REVISED

This packet has been revised to include the following, which were distributed at the meeting:

- Revised agenda
- Revision to Agenda Item 6A
- Replacement of Agenda item 7B

MEETINGS SCHEDULED FOR JULY

Location:

Minnesota Housing
400 Sibley Street, Suite 300
St. Paul, MN 55101

THURSDAY, JULY 25, 2013

Regular Board Meeting
State Street Conference Room - First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, July 25, 2013.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.

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Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

R E V I S E D

A G E N D A

Minnesota Housing Finance Agency Board Meeting

Thursday, July 25, 2013

1:00 p.m.

State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of June 20, 2013.
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   REVISED A. Modification, 2014-2015 Funding Recommendation, Family Homeless Prevention and Assistance Program (FHPAP)
   B. Selection, Community Fix Up Fund
   C. Commitment, Low and Moderate Income Rental (LMIR) and Preservation Affordable Rental Investment Fund (PARIF) Programs
      - St. Alban's Park, St. Paul
   D. Modification, HOME Affordable Rental Preservation (HARP) Program
      - Parkview Villa, Columbia Heights
   E. Amendment to Bond Resolution (Resolution No. MHFA 13-020)
      - Concordia Arms, Maplewood
   F. Amendment to Bond Resolution (Resolution No. MHFA 13-021)
      - The Square on 31st, Rochester
7. **Action Items**
   A. 4% Tax Credit Application Waiver
      - Lyndale Commons
   REPLACED B. Modification, Housing Infrastructure Bond proceeds and Preservation Affordable Rental Investment Fund (PARIF) program
      - Concordia Arms, Maplewood
      - The Square on 31st, Rochester

8. **Discussion Items**
    A. Post-sale Analysis, Homeownership Finance Bonds, 2013 Series C (GNMA and FNMA Pass-Through Program)
9. **Informational Items**
    A. Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2013
10. **Other Business**
11. **Adjournment**

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, June 20, 2013
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:02 p.m.
2. **Roll Call.**
   Members present: Gloria Bostrom, John DeCramer, Joe Johnson, Ken Johnson, Steve Johnson, Stephanie Klinzing, and State Auditor Rebecca Otto.
   Minnesota Housing staff present: Christina Akinola, Tal Anderson, Paula Beck, Laura Bolstad, Jim Cegla, Jessica Deegan, Brian Deppe, Heidi Erickson, Vicki Farden, Mike Haley, Bill Kapphahn, Kurt Keena, Eric King, Marcia Kolb, Diana Lund, Nira Ly, Eric Mattson, Tonja Orr, Terri Parker, John Patterson, Paula Rindels, Joel Salzer, Becky Schack, Erin Schwarzbauer, Ruth Simmons, Barb Sporlein, Emily Strong, Kim Stuart, Will Thompson, Mary Tingerthal, LeAnne Tomera, Elaine Vollbrecht, Summer Watson, Don Wyszynski, Xia Yang.
   Others present: Cory Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Celeste Grant, Office of the State Auditor; Tom O'Hern, Assistant Attorney General.
3. **Agenda Review**
   Chair Johnson announced that there had been a number of corrections to agenda item 7.E., the Neighborhood Stabilization Program following the distribution of the board packets and that a new copy of the draft amendment, with changes tracked, was placed at members seats prior to the meeting.
4. **Approval of the Minutes.**
   A. Regular Meeting of May 23, 2013
   Mr. Joe Johnson moved approval of the minutes as written. Mr. John DeCramer seconded the motion. Motion carries 7-0.
5. **Reports**
   A. Chair
   There was no chairman's report.
   B. Commissioner
   Commissioner Tingerthal reported the following:

   The Agency is very heavily into implementation mode following the legislative session. This week, the request for proposals was released for the single family support system. Over the course of the next six weeks looking forward to getting responses and making decisions about coming into the current age for our systems support for our single family program.

The Consolidated RFP is in action mode, with the deadline for Multifamily applications having passed on Tuesday, June 18 and the Single Family deadline coming up on July 11. It is a busy time of year, but fun as well because of the increased interaction with developers and service providers. The Agency is getting near closings for selections from last year's RFP. An additional board meeting is being scheduled for November 7. This special purpose meeting will deal only with selections from the consolidated RFP. The timing of the regularly scheduled meeting did not allow sufficient time for a thorough review of the applications.

The Agency is getting up close and personal with being in the single family mortgage business. Rates have changed 90 basis points over the last four weeks; staff are happy to have an abundant supply of zeros and our hedging systems. Good staff and line of sight in management of the single family portfolio are critical to ensuring profitability and it is good that those investments in people and systems were made in the last year.

Staff traveled to Roseau recently where they received a good reception from the mayor and from state legislators. The community is excited about the jobs/growth and workforce housing budget initiatives. Other than hitting a deer just north of Thief River Falls at 7:15 a.m., the trip was very positive.

Earlier today the senior staff of the eleven agencies that comprise the Minnesota Interagency Council on Homelessness convened. A firm date of August 9 has been set for the first time the MICH agency commissioners will meet. There will be additional meetings with senior staff to ensure a robust agenda for the first commissioners meeting. The group is off to a robust start and is getting high level attention - Lucinda Jesson, Commissioner of the Department of Human Services, has agreed to co-chair the Commissioners meeting with Commissioner Tingerthal and Tina Smith, the Governor's chief of staff, has agreed to be the liaison for the governor's office.

Last week had Commissioner Tingerthal had an unusual opportunity to appear before the permanent members of the Federal Reserve Board who had pulled together a small group of people who have contact with what's going on "on the ground" relative to neighborhood recovery. The group shared with the board of governors the tough discussions we've had with seeing credit overlays and access to credit for people who live in hard hit areas or have credit scores below 700. They were sobered by what they heard; sharing that it can be hard to stay in touch with what's happening on the ground. It was nice that they were receptive to the viewpoints that were shared. The Agency's affordable housing plan will detail some of the ways in which we will address these gaps in the coming year.

Members received a brochure for the National Council of State Housing Board's annual workshop, which is essentially a training conference for board members of housing finance agencies. Members were asked to check with Mr. DeCramer if they had questions about the content of the training, as he attended the workshop last year. Those interested in attending were asked to inform Becky Schack of their interest.

The following employee introductions were made:

- John Patterson introduced summer research interns Brian Deppe and Eric King. Brian is a student at the Humphrey Institute. Brian has a background in multifamily property maintenance and will research and analyze the cost drivers in multifamily development and what the Agency can do related to cost containment in a targeted fashion. Eric is in the Urban Studies program at the Humphrey Institute and will work with Jessica Deegan to identify the impact of investments in foreclosure mitigation in specific neighborhoods.
- Kim Stuart introduced Single Family Business Development Representatives Christina Akinola and Heidi Erickson. Both Christina and Heidi have experience in business development and in the banking industries.
- Kim Stuart also introduced Laura Bolstad. Laura is the Single Family Mortgage Credit Certificate and down payment assistance program manager. Laura has been previously employed with the City of Cottage Grove and GMHC.

C. Committee

There were no committee reports.

6. Consent Agenda

A. Commitment, Low and Moderate Income Rental Program - - Bottineau Ridge Apartments, Maple Grove

Mr. Joe Johnson moved approval of the consent agenda. Ms. Klinzing seconded the motion. Motion carries 7-0.

