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under Residential Housing Finance 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.

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of September 30, 2010, are contained in the three tables below (in thousands). All swaps are pay-fixed. 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 (except for the 2009 F swap), 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 match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F 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.

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



Counterparty: UBS AG

Moody's / Standard & Poor's Credit Ratings ⁽²⁾: Aa3/A+

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of September 30, 2010 | Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2010 |
|-------------------------|-------------------------------------|-------------------|--------------------|--------------------|--|---|---|
| RHFB 2003B | \$ 25,000 | July 23, 2003 | January 1, 2033 | 3.532% | 65% of 1 month LIBOR* plus 0.23% per annum | \$ (1,712) | \$ (366) |
| RHFB 2003J | 20,845 | October 15, 2003 | July 1, 2033 | 4.183% | 65% of 1 month LIBOR* plus 0.23% per annum | (2,477) | (267) |
| RHFB 2005C | 19,500 | March 2, 2005 | January 1, 2035 | 3.587% | 64% of 1 month LIBOR* plus 0.28% per annum | (1,591) | (215) |
| RHFB 2006C | 24,555 | March 21, 2006 | January 1, 2037 | 3.788% | 64% of 1 month LIBOR* plus 0.29% per annum | (2,614) | (373) |
| RHFB 2007S | 18,975 | December 19, 2007 | July 1, 2038 | 4.340% | 100% of SIFMA**** Index plus 0.06% per annum | (1,444) | (606) |
| RHFB 2007T (Taxable) | 33,820 | December 19, 2007 | July 1, 2026 | 4.580% | 100% of 1 month LIBOR* | (3,748) | (560) |
| | <u>\$142,695</u> | | | | | <u>\$ (13,586)</u> | <u>\$ (2,387)</u> |

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



Counterparty: Royal Bank of Canada

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

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of September 30, 2010 | Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2010 |
|------------------------|-------------------------------------|-------------------|--------------------|--------------------|---|---|---|
| RHFB 2004G | \$ 37,910 | July 22, 2004 | January 1, 2032 | 4.165% | 64% of 1 month LIBOR* plus 0.26% per annum | \$ (4,011) | \$ (387) |
| RHFB 2007E (Taxable) | 19,780 | March 7, 2007 | July 1, 2038 | 5.738% | 100% of 1 month LIBOR* | (2,542) | (229) |
| RHFB 2007J (Taxable) | 30,405 | May 17, 2007 | July 1, 2038 | 5.665% | 100% of 1 month LIBOR* | (3,842) | (364) |
| RHFB 2008C (Taxable) | 40,000 | August 7, 2008 | July 1, 2048 | 4.120% | 64% of 1 month LIBOR* plus 0.30% per annum | (5,269) | (848) |
| RHFB 2009C (Taxable) | 40,000 | February 12, 2009 | July 1, 2039 | 3.070% | 64% of 1 month LIBOR* plus 0.30% per annum | (6,545) | (988) |
| RHFB 2009F | 33,010 | December 1, 2009 | September 12, 2017 | 2.365% | 100% of weekly SIFMA**** plus 0.80% per annum | (1,315) | (424) |
| | <u>\$201,105</u> | | | | | <u>\$ (23,524)</u> | <u>\$ (3,240)</u> |

Counterparty: Citibank, N.A.

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

| Associated Bond Series | Notional Amount as of June 30, 2010 | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value (1) as of September 30, 2010 | Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2010 |
|------------------------|-------------------------------------|----------------|--------------------|--------------------|--|---|---|
| RHFB 2005I | \$31,360 | June 2, 2005 | January 1, 2036 | 3.570% | 64% of 1 month LIBOR* plus 0.28% per annum | \$ (2,811) | \$ (410) |
| RHFB 2005M | 46,390 | August 4, 2005 | January 1, 2036 | 3.373% | 64% of 1 month LIBOR* plus 0.29% per annum | (3,807) | (614) |
| | <u>\$77,750</u> | | | | | <u>\$ (6,618)</u> | <u>\$ (1,024)</u> |
| Combined Totals | <u>\$421,550</u> | | | | | <u>\$ (43,728)</u> | <u>\$ (6,651)</u> |

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

- (1) A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency
- (2) Moody's has given the "Aa3" rating of this counterparty (UBS AG) a negative outlook and Standard & Poor's has given the "A+" rating of this counterparty (UBS AG) a stable outlook.
- (3) Moody's has given the "Aaa" rating of this counterparty (Royal Bank of Canada) a negative outlook and Standard & Poor's has given the "AA-" rating of this counterparty (Royal Bank of Canada) a positive outlook.
- (4) Moody's has given the "A1" rating of this counterparty (Citibank, N.A.) a negative outlook and Standard & Poor's has given the "A+" rating of this counterparty (Citibank, N.A.) a negative outlook.

- * London Inter-Bank Offered Rate
- ** Moody's Investor Service, Inc.
- *** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
- **** Securities Industry and Financial Markets Association

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 party 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 generally 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 potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of September 30, 2010, 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. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$3 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of September 30, 2010, 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.

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

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 index 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 September 30, 2010, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.28% to 0.29% per annum while the variable interest rate on the associated swaps ranged from 0.33% to 0.48% per annum. As of September 30, 2010, the interest rate on the Agency's variable rate taxable debt was 0.28% per annum while the variable interest rate on the corresponding swaps ranged from 0.25% to 0.26% 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.

APPENDIX D

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 Resolutions, 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 the Deputy Commissioner or a designee, or such other person or agent of the Agency as the Commissioner 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 Securities and Exchange Commission under the Securities Exchange Act of 1934 (“1934 Act”).

Provision of Annual Reports

(a) The Agency shall, no later than 120 days after the close of each fiscal year, commencing with the fiscal year ending June 30, 2011, 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 Rental Housing Fund and the General Reserve Account of the Housing Development Fund and related statements of revenues and expenses, changes in net assets and statement of cash flows. If, on the date the Agency is required to provide the Agency Annual Report, the Agency has not received a report of independent auditors, the Agency shall provide the MSRB and the Trustee with its unaudited financial statements prepared in

substantially the format of its audited financial statements and, when available, deliver audited financial statements for such prior fiscal year. The Agency will also update the information on the Mortgage Loans and the Developments substantially similar to that found in Appendix A.

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 to be 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 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 Owners of affected Series 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 Series 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.

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 Series 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 Series Bonds representing at least 25% aggregate principal amount of outstanding Series 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 E

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The Bond Resolution contains various covenants and security provisions, certain of which are summarized below. The summary does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Bond Resolution, to which reference is hereby made, copies of which are available from the Agency or the Trustee.

Resolution Constitutes Contract with Trustee and Bondholders

Upon acceptance by the Trustee of the trusts created in the Bond Resolution and upon the purchase of Bonds by a Holder thereof, the Bond Resolution and applicable Series Resolution shall constitute a contract of the Agency with the Trustee and the Bondholders. The pledge made and security interests granted in the Bond Resolution are for the equal benefit, protection and security of all such Bondholders; all Bonds shall be of equal rank without preference, priority or distinction except as expressly provided or permitted in the Bond Resolution. The Agency covenants that it will cause to be deposited with the Trustee all proceeds of Bonds, all Mortgages, Mortgage Loans, and other securities purchased from Bond Proceeds and all income thereon. The pledge of the Agency is valid and binding from the time when made and all Mortgages, Mortgage Loans, securities and income thereon pledged and received by the Agency shall be subject to the lien thereof. The Agency pledges its full faith and credit for payment of principal, interest, and premium, if any, on the Bonds; the Bonds are a general obligation of the Agency. The State has pledged to and agreed with the Bondholders that it will not limit or alter the rights vested in the Agency nor impair the rights or remedies of the Bondholders until the Bonds, together with interest due, are fully paid.

Definitions

The following are definitions of certain terms used in the Bond Resolution and in this Official Statement (but not otherwise defined herein).

Accreted Value: for any Capital Accumulator Bond or Bonds, as of any date, the value (which may be rounded to the nearest dollar) resulting from the compounding of interest on the original principal amount and accretion thereof to principal on each prior Interest Payment Date at the approximate yield expressed in the Bond and provided in the applicable Series Resolution.

Agency Hedge Payment: a payment due to a Hedge Counterparty from the Agency pursuant to the applicable Hedge Agreement (excluding, however, payments in respect of any early termination of such Hedge Agreement).

Bond Requirement: as of any particular date of calculation, the sum of (i) that amount of the interest to become due on each Series of Outstanding Bonds at its next Interest Payment Date the deposit of which, once each month between that and the last such Interest Payment Date (or if none, since the Issue Date), would produce a sum sufficient to pay such interest, (ii) that amount of the Principal Installment due on each Series of Outstanding Bonds at its next Principal Installment Date, the deposit of which, once each month between that and the last such Principal Installment Date (or if none, once each month for a period of twelve months prior to the next Principal Installment Date), would produce a sum sufficient to pay such Principal Installment; (iii) any amount referred to in clause (i) and (ii) which has not been deposited in the Bond Fund in any month preceding the date of calculation; (iv) any Principal Installment and interest due and unpaid before the date of calculation; and (v) interest accrued on any such Principal Installment and (to the extent lawful) on any such interest, at the same rate as that borne by the Principal Installment before its maturity; provided that if, as of the date of calculation, the interest rate on any Variable Rate Bonds cannot be determined for any period before the next Interest Payment Date therefor, the interest rate for such period shall be assumed to be the Maximum Rate for such Variable Rate Bonds.

Capital Accumulator Bond: any Bond the interest on which is not currently payable on Interest Payment Dates during each year of its term (or portion of its term) but accrues and is accreted to principal on each Interest Payment Date and is payable as part of the Accreted Value of the Bond at maturity, or at a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Current Interest Bond: any Bond the interest on which is payable on Interest Payment Dates during each year of its term (or portion of its term), or to a prior date on which the Bond is duly called for redemption, as provided in the applicable Series Resolution.

Debt Service Reserve Requirement: as of any particular date of computation, an amount of money (or cash equivalent available under a letter of credit, insurance policy, surety bond or similar security instrument issued by an institution whose debt obligations at the time of such issuance are rated as high as or higher than the Bonds by a nationally recognized bond rating agency) equal to the sum of amounts computed for each Series of Outstanding Bonds, each in accordance with the applicable Series Resolution.

Development: a specific improvement or structure constituting residential housing as defined in the Act, containing units for possession pursuant to a leasehold estate or cooperative ownership, and financed in whole or in part by the issuance of Bonds or Notes.

Escrow Payment: any payment made in order to obtain or maintain mortgage insurance and fire and other hazard insurance, including payments for any Federal, state, local or private program intended to assist in providing Mortgages, and any payments required to be made with respect to Mortgages for taxes or other governmental charges or other similar charges to a Mortgagor customarily required to be escrowed, and payments or charges constituting construction or operating contingency, performance or completion or replacement reserves required pursuant to the applicable Mortgage Loan or any Subordinate Mortgage Loan.

Expense Requirement: such amount of money as may from time to time by Series Resolution or Supplemental Bond Resolution of the Agency be determined to be necessary for the payment of costs and expenses of the Agency pursuant to the Program (other than costs and expenses properly payable from a Cost of Issuance Account), and including any Agency Hedge Payments owing from time to time to a Hedge Counterparty pursuant to a Hedge Agreement and any fees or expenses owing from time to time to a person or entity providing credit or liquidity support or remarketing services in respect of any Bonds.

Hedge Agreement: a payment exchange agreement, swap agreement, forward agreement or any other hedge agreement between the Agency and a Hedge Counterparty, as amended or supplemented, providing for payments between the parties based on levels of, or changes in, interest rates or other indices, including, without limitation, interest rate exchange agreements, floors or caps, which allows the Agency to manage or hedge payment, rate, spread or similar risk with respect to any Bonds outstanding or proposed to be issued and which is entered into in accordance with the requirements described under the subheading "Hedge Agreements."

Hedge Counterparty: any person or entity with whom the Agency shall from time to time enter into a Hedge Agreement, as specified in a Series Resolution or other resolution of the Agency.

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

Interest Payment Date: each date on which interest on any Series of Bonds is required to be paid under the applicable Series Resolution.

Investment Obligation: any of the following including put and call options in future contracts traded on a contract market designated and regulated by a federal agency, which at the time are legal investments for Fiduciaries under the laws of the State for moneys held hereunder which are then proposed to be invested therein: (i) direct general obligations of the United States of America; (ii) obligations the payment of the principal of and interest on which, in the opinion of the Attorney General of the United States, is unconditionally guaranteed by the United States; (iii) Bonds, debentures, participation certificates, notes or other debt issued by any of the following: Bank for Cooperatives, Federal Financing Bank, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal National Mortgage Association, Export-Import Bank of the United States, Student Loan Marketing

Association, Farmers Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; (v) interest-bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation or said deposits are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by a nationally recognized bond rating agency and maturing in 270 days or less; (viii) 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 (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from a nationally recognized rating agency at the time the contract or agreement is made at least equal to the rating of the Bonds, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by a nationally recognized bond rating agency or such contracts or agreements are secured by obligations described in clauses (i) through (iii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i) through (iii) of this Section, (xi) notes, Bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; and (xii) notes, Bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency.

Maximum Rate: in respect of any Variable Rate Bonds, the maximum interest rate that such Bonds may bear as specified in the Series Resolution authorizing the issuance of the Variable Rate Bonds.