7. Action Items

A. Amendment to 2013 Affordable Housing Plan

Mr. John Patterson presented this request, whose primary purpose is to align program funding years with program years. The additional funding needed to make this change will be sourced from recaptured funds that will not be used in existing contracts. This request also included granting staff permission to take money from asset management if the recaptured funds were not sufficient. **MOTION:** Auditor Otto moved approval. Mr. Steve Johnson seconded the motion. Motion carries 7-0.

B. Family Homelessness Prevention and Assistance Program (FHPAP) Funding Approval

Erin Schwarzbauer requested approval of this funding, which provides specialized case management and financial assistance including short term rental assistance, mortgage assistance, housing deposits, and transportation costs to families who are imminent risk of becoming homeless. The program provides a proactive and preventative approach to ending homelessness and will serve approximately 16,000 households during the biennium. Twenty applications totaling $15 million in requests were received. A group of sixteen application reviewers from a variety of state and county agencies were involved in reviewing the applications and is recommending the approval of all applicants. All the applicants are current grantees and one grantee’s proposal included an expansion of coverage to the five Minnesota counties that are not yet served by the program. Approval of the request today will result in the first time in the program’s twenty year history that there will be statewide coverage. Ms. Schwarzbauer stated that 55% of the recommended funding would go to organizations serving the metro area and the remaining 45% of funding would go to organizations serving Greater Minnesota. Funds have also been set aside for systems activities that include data report and evaluation and innovation set asides to incent shelters to use HMIS to improve the ability to measure outcomes. Funding may also allow the state to explore data systems for reporting, which is a requirement under the federal Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) act. Ms. Schwarzbauer stated that the program achieves its goals of closing the front door on homelessness and rapidly rehousing people who have become homeless. **MOTION:** Ms. Bostrom moved approval. Mr. Joe Johnson seconded the motion. Motion carries 6-0 with Mr. DeCramer abstaining.

C. Ending Long Term Homelessness Initiative Fund (ELHIF) and Housing Trust Fund (HTF) Operating Subsidy Renewal Grants

Vicki Farden requested approval of this item, which would provide operating support for 22 supportive housing developments. Ms. Farden stated that the funds would be combined with funds from the Department of Human Services adult mental health division for a total amount of $4.6 million that would provide two years of operating supporting for 34 supportive housing developments. Ms. Farden added that staff had previously proposed the grants as one-year grants but are now requesting two year grants in keeping with the earlier request to amend the 2013 Affordable Housing Plan. Ms. Farden added that, since 2005, the Housing Trust Fund and Ending Long Term Homelessness Initiative Fund grants have been used to bridge operating gaps in supportive housing developments, where rents affordable to tenants do not provide sufficient operating revenue to cover costs. Supportive housing also frequently has added unique costs, like front desk staff, not found in traditional housing. The operating support is needed for the stability of the developments, which in turn provide housing stability for their residents. Ms. Farden added that the majority of the grantees are in renewal and the annual liability is approximately $3 million. The funds will cover front desk costs, tenant services and revenue shortfalls. Applicants are advised that the funds are temporary and they need to pursue other resources to replace these funds. There are few resources available for these expenses but developments do pursue other resources, including Medicaid service resources, philanthropic resources and private fundraising. This year's request includes a $170,000 per year reduction as a result of applicants securing additional resources. Included in the request are seven applicants that serve youth; these applicants are required to also apply for the homeless youth initiative funding in order to receive funding from Minnesota Housing. This funding supports more than 300 supportive housing units; half of which house those who have experienced long-term homelessness. In response to a question from Mr. DeCramer, Ms. Farden stated that supportive housing developments often have a front desk that serves as a security measure and monitors who is coming and going, as well as serve as a resource for residents. Many developments have 24-hour front desks and others have desks that are staffed only in the evening. In response to a question from Auditor Otto, Becky Schack stated that resolution numbers are added to the resolutions following their adoption by the board. **MOTION:** Auditor Otto moved approval. Mr. DeCramer seconded the motion. Motion carries 7-0.

D. Approval, Changes, Deferred Payment Loan, Start-Up Program

Ms. Emily Strong presented this request to adjust the maximum amount of the deferred payment loan to a total of $4,500. Ms. Strong shared that, since the program launch in December 2012, the markets it has served have not been the typically group of homebuyers and that there was possibly an over correction when setting program income limits. Based on surveys and focus groups with partners, staff are recommending an increase of 5% for a maximum loan amount of $4,500. In response to a question from Mr. Steve Johnson, Ms. Strong stated that the borrower characteristics of those who have used the resources tend to be higher income and not heads of households or emerging markets and that there has been low activity compared to monthly payment loan.

MOTION: Ms. Klinzing moved approval of the resolution. Mr. Steve Johnson seconded the motion. Motion carries 7-0.

E. Approval, Funding Distribution and Expiration, Neighborhood Stabilization Program (NSP)

Nira Ly presented this request to extend the program and amended action plan and the administrative recommendations. Ms. Ly shared that Minnesota Housing received $38.8 million from HUD in 2008 to administer the NSP 1 program, whose focus is to provide funding for the acquisition and rehabilitation of foreclosed properties in order to stabilize neighborhoods. The requested extension is necessary because Minnesota Housing's contracts with its subrecipients closed in March of 2013 and the Agency is required by HUD to expend all funds received in order to close out the program. To meet this requirement, staff are requesting that the board:

1) Allow reallocation among subrecipients to ensure success of all subrecipients. Some organizations need additional dollars and some are close to completion and are able and willing to share their remaining funds with other subrecipients; and,
2) Approve the areas of greater need (Hennepin County, Minneapolis and Saint Paul) where subrecipients work in the areas that have been most impacted by the foreclosure crisis. Future NSP investments would be prioritized in these areas.

In response to a question from Ms. Bostrom, Ms. Ly stated that the program has been achieving its goals, having completed 292 units in impacted areas. Staff projects that 491 units will be completed in total through the program. Although HUD has not provided an indication if there will be additional funding made available for the NSP program, staff anticipates that some subrecipients, Minneapolis and Saint Paul in particular, will continue to acquire and rehabilitate properties following the conclusion of the program. **MOTION:** Ms. Bostrom moved approval. Auditor Otto seconded the motion. Motion carries 7-0.

8. Discussion Items

A. Fiscal 2014 Administrative Budget

Barb Sporlein presented the administrative budget, which follows the state fiscal year of July 1, 2013 – June 30, 2014. Ms. Sporlein shared that the administrative budget is funded with earnings from investments and fees from service activities and does not include program expenditures, which comes in the form of the affordable housing plan, which the board will see in draft form at its August meeting and be presented for final approval at the September meeting.

The administrative budget contains a 4.63% increase over the fiscal 2013 budget. The Agency typically spends less than the approved budget and the increase this year is largely due to the timing of technology investments. The primary increase drivers are salary increases due to approved bargaining contracts, the hiring in positions that had been vacant, hiring positions for new activities, an increase in separation expenses for retirees, and large technology/business system replacement activities. The Agency also continues to invest in staff development and training. These activities all directly strengthen our organizational capacity, which is a priority in the strategic plan. The Agency is proud of the fact that the estimated administrative expense has remained basically level over the past few years. Staff have spent a lot of time over the past 18 months to really understand, put together and manage the budget. Ms. Sporlein thanked Terese Fritchman, Don McCabe and Terry Schwartz for the day-to-day heavy lifting they do on the administrative budget. At the request of Chair Johnson, Ms. Sporlein stated that she would provide the board with the figures for net FTE changes over the past few years. Discussion item, no action needed.