Mortgage: a mortgage deed, deed of trust, or other instrument, which, except as otherwise provided in the Bond Resolution, shall constitute a first lien in the State on improvements and real property in fee simple, or on a leasehold under a lease having a remaining term which, at the time the Mortgage is acquired, does not expire for at least that number of years beyond the maturity date of the Mortgage Loan or Subordinate Mortgage Loan secured by such Mortgage which is equal to the number of years remaining until the maturity date of the Mortgage Loan or Subordinate Mortgage Loan.

Mortgage Loan: a loan by the Agency to a Mortgagor for the financing and/or refinancing of a Development for the purposes set forth in Section 101 of the Bond Resolution, secured by a Mortgage on the Development.

Mortgagor: a natural person, a public or private corporation, a partnership, a joint venture or other organization or entity, to the extent permitted by the Act and the rules of the Agency thereunder (including the Agency or any corporation, agency or instrumentality created or controlled by the Agency).

Outstanding: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as

described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

Prepayment: any money received from a payment of principal on a Mortgage Loan or Subordinate Mortgage Loan in excess of the scheduled payments of principal then due, or from the sale of a Mortgage Loan or Subordinate Mortgage Loan pursuant to Section 313 of the Bond Resolution, other than money constituting a Recovery Payment.

Principal Installment: as of any particular date of calculation, an amount equal to the sum of (i) the principal amount of Outstanding Current Interest Bonds which mature on a single future date, reduced by the aggregate amount of any Sinking Fund Installments payable before that date toward the retirement of such Outstanding Current Interest Bonds, plus (ii) the amount of any Sinking Fund Installment payable on said future date toward the retirement of such Outstanding Current Interest Bonds, plus (iii) the Accreted Value, as of the same future date, of Capital Accumulator Bonds which mature or are required to be redeemed as a Sinking Fund Installment on such date.

Program: the Agency's program of making Mortgage Loans, including the payment when due of principal of and redemption premium, if any, and interest on Notes, for the purposes specified in Section 101 of the Bond Resolution.

Rating: with respect to any Bonds and as of any date, the rating issued by a Rating Agency then in force and prior to a proposed action to be taken by the Agency. An action does not "impair" the Rating with respect to any Bonds if the action will not cause the Rating Agency to lower or withdraw the rating it has assigned to such Bonds.

Recovery Payment: any money received or recovered by the Agency, in excess of the expenses necessarily incurred by the Agency in collection thereof, from (i) the sale or other disposition of a Development acquired by the Agency, or (ii) condemnation of a Development or part thereof, or (iii) other proceedings taken in the event of default by the Mortgagor, or (iv) the sale or other disposition of a Mortgage in default for the purpose of realizing on the Agency's interest therein, or (v) mortgage insurance or guaranty or hazard insurance.

Redemption Price: when used with respect to a Bond or portion thereof, the principal amount of a Current Interest Bond or the Accreted Value of a Capital Accumulator Bond or any portion thereof plus the applicable premium, if any, payable upon redemption thereof in accordance with its terms.

Revenues: all payments, proceeds, rents, charges and other income derived by or for the account of the Agency from or related to the Program, including without limitation the scheduled amortization payments of principal of and interest on Mortgages (whether paid by or on behalf of the Mortgagor or occupants of the Development subject to the Mortgage) and any Counterparty Hedge Payments payable by or received from or on behalf of any Hedge Counterparty pursuant to a Hedge Agreement or a Hedge Counterparty Guarantee, but not including Prepayments, Recovery Payments or Escrow Payments, and not including inspection, financing, application, commitment or similar fees or charges of the Agency which are included in the original principal amount of a Mortgage.

Sinking Fund Installment: any amount of money required by or pursuant to a Series Resolution as referred to in Section 202 of the Bond Resolution to be paid on a specified date by the Agency toward the retirement of any particular Term Bonds before their maturity.

Sinking Fund Installment Date: the date on which a Sinking Fund Installment is payable.

Subordinate Mortgage Loan: a Mortgage Loan, which may be junior and subordinate to other mortgage liens on a Development, made by the Agency pursuant to the authorization contained in Section 308 of the Bond Resolution.

Variable Rate Bonds: any Bonds the interest rate on which varies periodically such that the interest rate at a future date cannot be determined as of the date of calculation.

Authorization of Bonds

In order to provide sufficient funds for the Program, Bonds of the Agency designated as Rental Housing Bonds are authorized by the Bond Resolution to be issued from time to time without limitation as to amount except as provided in the Bond Resolution or as may be limited by law, and shall be issued subject to the terms, conditions and limitations established in the Bond Resolution. The full faith and credit of the Agency is pledged for the security of the Bonds, including interest and redemption premiums thereon, and the Bonds are general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of any other resolutions, indentures or state laws now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds.

Other Obligations

(A) Except as provided in Article II of the Bond Resolution, the Agency covenants that it will not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge or lien on the Revenues or will be payable from any of the Funds or Accounts established and created by or pursuant to the Bond Resolution, including the Debt Service Reserve Fund. The foregoing provision shall not be construed as prohibiting the Agency from entering into hedging transactions, such as interest rate swaps, in connection with the issuance of any Series of Bonds, or in connection with the payment of any Series of Outstanding Bonds.

(B) The Agency expressly reserves the right to adopt one or more additional bond or note resolutions and reserves the right to issue other obligations so long as they are not a charge or lien prohibited by paragraph (A) of this Section of the Bond Resolution.

Pledge of the Resolution

The Agency in the Bond Resolution covenants that it will cause to be paid to and deposited with the Trustee, or to its credit with Depositories designated by the Agency, and pledges and grants to the Trustee a security interest in, all proceeds of Bonds, all Mortgages and Mortgage Loans and other securities made and purchased from such proceeds (or from the proceeds of Notes paid from the proceeds of Bonds), and all income and receipt therefrom. This pledge is intended to be valid and binding from the time when made, and the Bond proceeds, Mortgages, Mortgage Loans, other securities, income and receipts pledge and hereafter received by the Agency are immediately to be subject to the lien thereof without any physical delivery or further act, and the lien of such pledge is intended to be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Agency, whether or not such parties have notice thereof.

Custody and Application of Bond Proceeds

Each Series Resolution authorizing the issuance of a Series of Bonds is required to specify the purposes for which the proceeds of such Series of Bonds may be used and to provide for the disposition of the proceeds thereof. Purposes for which Bonds may be issued are (a) the making of Mortgage Loans, (b) the financing of Mortgage Loans previously made from the proceeds of Notes, (c) the refunding of Outstanding Bonds, and (d) incident to these purposes, the deposit of amounts determined by or pursuant to the Bond Resolution to be credited and paid into the Funds and Accounts referred to in the Bond Resolution.

Note Accounts. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

Project Account and Mortgage Loan Accounts. Money in each Project Account and Mortgage Loan Account shall be held by the Trustee or a Depository as directed by an Officer's Certificate. The Trustee shall create specific Mortgage Loan Accounts within the Project Account to finance specific Developments and the Trustee shall from time to time pay out or permit the designated Depository to pay out money in any Mortgage Loan Account held for the purpose of making a Mortgage Loan, upon receipt by the Trustee (or by the Depository with a copy to the Trustee) of an Officer's Certificate as to each payment or withdrawal, stating:

- (i) the name of the Mortgagor to, and Development for, which the payment is to be made;
- (ii) the amount to be paid; and
- (iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

All interest and other income from time to time received from the deposit and investment of money in the Project Account or any Mortgage Loan Accounts shall be transferred as received to the Trustee for deposit in the Revenue Fund.

Promptly upon the fulfilling of its commitment to make a Mortgage Loan to a Mortgagor, or upon revocation of the commitment before any substantial disbursement of funds thereunder, the Agency will deliver to the Depository and the Trustee an Officer's Certificate stating such fact and the amount of money, if any, remaining in the applicable Mortgage Loan Account, and directing this amount to be transferred by the Depository to the Trustee and deposited by the Trustee in a designated Project Account or in one or more designated Mortgage Loan Accounts or the Redemption Fund.

Mortgage Provisions and Conditions

Each Mortgage Loan financed from the proceeds of Bonds or of Notes paid from the proceeds of Bonds or from amounts made available from the Redemption Fund, and the Mortgage securing it, shall conform to the following terms, conditions, provisions and limitations as well as those stated in "Program Covenants" herein, except to the extent, if any, that a variance therefrom is required by an agency or instrumentality of the United States guaranteeing, insuring, or otherwise assisting in the payment of the Mortgage Loans. In addition, the Agency may, solely from Excess Revenues under the Bond Resolution which could otherwise be withdrawn therefrom pursuant to Section 404(5) thereof, make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, and without regard to the following provisions.

Lien. With respect to each Mortgage Loan, the Mortgage and complementary financing statements and other necessary documents shall be executed, recorded and filed in accordance with the requirements of existing laws, so as to create and constitute a valid first mortgage lien on the real property or leasehold interest in real property of the Mortgagor which is the site of the Development and improvements thereon for which the Mortgage Loan is made, and a valid security interest in all personal property acquired with proceeds of the Mortgage Loan and attached to or used in the operation of the Development.

Title. Before the disbursement of Bond proceeds to make the Mortgage Loan or to pay Notes the proceeds of which were used to make it, the Mortgagor shall have acquired marketable title in fee simple to the site of the Development, or a leasehold interest therein sufficient as the subject of a Mortgage as defined in Section 103 of the Bond Resolution, subject only to liens and encumbrances which in the reasonable judgment of the Agency do not materially affect its value or usefulness for the intended use; and there shall be deposited with the Trustee, or with an agent (which may be the Agency) authorized by the Trustee to receive on its behalf and transmit to the Trustee, (i) the Mortgage; (ii) the note evidencing the Mortgage Loan; (iii) an acceptable title opinion or title insurance policy; and (iv) originals or photocopies of all other agreements and certificates of the Mortgagor relating to the Development.

Participation. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of

amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

Prepayments. With respect to each Mortgage Loan, the Mortgage shall not permit a Prepayment of the Mortgage Loan without the consent of an Authorized Officer of the Agency, unless required by an agency of the United States as contemplated in this section; but the Agency may undertake in the Mortgage to give its consent if the following conditions with respect to Prepayment exist:

- (a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:
 - (i) the unpaid principal balance of the Mortgage Loan; plus
 - (ii) accrued interest to the date of the Prepayment; plus
 - (iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and
- (b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

The Agency may consent to the Prepayment of any Subordinate Mortgage Loan upon such terms as it, in its sole discretion, deems appropriate.

Insurance and Escrow. With respect to each Mortgage Loan, the Mortgage or an accompanying document shall require the Mortgagor:

- (a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;
- (b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and
- (c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

Disbursements. Before the disbursements of a Mortgage Loan from Bond proceeds the Mortgagor shall have completed the Development and paid all costs thereof in a manner approved by an Authorized Officer, or shall have:

- (a) obtained all governmental approvals required by law for the acquisition and construction of the Development;
- (b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;
- (c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

The Agency may impose additional disbursement requirements, or modify the foregoing requirements, to the extent required to comply with the rules, regulations or procedures of any agency or instrumentality of the United States guaranteeing, insuring or otherwise participating in the making of a Mortgage Loan or the repayment thereof.

Alienation. Except as provided below, with respect to each Mortgage Loan, the Mortgage shall not permit the sale, lease or encumbrance of the Development without the written consent of the Agency, by its Authorized Officer, which consent may be given (but need not be given) only in the cases of:

- (a) receipt of full Prepayment conforming to the requirements stated below;
- (b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;
- (c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;
- (d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;
- (e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;
- (f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or
- (g) grant of a subordinate mortgage lien on the Development or a portion thereof.

Enforcement. The Agency shall diligently enforce, and take all reasonable steps, actions and proceeding necessary for the enforcement, of all terms, covenants and conditions of Mortgages securing Mortgage Loans made by the Agency, including the prompt collection of Mortgage repayments and fees and charges and other Revenues.

Whenever it shall be necessary in order to protect and enforce the rights of the Agency under a Mortgage securing a Mortgage Loan and to protect and enforce the rights and interests of Bondholders under the Bond Resolution, the Agency shall commence foreclosure proceedings against each Mortgagor in default under the provisions of a Mortgage, shall bid for and purchase the Development covered by such Mortgage at the foreclosure or other sale thereof and shall acquire and take possession of such Development.

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed

or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

Upon or after foreclosure of a Development under a Mortgage securing a Mortgage Loan, or acquisition thereof from the Mortgagor in lieu of foreclosure:

- (a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;
- (b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;
- (c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and
- (d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

The foregoing provisions regarding foreclosure of mortgages shall not apply to Mortgages securing Subordinate Mortgage Loans, and the Agency may proceed to protect and enforce the rights of the Agency under a Mortgage securing a Subordinate Mortgage Loan in such manner as the Agency, in its sole discretion, deems appropriate.

Modification. Except as otherwise permitted by the terms of the Bond Resolution, the Agency shall not consent to the modification of the security for or any terms or provisions of any Mortgage Loan or the Mortgage securing the same in a manner materially detrimental to Bondholders. No reduction in the interest rate or schedule of payments will be made which would result in a failure by the Agency to comply with its Revenue Covenant. Notwithstanding the foregoing, the Agency may consent to the modification of the terms of any Subordinate Mortgage Loan or Mortgage securing such loan in any manner and to any extent the Agency, in its sole discretion, deems appropriate.