9. Informational Items

A. Report of Complaints Received by Agency or Chief Risk Officer

Information item, no action needed.

10. Other Business

Mr. DeCramer stated that, in previous meetings, the board has talked about first time homebuyer credits [the Mortgage Credit Certificate program] and shared that he had recently seen television advertisements about the South Dakota program. Commissioner Tingerthal stated that, with changes to the down payment assistance program, one of the biggest concerns (and it is being tracked in the dashboard) is the percent of mortgages that go to emerging markets households, primarily to households of color. Staff have been concerned that if the changes approved today had not been approved we would not meet the targets for reaching households of color. Staff are watching what is happening with mortgage credit policy at the national level, and it seems that the deck is stacked against good hardworking, employed households who can afford a house but are unable to obtain financing because of high credit score requirements. It is a difficult discussion because no one wants to have another bubble because of more lax underwriting, but the pendulum has now swung so far in the opposite direction, partly because the big mortgage lenders are very fearful about arbitrary requirements for repurchases on government insured mortgages, that they have become ultra conservative regarding credit score guidelines. It will likely be a while before that pendulum swings back. In response, Mike Haley and the Single Family team are analyzing how to most effectively market to households of color. The marketing group in the Single Family area has been repopulated and this will be a focus for them and they are concerned that we will fall short of that market if we don’t make some changes.

Ms. Bostrom inquired how reaching the targeted groups is impacted by the fact that some lenders portfolio their products rather than sell them on the secondary market. Mike Haley responded that lenders are imposing credit overlays that were never before part of the equation, irrespective of product. From a regulatory standpoint the market is being redefined in a way that is causing some lenders to take a second look at those portfolios because of reporting requirements for “high cost mortgage loans” and there is a reputational risk that goes along with that. It is a very, very different world that we’re living in right now from the way the way risk is assessed and the way lenders products are assessed. In response to a question from Ms. Bostrom regarding the effect of the Community Reinvestment Act (CRA) on the lending landscape. Mr. Haley responded that there is not a definitive answer but his opinion is, to a certain degree, that if you are a lender subject to CRA, performance in that area is being overshadowed by increased regulations and reporting. As a final comment, Commissioner Tingerthal stated that, although staff will not be prepared with recommendations at this time, there is a piece of regulation out right now regarding qualified mortgages or QM; which is how lenders calculate the ability of purchasers to pay. The Consumer Finance Protection Bureau (CFPB) has exempted housing finance agencies from meeting the QM standards. This is not a “blank check” for HFAs and it remains to be determined what makes a product an HFA mortgage, if the threshold will be that an HFA holds the loan or if it is sufficient for an HFA to have funded a loan. The CFPB’s decision to exempt HFAs could open a niche for HFAs to work with lending partners to fill needs during what is a time of uncertainty. Staff will in the future report to the board with ideas on what this exemption may mean for the Agency’s strategy.

11. Adjournment.

The meeting was adjourned at 1:54 p.m.

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

THIS ITEM WAS REVISED AT THE MEETING
PLEASE SEE FOLLOWING PAGES.

ITEM: 2014-2015 Funding Recommendation, Family Homelessness Prevention and Assistance Program (FHPAP)

CONTACT: Erin Schwarzbauer, 651-284-3176
Erin.Schwarzbauer@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION: ☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests the adoption of the attached modification to the Family Homelessness Prevention and Assistance Program (FHPAP) SFY 2014-2015 funding recommendation. Reallocation of funds from the Shelter HMIS Bed Coverage and Data Reporting & Evaluation line items to Catholic Charities of the Diocese of St. Cloud will not impact the previously approved funding amount.

FISCAL IMPACT:
The FHPAP funds are State appropriations and therefore do not adversely impact the Agency's financial position. The FHPAP biennial appropriations are $15,724,000 and an additional $35,000 in carry forward funds are included in the modification recommendation.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Funding Chart
- Resolution

Agenda Item: 6.A.
Attachment: Background

Background

Funding recommendations for the Family Homelessness Prevention and Assistance Program (FHPAP) SFY 14-15 brought to the Minnesota Housing Board of Directors on June 20, 2013 included 20 grantees whose proposed awards are based on their SFY 12-13 funding level and adjusted according to performance and need. Catholic Charities of the Diocese of St. Cloud (Catholic Charities) assumed the FHPAP grant from Central Minnesota from Tri-County Community Action Program in February 2011, 8 months into the SFY 12-13 contract, and entered into a grant agreement with Minnesota Housing for the remaining balance of the original award.

THIS ITEM WAS REVISED AT THE MEETING
PLEASE SEE FOLLOWING PAGES.

Catholic Charities' SFY 14-15 application warranted flat funding. However, the SFY 14-15 funding recommendation was inadvertently based on the partial SFY 12-13 grant amount. Consequently, the amount recommended and approved at last month's Board meeting was inaccurate. The recommendation for FHPAP SFY 14-15 for Central Minnesota should be $310,500 instead of $219,950.

Partial funds originally intended for the Shelter HMIS Bed Coverage and the Data Reporting and Evaluation line items and a carry forward amount from unexpended SYF 12-13 HMIS funding can be reallocated to accommodate this shortfall. Reduction of these two line items will not significantly impede the ability to complete the associated tasks.

To reduce the risk of this type of oversight from occurring in the future, procedures are under development for RFP funding recommendations to ensure that base funding is calculated based on original grant agreements and confirmed with the board resolution.

THIS ITEM WAS REVISED AT THE MEETING

PLEASE SEE FOLLOWING PAGES.

Agenda Item: 6.A.
Attachment: Background

CHART 1:
2014 - 2015 Biennium Funding Recommendations for the Family Homelessness Prevention and Assistance Program

Grantee	Counties Covered	2014-2015 Funding	2014-2015 Revised Funding Recommended
Anoka County	Anoka	$330,000	$330,000
Carver/Scott	Carver, Scott	$332,750	$332,750
Dakota County	Dakota	$282,100	$282,100
Hennepin County	Hennepin	$4,004,500	$4,004,500
Ramsey County	Ramsey	$3,215,050	$3,215,050
Washington County	Washington	$311,300	$311,300
Subtotal of Metro		**$8,475,700**	**$8,475,700**
% of Total		**55%**	**55%**
Bi-County CAP	Beltrami , Cass	$380,000	$380,000
Blue Earth/Region 9	Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca and Watonwan	$550,000	$550,000
Heartland CAA	Kandiohi, McLeod, Meeker, & Renville	$500,000	$500,000
Kootasca C. A.	Cook, Itasca , Koochiching, Lake	$441,900	$441,900
Lakes & Pines C.A.C.	Aitkin,Carlton,Chisago,Isanti, Kanabec, MilleLacs, Pine	$674,100	$674,100
Lakes & Prairies CAP	Clay, Wilkin	$528,000	$528,000
Lutheran Social Services	Todd, Crow Wing, Morrison	$825,000	$825,000
Mahube-Otwa Community Council	Becker, Mahnomen, Hubbard, Otter Tail, & Wadena	$624,000	$624,000
SE MN Housing Network	Dodge,Freeborn,Fillmore, Goodhue,Houston,Mower,Olmsted, Rice,Steele, Wabasha,& Winona	$714,000	$714,000
St. Louis County	St. Louis	$627,750	$627,750
Catholic Charities/Central MN	Benton, Sherburne, Stearns, & Wright	$219,950	$310,500
Tri-Valley Opportunity Council	Polk, Marshall, Norman, Pennington, Red Lake, Clearwater, Kittson, Roseau, Lake of the Woods	$370,000	$370,000
West Central Communities Action	Grant, Pope, Stevens, Traverse and Douglas Counties	$167,400	$167,400
Western Communities Action	Lincoln, Lyon, Jackson, Cottonwood, Redwood, Pipestone, Murray, Rock, & Nobles	$323,400	$323,400
Subtotal of Greater MN		**$6,945,500**	**$7,036,050**
% of Total		**45%**	**45%**
TOTAL METRO & GREATER MN		**$15,421,200**	**$15,511,750**
ADDITIONAL			
Shelter HMIS Bed Coverage	Metro 7 Counties, extending to Greater MN	$152,800	$127,250
Data Reporting and Evaluation including Wilder Research, HMIS	Statewide	$150,000	$120,000
TOTAL ADDITIONAL		**$302,800**	**$247,250**
TOTAL FUNDING		**$15,724,000**	**$15,759,000**