Sale. The Agency may sell any Mortgage or other obligation securing a Mortgage Loan provided that after such sale an Authorized Officer determines the Agency will remain in compliance with its Revenue Covenant. The Agency may sell any Mortgage or other obligation securing a Subordinate Mortgage Loan upon such terms and conditions as the Agency, in its sole discretion, deems appropriate.

Program Covenants—Revenue Covenant

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

There shall at all times be scheduled payments of principal and interest on Mortgage Loans pledged under the Bond Resolution which, when added to any other legally enforceable payments on Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and interest and other income estimated by the Agency to be derived from the investment or deposit of money available therefor in any Fund or Account created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on all Outstanding Bonds (excluding from such calculations all amounts scheduled to be received pursuant to the provisions of Subordinate Mortgage Loans). In making a determination as of any date that the Agency is in compliance with this covenant, the Agency may make assumptions as to future events (including, as applicable, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and the amount of interest payable on Variable Rate Bonds), which assumptions shall be based upon the Agency's reasonable expectations as of the date of such determination.

The Agency reserves the right:

(a) at the time of issuance of any Series of Bonds for the purpose of repaying notes or Bonds the proceeds of which were used to make a Mortgage Loan, to consent to a reduction of the interest on that Mortgage Loan, provided that the Agency will then be in compliance with the preceding paragraph;

(b) at any time, to forgive a portion of the interest on a Mortgage Loan by consenting to the establishment of scheduled payments of principal and interest lower than those required to amortize the Mortgage Loan during its then remaining term at the agreed interest rate, provided that (i) the scheduled payments of principal and interest on all Mortgage Loans, giving effect to that and all similar reductions then in effect, will in the aggregate be sufficient to comply with the preceding paragraph, and (ii) if it is subsequently determined by an Authorized Officer that such aggregate scheduled principal and interest payments will or may be insufficient for such compliance, such forgiveness may be terminated in whole or in part with respect to subsequent payments on that Mortgage Loan; and

(c) to consent to any modifications to a Subordinate Mortgage Loan, including forgiving all or a portion of principal thereof or interest thereon, as the Agency may determine in its sole discretion. The Agency reserves the right to withdraw any amount from its General Reserve Account and deposit it in the Bond Fund in payment and satisfaction of a corresponding amount of the scheduled principal or interest payments on any Mortgage Loan. The Agency shall be entitled to recover from the Mortgagor any amounts so advanced, together with interest thereon at the rate payable on the Mortgage Loan, or to enforce its right to such recovery under the Mortgage, but only after all other defaults thereunder have been cured.

Deposit of Revenues and Other Money

The Agency will collect and deposit or will require a Servicer to collect and deposit with the Trustee or a Depository, on the date of receipt so far as practicable, all Revenues, Prepayments, Recovery Payments and Escrow Payments receivable from Mortgagors, and will forward or require the Depository to forward promptly to the Trustee statements of each amount deposited except Escrow Payments. The Trustee shall be accountable only for moneys actually so deposited, other than Escrow Payments. All moneys so deposited shall be apportioned by the Agency or Servicer and paid into and credited on the books of the Depository and the Trustee as follows:

- (a) Revenues to the Revenue Fund:
- (b) Prepayments and Recovery Payments to the Redemption Fund; and
- (c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

Revenue Fund

As of the first and on or before the tenth day of each month after the first delivery of Bonds, on any Interest Payment Date or on any date as further provided in clause (d) below, from any moneys in the Revenue Fund then held by the Trustee and Depositories, the Trustee shall withdraw and pay into each of the following Funds the amount indicated in the following tabulation, or so much thereof as remains after first crediting to each Fund preceding it in the tabulation the full amount indicated for that Fund:

(a) to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Bond Requirement;

(b) to the Debt Service Reserve Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions), the amount needed to increase the aggregate balance therein to the Debt Service Reserve Requirement;

(c) to an Account in the Revenue Fund held by the Trustee at its Principal Office, the additional amount needed to make each of the payments which will be required under the foregoing clauses (a) and (b) to be made as of the first day of the following month:

(d) if payment of interest and Principal Installments, if any, then or theretofore due on all Outstanding Bonds has been made in full and the amounts on deposit in all Funds and Accounts referred to in clauses (a) to (c) equal or exceed the Requirements applicable thereto, to the Expense Fund, the amount then required to increase the balance therein to the Expense Requirement (provided that the Agency may elect to receive the Expense Requirement from time to time by payment directly from the Revenue Fund upon providing the Trustee with an Officer's Certificate as provided in the Bond Resolution); and

(e) when authorized by an Officer's Certificate, the Trustee may credit Revenues to the Bond Fund (and such separate Accounts therein as may be designated by one or more Series Resolutions) upon receipt, up to the amount of the current Bond Requirement, and in excess of that requirement if the current Debt Service Reserve and Expense Requirements, if any, have been met.

In the event that on any Interest Payment Date, after payment of all interest and Principal Installments then due, the amounts in all Funds and Accounts referred to in clauses (a) to (d) equal or exceed the Requirements applicable thereto, any amount then on hand in the Revenue Fund and any Revenues thereafter received in excess of the current requirements of all of said Funds and Accounts may be transferred to the Agency's General Reserve Account, and shall be so transferred upon request in writing by an Authorized Officer; provided that no such transfer shall be made unless, after giving effect to such transfer, total assets of the Bond Resolution shall exceed total liabilities, determined in accordance with generally accepted accounting principles and evidenced by an Officer's Certificate.

The Agency reserves the right, in its sole and absolute discretion, to deliver to the Trustee from time to time funds not constituting Revenues or otherwise subject to the pledge of the Bond Resolution and an Officer's Certificate directing the Trustee to credit such funds to one or more Funds or Accounts hereunder, and the Trustee is authorized to credit such funds in accordance with the directions of the Officer's Certificate and such funds shall thereupon become subject to the lien and provisions of the Bond Resolution, as applicable.

Bond Fund

(a) The Trustee shall withdraw from the Bond Fund, prior to each Interest Payment Date an amount equal to the unpaid interest due on the Outstanding Bonds on or before that date, and shall cause it to be applied to the payment of said interest when due, or shall transmit it to one or more Paying Agents who shall apply it to such payment as provided in Series Resolutions.

(b) If the withdrawals required under (a) above on the same and every prior date have been made, the Trustee shall withdraw from the Bond Fund, prior to each Principal Installment Date and Sinking Fund Installment Date, an amount equal to the principal amount or Accreted Value of the outstanding Bonds, if any, maturing or subject to mandatory redemption on or before that date and shall cause it to be applied to the payment of the principal or Accreted Value of said Bonds when due or transmit it to Paying Agents who shall apply it to such payment.

(c) Each withdrawal from the Bond Fund under (a) and (b) above shall be made not earlier than five (5) days prior to the Interest Payment or Principal Installment Date or Sinking Fund Installment Date to which it relates, and the amount so withdrawn shall be deemed to be part of the Bond Fund until the Interest Payment Date or Principal Installment Date or Sinking Fund Installment Date.

(d) The Trustee shall apply money in the Bond Fund to the purchase or the redemption of Outstanding Term Bonds subject to mandatory redemption in the manner provided in this paragraph and Section 702 of the Bond Resolution, provided that no such Bond shall be purchased during the period of thirty (30) days next preceding the Date of a Sinking Fund Installment established for such Bonds. The price paid by the Trustee (excluding accrued interest but including any brokerage and other charges) for any Bond purchased pursuant to this paragraph shall not exceed the Redemption Price applicable on the next date on which such Bond could be redeemed in accordance with its terms as part of a Sinking Fund Installment. Subject to the limitations set forth and referred to in this paragraph, the Trustee shall purchase Bonds at such times, for such prices, in such amounts and in such manner (whether after advertisement for tenders or otherwise) as the Agency may determine in an Officer's Certificate furnished to the Trustee.

(e) As soon as practicable after the forty-fifth and before the thirtieth day prior to the Date of each Sinking Fund Installment, unless a different notice period is required by the applicable Series Resolution, the Trustee shall call for redemption on that date the principal amount or Accreted Value of the remaining Bonds entitled to said Installment, and on that date the Trustee shall apply the money in the Bond Fund to the payment of the Redemption Price of the Bonds so called for redemption.

(f) If, on any Interest Payment Date for Bonds that are subject to a Hedge Agreement, payment of interest and Principal Installments, if any, then or theretofore due on all Outstanding Bonds has been made in full and the amounts on deposit in all Funds and Accounts referred to in clauses (a) to (c) under the heading "Revenue Fund" equal or exceed the Requirements applicable thereto, then any amounts on hand in the Bond Fund in excess of the Bond Requirement on such date shall be transferred to the Expense Fund upon the written request of an Authorized Officer if required to increase the balance therein to the Expense Requirement in respect of Agency Hedge Payments and credit or liquidity support or remarketing fees then owing.

(g) No amount is to be withdrawn or transferred from or paid out of the Bond Fund except as described in this Section.

Debt Service Reserve Fund

(a) If at any time there is not a sufficient amount in the Bond Fund to provide for the payment when due of Principal Installments of and interest on the Outstanding Bonds, the Trustee shall withdraw from the Debt Service Reserve Fund and pay into the Bond Fund the amount of the deficiency then remaining. The Trustee shall notify the Agency in writing ten (10) days prior to any such withdrawal from the Debt Service Reserve Fund.

(b) In addition to the payments made into the Debt Service Reserve Fund pursuant to Section 404 of the Bond Resolution or otherwise, the Agency shall deposit in the Debt Service Reserve Fund any money appropriated and paid to the Agency by the State pursuant to the Act for the purpose of restoring the Debt Service Reserve Fund to the Debt Service Reserve Requirement.

(c) If as of the first day of any month the amount in the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, the Trustee within ten (10) days thereafter shall withdraw any amount therein in excess of the Debt Service Reserve Requirement, and pay the same into the Revenue Fund.

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

(e) In order to better 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 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of

principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve 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 into the Revenue Fund 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 the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 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 or Revenue Fund, as provided in the Bond Resolution.

(f) No amount is to be withdrawn from or paid out of the Debt Service Reserve Fund except as described in this Section.

Expense Fund

(a) Money deposited in the Expense Fund, if any, shall be disbursed for the payment of continuing expenses of the Program (including operating and maintenance expenses of Developments in the possession of the Agency), any Agency Hedge Payments owing from time to time to a Hedge Counterparty pursuant to a Hedge Agreement and any fees or expenses owing from time to time to a person or entity providing credit or liquidity support or remarketing services in respect of any Bonds) upon receipt of an Officer's Certificate stating the name of the party to be paid, the amount to be paid and the purpose of the payment.

(b) Income received or other money held in the Expense Fund in excess of the Expense Requirement shall be credited by the Trustee to the Revenue Fund.

(c) No amount is to be withdrawn, transferred or paid out of the Expense Fund except as described in this Section.

Redemption Fund

(a) The Trustee shall establish a Suspense Account in the Redemption Fund, to which it shall credit all Prepayments and Recovery Payments, and all surplus amounts transferred from Mortgage Loan Accounts under Section 307(G) of the Bond Resolution; each of which shall be used and applied as directed by an Officer's Certificate, either (i) to provide additional funds to a Mortgage Loan Account for an increase in the amount of a Mortgage Loan authorized by the Agency, or (ii) for the establishment of one or more Mortgage Loan Accounts for new Mortgage Loans made by the Agency, or (iii) for the purchase or redemption of Outstanding Bonds, or (iv) if no Bonds of a Series are Outstanding and Prepayments have been received from one or more Mortgage Loans financed by Bonds of the Series, any such remaining Prepayments, for the payment of any Agency Hedge Payments under, or any amounts payable by the Agency upon early termination of, a Hedge Agreement relating to such Series of Bonds; provided that as of the first day of each month while any Prepayment or Recovery Payment is held in the Suspense Account, the Trustee shall transfer from that Account to the Bond Fund the scheduled monthly payment of principal of the Mortgage Loan with respect to which the Prepayment or Recovery Payment was received, less the amount of any payment of principal actually received with respect to such Mortgage Loan, if such transfer is required in order to meet the Bond Requirement.

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most

advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

(d) Notwithstanding the foregoing, any Prepayment or Recovery Payment received with respect to a Subordinate Mortgage Loan may be used and applied, as directed by an Officer's Certificate, in such manner as the Agency, in its sole discretion, may determine.

(e) Income from the investment of the Redemption Fund shall be credited as received to the Revenue Fund.

(f) No amount is to be withdrawn or transferred from or paid out of the Redemption Fund except as described above.

Escrow Accounts

Escrow Payments received by the Agency or a Servicer, whether separately or as part of some other payment, shall be deposited in an Escrow Account and shall be promptly applied by the Agency or Servicer to the purpose for which such payments were received, and any such payments received by the Trustee or a Depository, whether separately or as part of some other payment, shall immediately be paid to the Agency and applied by the Agency to the purpose for which they were received.

General Reserve Account

All amounts authorized in Article IV of the Bond Resolution to be withdrawn from the Revenue Fund and deposited in the General Reserve Account of the Agency shall be free and clear of any lien or pledge created by the Bond Resolution and may be used for any purpose authorized by the Act, subject to the provisions of Section 102, clauses (6) and (7) of the Bond Resolution.