Agenda Item: 6.A.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY

THIS ITEM WAS REVISED AT THE MEETING

400 Sibley Street, Suite 300
St. Paul, MN 55101

PLEASE SEE FOLLOWING PAGES.

RESOLUTION NO. MHFA 13-

RESOLUTION AMENDING RESOLUTION NO. MHFA 13-041 APPROVING SELECTION/COMMITMENT FAMILY HOMELESSNESS PREVENTION AND ASSISTANCE PROGRAM (FHPAP)

WHEREAS, the Minnesota Housing Finance Agency (Agency) at its June 20, 2013 meeting adopted Resolution No. MHFA 13-041 to execute contracts with grantees under the Family Homelessness Prevention and Assistance Program (FHPAP).

WHEREAS, the Agency staff has modified the amount awarded to Catholic Charities of the Diocese of Saint Cloud through adjustments to the Shelter HMIS Bed Coverage and the Data Reporting and Evaluation line items and a carry forward amount.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby approves changes to the funding awards authorized under Resolution No. MHFA 13-041 at its June 20, 2013 meeting and amend award amounts as follows:

FHPAP Grantee	**Award**
Anoka County	$330,000
Bi-County CAP	$380,000
Blue Earth/Region 9	$550,000
Carver/Scott	$332,750
Catholic Charities/Central MN	~~$219,590~~ $310,500
Dakota County	$282,100
Heartland CAA	$500,000
Hennepin County	$4,004,500
Kootasca C. A.	$441,900
Lakes & Pines C.A.C.	$674,100
Lakes & Prairies CAP	$528,000
Lutheran Social Services	$825,000
Mahube-Otwa Community Council	$624,000
Ramsey County	$3,215,050
SE MN Housing Network	$714,000
St. Louis County	$627,750
Tri-Valley Opportunity Council	$370,000
Washington County	$311,300
West Central Communities Action	$167,400
Western Communities Action	$323,400
Shelter HMIS Bed Coverage	~~$152,800~~ $127,250
Data Reporting and Evaluation including Wilder Research, HMIS	~~$150,000~~ $120,000

2. All other parameters of Resolution No. MHFA 13-041 remain in effect.

Adopted this 25th day of July, 2013.

____
CHAIRMAN

Minnesota Housing Finance Agency

REVISED AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: 2014-2015 Funding Recommendation, Family Homelessness Prevention and Assistance Program (FHPAP)

CONTACT: Erin Schwarzbauer, 651-284-3176
Erin.Schwarzbauer@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION: ☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests the adoption of the attached modification to the Family Homelessness Prevention and Assistance Program (FHPAP) SFY 2014-2015 funding recommendation. Reallocation of funds from the Shelter HMIS Bed Coverage and Data Reporting & Evaluation line items to Catholic Charities of the Diocese of St. Cloud and for tenant advocacy and support services with connection to new rental assistance initiatives will not impact the previously approved funding amount.

FISCAL IMPACT:
The FHPAP funds are State appropriations and therefore do not adversely impact the Agency's financial position. The FHPAP biennial appropriations are $15,724,000 and an additional $35,000 in carry forward funds are included in the modification recommendation.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Funding Chart
- Resolution

Agenda Item: 6.A.
Attachment: Background

Background

Funding recommendations for the Family Homelessness Prevention and Assistance Program (FHPAP) SFY 14-15 brought to the Minnesota Housing Board of Directors on June 20, 2013 included 20 grantees whose proposed awards are based on their SFY 12-13 funding level and adjusted according to performance and need. Catholic Charities of the Diocese of St. Cloud (Catholic Charities) assumed the FHPAP grant from Central Minnesota from Tri-County Community Action Program in February 2011, 8 months into the SFY 12-13 contract, and entered into a grant agreement with Minnesota Housing for the remaining balance of the original award.

Catholic Charities' SFY 14-15 application warranted flat funding. However, the SFY 14-15 funding recommendation was inadvertently based on the partial SFY 12-13 grant amount. Consequently, the amount recommended and approved at last month's Board meeting was inaccurate. The recommendation for FHPAP SFY 14-15 for Central Minnesota should be $310,500 instead of $219,950.

Partial funds originally intended for the Shelter HMIS Bed Coverage and the Data Reporting and Evaluation line items and a carry forward amount from unexpended SYF 12-13 HMIS funding can be reallocated to accommodate this shortfall. Reduction of these two line items will not significantly impede the ability to complete the associated tasks.

To reduce the risk of this type of oversight from occurring in the future, procedures are under development for RFP funding recommendations to ensure that base funding is calculated based on original grant agreements and confirmed with the board resolution.

In the 2013 legislative session, Governor Dayton proposed and the State Legislature appropriated funding for rental assistance initiatives to provide housing stability to highly-mobile students and for ex-offenders re-entering the community. Experience has shown that tenant advocacy and support services are a key support services for ensuring the effectiveness of rental assistance in achieving housing stability. These services include: tenant education, assistance in identifying landlords willing to accept tenants with imperfect tenant histories, and assistance in resolving issues between landlords and tenants. These types of services are frequently funded through the Family Homeless Prevention and Assistance Program. Staff is recommending that $30,000 of the total amount available for the program for SFY14-15 be made available for these services in conjunction with the new rental assistance initiatives.