Investment and Deposit of Funds

(a) Subject to instructions from time to time received from an Authorized Officer (which need not be in writing), and with the objective of assuring the maximum yield reasonably possible on money held in each Fund, each Fiduciary shall keep all money held by it invested and reinvested, as continuously as reasonably possible, in Investment Obligations defined in Section 103 of the Bond Resolution (including interest-bearing time deposits and certificates of deposit). All Investment Obligations shall mature or be redeemable (at the option of the holder) and bear interest payable at the times and in the amounts estimated to be necessary to provide funds for Mortgage Loan disbursements and for the payment of the principal and Accreted Value of and interest and premium, if any, on Bonds when due or when scheduled for redemption pursuant to applicable Series Resolutions. The maturity date of a security purchased under a repurchase agreement shall be deemed to be the agreed repurchase date. The maturity date of a time deposit or certificate of deposit shall be deemed to be any date on which, with such notice as may be required, the deposit may be withdrawn without loss of interest.

(b) Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of paragraph (a) of this Section. Moneys in separate funds or series accounts may be invested in common trust funds or pools of which such money forms a part pursuant to the terms of which each Fund or series account is allocated a share of a pooled security proportionate to the amount contributed to the purchase price of the pooled security, subject to the provisions of paragraph (a) of this Section and to the restrictions on Investment Obligations imposed by each Series Resolution. Investments shall be sold at the best price obtainable, and amounts held in certificates of deposit or time deposits shall be withdrawn, whenever necessary in order to make any disbursement or repurchase of Mortgage Loans, payment of expenses of debt service. Investment Obligations need not be disposed of to make required transfers from one Fund or Account to another, but one or more Investment Obligations or portions thereof may be transferred in lieu of cash.

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

Additional Bonds

The Bond Resolution provides that after authorization by a Series Resolution and compliance with such requirements as are set forth therein, Bonds of any Series may be delivered upon the following, among other, conditions:

The Agency shall furnish to the Trustee:

(a) copies of the Bond Resolution and the applicable Series Resolution, certified by an Authorized Officer;

(b) a Counsel's Opinion that:

(i) the Bond Resolution and the applicable Series Resolution have been duly adopted by the Agency and are valid and binding upon it and enforceable in accordance with their terms;

(ii) the Bond Resolution creates the valid pledge which it purports to create; and

(iii) the principal amount of the Bonds to be issued and other obligations theretofore issued by the Agency does not exceed any legal limitation;

(c) an Officer's Certificate stating:

(i) the amounts to be deposited in all Funds and Accounts;

(ii) that the issuance of the Bonds will have no material adverse effect on the ability of the Agency to pay the Principal Installments of and interest on all Bonds (including the Outstanding Bonds and the Bonds then to be issued);

(iii) that after such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of Notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans or with respect to the Bond Resolution (including Counterparty Hedge Payments), and with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all Funds and Accounts created by the Bond Resolution, will be sufficient to pay the Principal Installments of and interest on the Bonds then Outstanding and the additional Series of Bonds on their Principal Installment and Interest Payment Dates (excluding from such calculations the amounts to be received by the Agency pursuant to any Subordinate Mortgage Loans); provided that, in making such statement the Authorized Officer may set forth the assumptions upon which the statement is based (including, without limitation, assumptions as to the amounts of Agency Hedge Payments and Counterparty Hedge Payments and the amount of interest payable on Variable Rate Bonds), which assumptions shall be based upon the Agency's reasonable expectations as of the date of such Officer's Certificate; and

(iv) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by the additional Bonds); and

(d) if the Bonds to be issued are Variable Rate Bonds or are the subject of a Hedge Agreement, written confirmation from each Rating Agency that the issuance of such Bonds will not impair the Rating on any Bonds then Outstanding.

The Trustee shall determine and certify:

- (a) that it is has received the documents listed above; and
- (b) that the amount of Bond proceeds or other funds of the Agency to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

Hedge Agreements

The Agency may from time to time enter into one or more Hedge Agreements with respect to any Series of Bonds outstanding or proposed to be issued on the terms and conditions and subject to the limitations set forth in this section and elsewhere in the Bond Resolution. The Agency shall not enter into a Hedge Agreement unless (1) as of the date the Agency enters into the Hedge Agreement, either the Hedge Counterparty or the person or entity executing a Hedge Counterparty Guarantee relating thereto has outstanding unsecured long-term debt obligations rated by, or other applicable rating given by, a nationally recognized bond rating agency as high as or higher than the Rating on the Outstanding Bonds; and (2) if the Hedge Agreement relates to Outstanding Bonds, the Trustee receives written confirmation from each Rating Agency that the execution and delivery of the Hedge Agreement by the Agency will not impair the Rating on any Bonds then Outstanding. To secure its obligation to make Agency Hedge Payments to a Hedge Counterparty pursuant to a Hedge Agreement, the Agency may grant to the Hedge Counterparty a subordinate and junior pledge and security interest (subordinate and junior to the pledge and security interest granted to the Bondholders) in all or any of the Revenues, Prepayments, Recovery Payments or any other moneys, securities, Funds or Accounts hereunder; provided, however, that the payment of Agency Hedge Payments shall not be secured by the Debt Service Reserve Fund. Nothing in this Section 205 is intended to prohibit the Agency from securing any payments it is obligated to make in respect of the early termination of a Hedge Agreement by the full faith and credit of the Agency, by amounts to be transferred to the General Reserve Account pursuant to the last sentence of the first paragraph under the heading "Revenue Fund" or by other moneys, assets or revenues of the Agency not pledged to the payment of Outstanding Bonds under the Bond Resolution.

Amendments of the Bond Resolution

Amendments of or supplements to the Bond Resolution may be made by a Supplemental Bond Resolution (a "Supplemental Resolution").

Supplemental Resolutions may become effective upon filing with the Trustee if they add restrictions on the Agency, add covenants by the Agency, surrender privileges of the Agency, authorize additional Bonds and fix the terms thereof or affect only Bonds not yet issued.

Supplemental Resolutions become effective upon consent of the Trustee if they concern only curing or clarifying an ambiguity, omission, defect or inconsistency, or make any other change which, in the judgment of the Trustee, is not prejudicial to the Trustee and which does not adversely affect the interests of Bondholders. Other Supplemental Resolutions become effective only with consent of the Holders of at least a majority in principal amount and Accreted Value of the Outstanding Bonds affected thereby.

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

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

Defeasance

If the Agency shall pay or cause to be paid to the Holders of the Bonds, the principal, Accreted Value and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Bond Resolution, then, unless there shall be an Officer's Certificate delivered to the Trustee to the contrary, the pledge of the Revenues, Prepayments, Recovery Payments and other moneys, securities and funds pledged by the Bond Resolution and the covenants, agreements and other obligations of the Agency to the Bondholders thereunder shall be discharged and satisfied.

Bonds and interest thereon for the payment or redemption of which moneys shall have been deposited with the Trustee shall be deemed to have been paid, provided that, if any of such Bonds are to be redeemed prior to the maturity thereof, provision satisfactory to the Trustee shall have been made for the giving of notice of redemption thereof. Moneys so held by the Trustee shall be invested by the Trustee, as directed by the Agency, in Investment Obligations which are direct obligations of the United States or guaranteed by the United States. If the maturing principal of such Investment Obligations and the interest to fall due thereon at least equal the amount of money required for the payment on any future date of the interest on and principal of or Redemption Price on such Bonds, the Bonds shall be deemed to have been paid.

Events of Default

Each of the following shall constitute an event of default under the Bond Resolution: (a) interest on any of the Bonds is not paid on any date when due, or the principal, Accreted Value or Redemption Price of any of the Bonds is not paid at maturity or at a Redemption Date at which the Bonds have been called for redemption; (b) Bonds subject to redemption by operation of Sinking Fund Installments shall not have been redeemed and paid in the amount required in the applicable Series Resolution on any date; (c) a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds, the Bond Resolution, or applicable Series Resolution contained and such default shall continue for a period of ninety (90) days after written notice to the Agency from a Bondholder or from the Trustee specifying such default and requiring the same to be remedied; or (d) certain acts of bankruptcy, insolvency or reorganization by the Agency.

Remedies

Upon the happening and continuance of an event of default, the Trustee may, and shall upon the request of the Holders of twenty-five percent (25%) in principal amount and Accreted Value of the Bonds then Outstanding affected by an event of default described in clause (a) or (b) of "Events of Default" above, or twenty-five percent (25%) in principal amount and Accreted Value of all Bonds then Outstanding if the event of default is one described in clauses (c) or (d) of "Events of Default" above, proceed to protect and enforce the rights of the Bondholders under the laws of the State of Minnesota or under the Bond Resolution. No Bondholder shall have the right to institute any proceedings for any remedy under the Bond Resolution unless the Trustee, after being so requested to institute such proceedings and offered satisfactory indemnity, shall have refused or neglected to comply with such request within a reasonable time and unless the proceeding is brought for the ratable benefit of all Holders of all Bonds. However, nothing in the Bond Resolution contained is intended to affect or impair the right of any Bondholder to enforce the payment of the principal or Accreted Value of and interest on his Bonds at the time and place expressed in the Bonds.

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond for each maturity of a series of the Series Bonds in the aggregate principal amount of such maturity and series 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, references herein to the Bondholders, Holders 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 and 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 one or more series of the Series Bonds is discontinued as described below.

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

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

Redemption notices will be sent to DTC. If less than all of the Series Bonds of a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in 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, and interest on the Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit 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, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to one or more 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, the Series Bonds of such series are required to be delivered as described in the Resolutions. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner's name, shall become the Bondholder.

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

APPENDIX G

FORMS OF OPINIONS OF BOND COUNSEL

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

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Rental Housing Bonds, 2010 Series A-1 and 2010 Series A-2

Ladies and Gentlemen:

We have acted as bond counsel the Minnesota Housing Finance Agency (the “Agency”) in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2010 Series A-1 and 2010 Series A-2, in the aggregate principal amount of \$6,235,000 (the “Series A Bonds”), which are issuable only as fully registered bonds.

The Series A Bonds of each series are dated, mature on the dates and in the amounts, bear interest at the rates and are payable as set forth in the Series Resolution referenced below. The Series A Bonds are subject to redemption, including special redemption at par, prior to their maturity upon the terms provided in the Series Resolution.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary for purposes of this opinion, including the Agency’s Bond Resolution, MHFA No. 88-12, adopted February 25, 1988, as amended and supplemented (as so amended and supplemented, the “Bond Resolution”), and the Series Resolution, Resolution No. MHFA 10-73, adopted September 23, 2010 (the “Series Resolution”). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the Series A Bonds with the covenants contained in the Bond Resolution and Series Resolution, and the loan documentation relating to the Development, it is our opinion that, under existing law as of 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 the Series Resolution have been duly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond Resolution and Series Resolution; (3) the Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are 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, and federal or state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the

income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any Series A Bond for any period during which such Series A Bond is held by a person who is a “substantial user” of the Development financed by the Series A Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Series A 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 Series A 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 Series A 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 or state tax consequences arising from ownership or disposition of the Series A Bonds. All owners of Series A Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing the Series A Bonds.

Noncompliance by the Agency or the owner of the Development financed by the Series A Bonds with their covenants in the Bond Resolution and Series Resolution, or applicable loan documentation relating to the Development, may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series A Bonds.

It is to be understood that the rights of the holders of the Series A Bonds and the enforceability thereof, and of the Bond Resolution and Series Resolution, may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Dated: _____, 2010.

Respectfully yours,

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

Minnesota Housing Finance Agency
St. Paul, Minnesota

Re: Minnesota Housing Finance Agency
Rental Housing Bonds, 2010 Series B

Ladies and Gentlemen:

We have acted as bond counsel the Minnesota Housing Finance Agency (the “Agency”) in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2010 Series B, in the aggregate principal amount of \$8,000,000 (the “Series B Bonds”), which are issuable only as fully registered bonds.

The Series B Bonds are dated, mature on the date and in the amount, bear interest at the rate and are payable as set forth in the Series Resolution referenced below. The Series B Bonds are subject to special redemption at par upon the terms provided in the Series Resolution.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary for purposes of this opinion, including the Agency’s Bond Resolution, MHFA No. 88-12, adopted February 25, 1988, as amended and supplemented (as so amended and supplemented, the “Bond Resolution”), and the Series Resolution, Resolution No. MHFA 10-95, adopted October 28, 2010 (the “Series Resolution”). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the Series B Bonds with the covenants contained in the Bond Resolution and Series Resolution, and the loan documentation relating to the Development, it is our opinion that, under existing law as of 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 the Series Resolution have been duly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and Funds held and to be set aside under the Bond Resolution and Series Resolution; (3) the Series B Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are 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, and federal or state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the Series B Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the Series B Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to the Fund; and (5) the interest payable on the Series B Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided that we

express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any Series B Bond for any period during which such Series B Bond is held by a person who is a “substantial user” of the Development financed by the Series B Bonds or a “related person” thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Series B 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 Series B 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 Series B 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 or state tax consequences arising from ownership or disposition of the Series B Bonds. All owners of Series B Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing the Series B Bonds.

Noncompliance by the Agency or the owner of the Development financed by the Series B Bonds with their covenants in the Bond Resolution and Series Resolution, or applicable loan documentation relating to the Development, may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series B Bonds.

It is to be understood that the rights of the holders of the Series B Bonds and the enforceability thereof, and of the Bond Resolution and Series Resolution, may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Dated: _____, 2010.

Respectfully yours,