Agenda Item: 6.A.
Attachment: Background

CHART 1:
2014 - 2015 Biennium Funding Recommendations for the Family Homelessness Prevention and Assistance Program

Grantee	Counties Covered	2014-2015 Funding	2014-2015 Revised Funding Recommended
Anoka County	Anoka	$330,000	$330,000
Carver/Scott	Carver, Scott	$332,750	$332,750
Dakota County	Dakota	$282,100	$282,100
Hennepin County	Hennepin	$4,004,500	$4,004,500
Ramsey County	Ramsey	$3,215,050	$3,215,050
Washington County	Washington	$311,300	$311,300
Subtotal of Metro		**$8,475,700**	**$8,475,700**
% of Total		**55%**	**55%**
Bi-County CAP	Beltrami , Cass	$380,000	$380,000
Blue Earth/Region 9	Blue Earth, Brown, Faribault, Le Sueur, Martin, Nicollet, Sibley, Waseca and Watonwan	$550,000	$550,000
Heartland CAA	Kandiyohi, McLeod, Meeker, & Renville	$500,000	$500,000
Kootasca C. A.	Cook, Itasca , Koochiching, Lake	$441,900	$441,900
Lakes & Pines C.A.C.	Aitkin, Carlton, Chisago, Isanti, Kanabec, Mille Lacs, Pine	$674,100	$674,100
Lakes & Prairies CAP	Clay, Wilkin	$528,000	$528,000
Lutheran Social Services	Todd, Crow Wing, Morrison	$825,000	$825,000
Mahube-Otwa Community Council	Becker, Mahnomen, Hubbard, Otter Tail, & Wadena	$624,000	$624,000
SE MN Housing Network	Dodge, Freeborn, Fillmore, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha,& Winona	$714,000	$714,000
St. Louis County	St. Louis	$627,750	$627,750
Catholic Charities/Central MN	Benton, Sherburne, Stearns, & Wright	$219,950	$310,500
Tri-Valley Opportunity Council	Polk, Marshall, Norman, Pennington, Red Lake, Clearwater, Kittson, Roseau, Lake of the Woods	$370,000	$370,000
West Central Communities Action	Grant, Pope, Stevens, Traverse and Douglas Counties	$167,400	$167,400
Western Communities Action	Lincoln, Lyon, Jackson, Cottonwood, Redwood, Pipestone, Murray, Rock, & Nobles	$323,400	$323,400
Subtotal of Greater MN		**$6,945,500**	**$7,036,050**
% of Total		**45%**	**45%**
TOTAL METRO & GREATER MN		**$15,421,200**	**$15,511,750**
ADDITIONAL			
Shelter HMIS Bed Coverage	Metro 7 Counties, extending to Greater MN	$152,800	~~$127,250~~ $97,250
Data Reporting and Evaluation including Wilder Research, HMIS	Statewide	$150,000	$120,000
Tenant Advocacy & Supports for Rental Assistance Initiatives (Highly Mobile Students & Re-Entry)	Statewide	-0-	$30,000
TOTAL ADDITIONAL		**$302,800**	**$247,250**
TOTAL FUNDING		**$15,724,000**	**$15,759,000**

Agenda Item: 6.A.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, MN 55101

REVISED RESOLUTION NO. MHFA 13-

RESOLUTION AMENDING RESOLUTION NO. MHFA 13-041 APPROVING SELECTION/COMMITMENT FAMILY HOMELESSNESS PREVENTION AND ASSISTANCE PROGRAM (FHPAP)

WHEREAS, the Minnesota Housing Finance Agency (Agency) at its June 20, 2013 meeting adopted Resolution No. MHFA 13-041 to execute contracts with grantees under the Family Homelessness Prevention and Assistance Program (FHPAP).

WHEREAS, the Agency staff has modified the amount awarded to Catholic Charities of the Diocese of Saint Cloud through adjustments to the Shelter HMIS Bed Coverage and the Data Reporting and Evaluation line items and a carry forward amount.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby approves changes to the funding awards authorized under Resolution No. MHFA 13-041 at its June 20, 2013 meeting and amends award amounts as follows:

FHPAP Grantee	**Award**
Anoka County	$330,000
Bi-County CAP	$380,000
Blue Earth/Region 9	$550,000
Carver/Scott	$332,750
Catholic Charities/Central MN	~~$219,590~~ $310,500
Dakota County	$282,100
Heartland CAA	$500,000
Hennepin County	$4,004,500
Kootasca C. A.	$441,900
Lakes & Pines C.A.C.	$674,100
Lakes & Prairies CAP	$528,000
Lutheran Social Services	$825,000
Mahube-Otwa Community Council	$624,000
Ramsey County	$3,215,050
SE MN Housing Network	$714,000
St. Louis County	$627,750
Tri-Valley Opportunity Council	$370,000
Washington County	$311,300
West Central Communities Action	$167,400
Western Communities Action	$323,400
Shelter HMIS Bed Coverage	~~$152,800~~ ~~$127,250~~ $97,250
Data Reporting and Evaluation including Wilder Research, HMIS	~~$150,000~~ $120,000
Tenant Advocacy & Supports for Rental Assistance Initiatives (Highly Mobile Students & Re-Entry)	$30,000

All other parameters of Resolution No. MHFA 13-041 remain in effect.

Adopted this 25th day of July, 2013.

____
CHAIRMAN

AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Selection, Community Fix Up Fund

CONTACT: Calvin Greening, 651-296-8843 Robert Russell, 651-296-9804
cal.greening@state.us.mn robert.russell@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests approval for the Community Fix Up Loan Initiatives recommended in the attached Initiatives Detail. The Community Fix Up Loan program accepts initiative proposals from participating Fix Up lenders and their community partners on an ongoing basis. The activities must address home improvement needs resulting in a community impact. New Initiatives are approved for a two-year funding access period. Initiatives are eligible for renewal when ongoing activity is identified by the lender and their partners.

FISCAL IMPACT:
Community Fix Up Fund uses Pool 2 funds budgeted in the current Affordable Housing Plan. Action requested is consistent with the program terms described in the plan.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Initiative Detail

BACKGROUND

The following recommendations for Community Fix Up meet the guidelines for participation contained within the Program Concept.

Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal for funds access under Community Fix Up. The threshold indicators include:

- confirmation that the initiative fits within the Program Concept;
- the strength of partnership;
- leverage and/or value-added features;
- a focused marketing plan; and
- budget counseling, if required.

INITIATIVE DETAIL

RHAG Region	Application Partners	Estimated Demand	General Program Description
Twin Cities Metro	Greater Metropolitan Housing Corporation (GMHC) City of Brooklyn Center City of Crystal City of Richfield	120 loans, $1,800,000	__ New _X_ Renewal GMHC in partnership with the cities of Brooklyn Center, Crystal and Richfield requests continuation of their initiative to offer a discounted loan to homeowners in all three communities. The loan is discounted to an interest rate of 3%. The intent of the initiative is to incent existing homeowners to reinvest in their homes and to encourage the purchase of foreclosed properties by offering an affordable rehabilitation loan product. The City of Brooklyn Center committed $62,000, the city of Crystal committed $25,000 and the City of Richfield committed $37,000 in loan funds to discount the interest rate on the loans. This initiative will also leverage Minnesota Housing's Community Homeownership Impact Fund (formerly CRV) funds, CDBG as well as other local subsidy programs. The current CFUF loan limits will apply.

RHAG Region	Application Partners	Estimated Demand	General Program Description
Twin Cities Metro	Center for Energy and Environment (CEE)	125 loans, $1,200,000	X New __ Renewal CEE is proposing to offer a discount initiative. This opportunity will be available to homeowners who visit and register with CEE at the ECO-Experience exhibit during the 2013 Minnesota State Fair. The loan will be discounted to an interest rate of 0%. The intent of the initiative is to incent homeowners to invest in upgrading the energy efficiency of their homes. Leverage is from recycled Community Homeownership Impact Fund (formerly CRV) recaptured under contract by CEE, and is eligible use consistent with their contract. The ECO-Experience focuses on energy efficiency and is visited by over 300,000 fair-goers each year. This opportunity is in conjunction with Minnesota Housing's ongoing partnership with the Energy Division at the Minnesota Dept. of Commerce.

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: St. Alban's Park, St. Paul (D3019)

CONTACT: Susan Thompson, 651-296-9838
susan.thompson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION: ☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of commitments under the Low and Moderate Income Rental (LMIR) program in the amount of $1,870,000, and a deferred funding commitment in the amount of $ $1,016,408 under the Preservation Affordable Rental Investment Fund (PARIF) program, both subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
The 2013 Affordable Housing Plan (AHP) includes $32 million in previously approved Housing Investment Fund (Pool 2) LMIR activity that is being carried forward from the 2012 AHP. Funding for this loan falls within the approved budgets and the loan will be made at an interest rate and on terms consistent with what is described in the AHP. This new LMIR loan will generate $92,400 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs. The new PARIF loan will be funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Development Summary
- Resolution

The Minnesota Housing Finance Agency (Agency) Board, at its November 17, 2011 meeting, approved this development for processing under the Low and Moderate Income Rental (LMIR) and the Preservation Affordable Rental Investment Fund (PARIF) Programs. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION		COMMITMENT		VARIANCE	
Total Development Cost	$14,990,515		$14,796,980		$-193,535	
Total Construction Cost (including contingency)	$ 6,143,000		$7,136,838		$993,838	
Agency Sources:						
LMIR	$1,870,000		$1,870,000		$0	
PARIF	$1,016,408		$1,016,408		$0	
Total Agency Sources	**$2,886,408**		**$2,886,408**		**$0**	
Other Non-Agency Sources:						
Syndication Proceeds (NEF)	$8,432,080		$9,057,765		$625,685	
General Partner Cash	$310,000		$310,000		$0	
FHF assumed deferred debt	$326,024		$338,224		$12,200	
St. Paul assumed deferred debt	$1,104,583		$1,179,583		$75,000	
Met Council LHIA	$400,000		$400,000		$0	
St. Paul CDBG	$0		$250,000		**$250,000**	
FHF	$0		$50,000		**$50,000**	
MPCA Environmental Reimbursement	$0		$150,000		**$150,000**	
Sales Tax Rebate	$0		$125,000		**$125,000**	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1BR Apt	28	$ 679	28	$ 733	0	$54
2BR Apt	9	$ 888	9	$ 909	0	$21
2BR Apt	4	$ 888	4	$ 909	0	$21
2BR TH	3	$ 932	3	$ 974	0	$42
3BR TH	3	$ 1,114	3	$ 1,137	0	$23
4BR TH	3	$ 1,290	3	$ 1,343	0	$53
2BR – Apt HAP	15	$ 888	15	$ 913	0	$25
2BR TH HAP	3	$932	3	$936	0	$4
3BR-TH HAP	3	$ 1,114	3	$ 1,085	0	($29)
4BR – TH HAP	3	$ 1,290	3	$ 1,281	0	($9)
Total Number of Units	74		74		0	

Factors Contributing to Variances:
Acquisition costs as originally proposed (net of assumed deferred loans) were nearly $1.5MM in excess of the appraised value. A portion of the first and second mortgages were subsequently negotiated to be written down by this amount and the project budget adjusted accordingly.

Due to the extensive nature of the rehabilitation and numerous structural and environmental conditions discovered since selection, the total construction costs have increased by $1 million (16%). A portion of this cost will be recovered via the sales tax rebate and the MPCA Environmental Reimbursement. The majority of the increase will be funded by $300,000 of deferred funds obtained since selection from the City of St. Paul and Family Housing Fund and increased syndication proceeds. Syndicator has increased pricing per tax credit from $0.85 estimated at selection to $0.915 now.

Other significant events since Board Selection:
Underwritten rents have been modified based on additional and more current market rent information. Additional minor modifications are due to updated utility allowance for the Housing Assistance Payment (HAP) units. Rents are underwritten higher than current rents, which were previously suppressed by the previous ownership (via a co-op board). A Rent Transition Reserve has been capitalized to allow for a four-year transition to the underwritten rents.

Board Agenda Item: 6.C.
Attachment: Development Summary

DEVELOPMENT SUMMARY

DEVELOPMENT:

				D3019	
Name:	St. Albans Park			App#:	M16142
Address:	Multiple Buildings				
City:	Saint Paul	County:	Ramsey	Region:	MHIG

MORTGAGOR:

Ownership Entity: St. Alban's Park II, LLLP
General Partner/Principals: TCHDC St. Albans Park LLC, whose managing member shall be Twin Cities Housing Development Corporation

DEVELOPMENT TEAM:

General Contractor:	Watson Forsberg, Minneapolis
Architect:	Cermak Rhoades Architects, Saint Paul
Attorney:	Winthrop & Weinstine, PA, Minneapolis
Management Company:	Real Estate Equities Management, LLC, St. Paul
Service Provider:	Wilder Family Housing Supportive Services, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 1,870,000 LMIR First Mortgage

Funding Source:	Hsg Investment Fund (Pool 2)
Interest Rate:	4.75%
MIP Rate:	0.25%
Term (Years):	30
Amortization (Years):	30

$ 1,016,408 PARIF

Funding Source:	Preservation ARIF
Interest Rate:	0.00%
Term (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
1BR	28	708	$ 733	$772	$29,320
2BR-Apt	9	850	$ 909	$926	$ 36,360
2BR-Apt	4	850	$ 909	$1,111	$ 36,360
2BR-TH	3	850	$ 974	$1,111	$ 38,960
3BR-TH	3	1,506	$ 1,137	$ 1,284	$ 45,480
4BR-TH	3	1,750	$ 1,343	$ 1,432	$ 53,720
2BR-APT HAP	15	850	$ 913	$1,111	$ 36,520
2BR-TH HAP	3	850	$ 936	$1,111	$ 37,440

3BR-TH HAP	3	1,506	$ 1,085	$ 1,284	$ 43,400
4BR – TH HAP	3	1,750	$ 1,281	$ 1,432	$ 51,240
TOTAL	74				

NOTES: * Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 50% and 60% AMI with incomes up to 60% AMI. Twenty-four of the units in the development receive the benefit of a project based Section 8 HAP contract ensuring residents 30% of household income towards housing. Four HAP units will be deemed to serve families experiencing long-term homelessness.

Purpose:
Twin Cities Housing Development Corporation (TCHDC) will acquire and significantly rehab this 74 unit development. The development, currently known as Selby-Dale Co-op, was originally developed as a limited equity co-operative, although only 15 units were acquired under the co-op structure. As part of the acquisition and financing proposal, TCHDC will preserve the existing 24 units of Project Based Rental Assistance.

Target Population:
With a mix of 1-, 2-, 3- and 4-bedroom apartments and townhomes, this development serves a very diverse mix of tenants. The property will serve singles and families with incomes of 60% AMI and lower. Twenty-four of the units have Section 8 rental assistance assuring that the tenants do not pay more than 30% of their incomes towards rent. TCHDC has agreed to set-aside four of the HAP units for families that are experiencing long-term homelessness.

Project Feasibility:
Agency amortizing LMIR loan of $1,870,000 and deferred PARIF loan of $1,016,408 are recommended. Agency loans will be leveraged by new deferred loans of $400,000 from Met Council LHIA, $250,000 of St. Paul CDBG funds and $50,000 from Family Housing Fund in addition to the assumption of existing deferred loans of nearly $1.2 million from City of St. Paul and $338,224 from Family Housing Fund. Equity of $9 million will be created through the syndication of St. Paul competitive tax credits at $0.9149/$1.00 credit from National Equity Fund. Additional sources include General Partnership contribution of $310,000, insurance proceeds of $50,000, MPCA environmental reimbursement estimated at $150,000 and sales tax rebates estimated at $125,000.

Development Team Capacity:
Twin Cities Housing Development Corporation (TCHDC) was established in 1984 and has significant experience developing and owning this type of housing development. Real Estate Equities was established in 1979 and currently has 55 developments, with over 5,000 units including 8 developments under a co-op structure.

Physical and Technical Review:
This is a substantial rehabilitation of an existing development consisting of four walk-up townhome buildings and two walk-up three story apartment buildings. An extensive scope of work includes new interior finishes, casework, mechanical and electrical systems and environmental remediation (mold, asbestos, etc.). Exterior rehab includes new siding, new roof, new windows, structural remediation, foundation repair, building envelope repairs, exterior stair and railing replacement/ repair and environmental remediation (contaminated soil).

The TDC per unit of $199,959 is within acceptable parameters of the Predictive Cost Model of $201,912.

Market Feasibility:
Existing property is located in the Selby-Dale area of St. Paul. This area was determined to have a high need for affordable rental housing as well as a high need for maintaining an aging housing stock in the Community Profile. This is also an area that has demonstrated high workforce growth with a 17.3% gain in jobs along-side a 2.97% growth in households from 2000-2009. The median household income was $39,665 with median rent of $577 and 72% of the renters are cost burdened.

Supportive Housing:
Wilder Family Services provides family and housing support, financial and benefits assistance, parent training, and chemical health services on site, with over 15 years of experience providing culturally appropriate services in Ramsey County. Referrals come from Wilder programs.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$14,796,980		$199,959
Acquisition or Refinance Cost	$3,367,807		$45,511
Gross Construction Cost	$6,473,058		$87,474
Soft Costs (excluding Reserves)	$4,051,882		$54,755
Non-Mortgageable Costs (excluding Reserves)	$0		$0
Reserves	$904,233		$12,219
Total LMIR Mortgage (Including 4% DCE)	$1,870,000		$25,270
First Mortgage Loan-to-Cost Ratio		13%	
Agency Deferred Loan Sources			
PARIF	$1,016,408		$13,735
Total Agency Sources	$2,886,408		$39,006
Total Loan-to-Cost Ratio		20%	
Other Non-Agency Sources			
Syndication Proceeds (NEF)	$9,057,765		$122,402
General Partner Cash	$310,000		$4,189
FHF assumed deferred debt	$338,224		$4,571
St. Paul assumed deferred debt	$1,179,583		$15,940
Met Council LHIA	$400,000		$5,405
St. Paul CDBG	$250,000		$3,378
FHF	$50,000		$676
MPCA Environmental Reimb	$150,000		$2,027
Sales Tax Rebate	$125,000		$1,689
Insurance Proceeds	$50,000		$676
Total Non-Agency Sources	$11,910,572		$160,954

Board Agenda Item: 6.C.
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 13-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT LOW AND MODERATE INCOME RENTAL (LMIR), PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAMS

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide construction and permanent financing for a multiple unit housing development that is occupied by persons and families of low and moderate income, as follows:

Name of Development:	St. Alban's Park
Sponsors:	Twin Cities Housing Development Corporation
Guarantors:	Twin Cities Housing Development Corporation
Location of Development:	St. Paul
Number of Units:	74
General Contractor:	Watson Forsberg, Minneapolis
Architect:	Cermak Rhoades Architects, Saint Paul
Amount of Development Cost:	$14,796,980
Amount of LMIR Mortgage:	$1,870,000
Amount of PARIF Loan:	$1,016,408

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such construction and permanent mortgage loans are not otherwise available, wholly or in part, from private lenders upon equivalent terms and conditions; and that the construction of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, Agency staff has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent mortgage loan to said applicant from the Housing Investment Fund (Pool 2 under the LMIR program) and approves deferred funding from appropriated funds (under the PARIF program) for the indicated development, subject to the following and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $1,870,000; and

2. The End Loan Commitment shall be entered into on or before January 31, 2014, and shall have an 18-month term (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 4.75 percent per annum plus .25 percent per annum HUD Risk Share Mortgage Insurance Premium, if applicable, with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. The amount of the PARIF deferred loan shall be $1,016,408; and

6. The Initial Closing of the PARIF loan shall be on or before January 31, 2014 (which shall also be the PARIF Commitment Expiration Date); and

7. Repayment of the PARIF loan may be made either in the form of a cash-flow note with an interest rate not higher than 5% or a deferred loan at 0 percent, based on terms relating to the actual cash flow of the project, and the PARIF loan will have the same maturity date as the LMIR loan; and

8. Agency staff shall review and approve the Ownership Entity and the Mortgagor; and

9. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

10. In accordance with subd. 39 of Minn. Stat. § 462A.05, and the rider to the appropriation providing funds to the program, the Mortgagor will enter into a covenant running with the land requiring owner to renew the Section 8 HAP contract for the term of the PARIF loan, and to agree to accept renewals of such assistance for so long as it is made available to the development, and providing the right of first refusal to a non-profit or local unit of government should the Owner receive a viable purchase offer during the term of the loan; and

11. Twin Cities Housing Development Corporation (or an affiliate entity approved by the Agency) shall guarantee the mortgagor’s payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

12. Twin Cities Housing Development Corporation (or an affiliate entity approved by the Agency) shall guarantee the mortgagor’s payment obligation under the LMIR Building Loan Agreement, LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

13. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 25th day of July 2013.

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CHAIRMAN

AGENDA ITEM: 6.D.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Parkview Villa, Columbia Heights – D6179

CONTACT: Susan Thompson 651-296-9838
susan.thompson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Request adoption of a Resolution authorizing the modification to increase the HOME Affordable Rental Preservation deferred loan commitment in the amount of $328,845.

FISCAL IMPACT:
The current Affordable Housing Plan includes $11 million in federal HOME funds for new preservation activity. Funding for the above referenced loan falls within the approved budgets and the loans will be made at an interest rate and on terms consistent with the AHP. The HOME Affordable Rental Preservation (HOME HARP) loan is funded from federal appropriations. Funding of this loan will assist the Agency in meeting its HOME commitment and expenditure deadlines.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Resolution

The Minnesota Housing Finance Agency (Agency) Board, at its October 25, 2012 meeting, approved this development for processing under the HOME Affordable Rental Program (HOME). The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$13,168,438		$14,542,162		$1,373,724	
Gross Construction Cost (including environmental abatement)	$3,419,000		$3,629,700		$210,700	
Agency Sources:						
HOME HARP	$1,500,000		$1,828,845		$325,845	
Total Agency Sources	$1,500,000		$1,828,845		$325,845	
Loan-to-Cost Ratio	100%		100%			
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1 BR PBA	100	$790	100	$790	0	$0
1 BR	41	$614	41	36 @ $614 5 @ $790	0	$0-$176
2 BR	5	$781	5	$815		$34
Total Number of Units	146		146		0	

Factors Contributing to Variances:

Increasing the HOME funding award from $1,500,000 to $1,828,845 will allow Minnesota Housing to replace a funding award of additional HOME funds from Anoka County. Eliminating the use of two separate HOME awards from different agencies will be more efficient from an underwriting, legal and compliance standpoint.

Although the development budget is still preliminary, estimated costs have increased, primarily due to refinement in the scope of work, anticipated financing costs, syndicator required reserves and other soft costs. The development has made progress toward closing which is anticipated to occur in early 2014.

Other significant events since Board Selection:

None.

Board Agenda Item: 6.D
Attachment: Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 13-

RESOLUTION APPROVING COMMITMENT MODIFICATION
HOME AFFORDABLE RENTAL PRESERVATION (HOME) PROGRAM

WHEREAS, the Board has previously authorized the commitments for the development hereinafter named by its Resolution No. MHFA 12-066 with an expiration date of June 30, 2014; and,

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below to the date indicated below, and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. Parkview Villa, Columbia Heights – D6179
   - Increase HOME Loan funding commitment from $1,500,000 to $1,828,845

2. Except for the increased funding commitment, all other terms and conditions of MHFA Resolution No. 12-066 remains in effect.

Adopted this 25th day of July, 2013.

____
CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.E
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Amendment to Bond Resolution (Concordia Arms)

CONTACT: Don Wyszynski, 651-296-8207
don.wyszynski@state.mn.us

Paula Rindels, 651-296-2293
paula.rindels@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Amend Resolution 13-020 adopted by the Board on May 23, 2013 to increase the maximum allowable interest rate on the long term bonds from 4.75% to 5.5%.

FISCAL IMPACT:
At the time Resolution No. MHFA 13-020 was adopted in May; the Agency anticipated that it could have sold its Rental Housing bonds for this project at a rate slightly under 4%. Rates have risen significantly since May, and we would now expect the bond rate to be closer to 5%. The permanent loan rate on the development is not established until the bonds are sold, and the rate is set based on a spread to our borrowing costs, so there is technically no negative fiscal impact to the Agency from a financing standpoint as a result of higher borrowing costs. The higher loan rate may result in the necessity of modifying the amount of gap funding provided to the development, but any modifications are expected to be within the Commissioner's delegated authority to approve.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Resolution amendment

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RESOLUTION NO. MHFA 13-043

RESOLUTION RELATING TO RENTAL HOUSING BONDS
AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A
MULTIFAMILY HOUSING DEVELOPMENT IN
MAPLEWOOD, MINNESOTA;
AMENDING SERIES RESOLUTION NO. MHFA 13-020

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Section 1. Background. (A) General. By Resolution No. MHFA 88-12, adopted February 25, 1988, as heretofore amended and supplemented (as so amended and supplemented and as from time to time hereafter amended or supplemented in accordance with its terms, the "Bond Resolution"), the Agency has provided the terms and conditions for the issuance and the covenants and agreements for the security of its Rental Housing Bonds to be issued for the purposes of its Program of making or purchasing Mortgage Loans to finance the acquisition, construction and betterment of rental housing intended for occupancy primarily by persons of low and moderate income. Pursuant to the Bond Resolution, Minnesota Statutes, Chapter 462A, as amended, and Resolution No. MHFA 13-020, adopted May 23, 2013 (the "Series Resolution"), the Agency determined it necessary and desirable to issue one or more series of Bonds to be used to permanently finance one or more Mortgage Loans (the "Mortgage Loans") to the Mortgagor (the "Mortgagor") for the purposes of financing the multifamily housing development (the "Development") described on Exhibit A thereto. All terms defined in the Bond Resolution or the Series Resolution are used with like meaning in this resolution.

(B) Purpose for Amendment. The issuance and sale of the Bonds authorized by the Series Resolution and the financing of the Development has not yet occurred. Due to a rising interest rate environment, the Agency deems it necessary and desirable to amend the Series Resolution by this resolution. Amendments of the provisions of the Series Resolution are indicated by double underlining for addition and by interlineation for deletion.

Section 2. Amendment of Section 2(e)(iii) of Series Resolution. Section 2(e)(iii) of the Series Resolution is hereby amended to read as follows:

> "(iii) the interest rates borne by the Series Bonds; provided that the net interest cost on the Series 1 Bonds shall not exceed ~~4.75%~~ 5.50% per annum and the net interest cost on the Series 2 Bonds shall not exceed 2.00% per annum; and"

[Remainder of page intentionally left blank]

Section 3. Confirmation of Series Resolution. Except as modified by the provisions hereof, all provisions of the Series Resolution are hereby confirmed in the form originally adopted and said provisions shall continue in full force and effect, to the extent applicable, as to all Series Bonds.

Adopted by the Minnesota Housing
Finance Agency this 25th day of
July, 2013.

By: ____________________________
Chairman

Attest: __________________________
Commissioner

AGENDA ITEM: 6.F
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Amendment to Bond Resolution (The Square on 31st)

CONTACT: Don Wyszynski, 651-296-8207
don.wyszynski@state.mn.us

Paula Rindels, 651-296-2293
paula.rindels@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Amend Resolution 13-021 adopted by the Board on May 23, 2013 to increase the maximum allowable interest rate on the long term bonds from 4.75% to 5.5%.

FISCAL IMPACT:
At the time Resolution No. MHFA 13-021 was adopted in May; the Agency anticipated that it could have sold its Rental Housing bonds for this project at a rate slightly under 4%. Rates have risen significantly since May, and we would now expect the bond rate to be closer to 5%. The permanent loan rate on the development is not established until the bonds are sold, and the rate is set based on a spread to our borrowing costs, so there is technically no negative fiscal impact to the Agency from a financing standpoint as a result of higher borrowing costs. The higher loan rate may result in the necessity of modifying the amount of gap funding provided to the development, but any modifications are expected to be within the Commissioner's delegated authority to approve.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Resolution amendment

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RESOLUTION NO. MHFA 13-044

RESOLUTION RELATING TO RENTAL HOUSING BONDS
AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A
MULTIFAMILY HOUSING DEVELOPMENT IN
ROCHESTER, MINNESOTA;
AMENDING SERIES RESOLUTION NO. MHFA 13-021

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

Section 1. Background. (A) General. By Resolution No. MHFA 88-12, adopted February 25, 1988, as heretofore amended and supplemented (as so amended and supplemented and as from time to time hereafter amended or supplemented in accordance with its terms, the "Bond Resolution"), the Agency has provided the terms and conditions for the issuance and the covenants and agreements for the security of its Rental Housing Bonds to be issued for the purposes of its Program of making or purchasing Mortgage Loans to finance the acquisition, construction and betterment of rental housing intended for occupancy primarily by persons of low and moderate income. Pursuant to the Bond Resolution, Minnesota Statutes, Chapter 462A, as amended, and Resolution No. MHFA 13-021, adopted May 23, 2013 (the "Series Resolution"), the Agency determined it necessary and desirable to issue one or more series of Bonds to be used to permanently finance one or more Mortgage Loans (the "Mortgage Loans") to the Mortgagor (the "Mortgagor") for the purposes of financing the multifamily housing development (the "Development") described on Exhibit A thereto. All terms defined in the Bond Resolution or the Series Resolution are used with like meaning in this resolution.

(B) Purpose for Amendment. The issuance and sale of the Bonds authorized by the Series Resolution and the financing of the Development has not yet occurred. Due to a rising interest rate environment, the Agency deems it necessary and desirable to amend the Series Resolution by this resolution. Amendments of the provisions of the Series Resolution are indicated by double underlining for addition and by interlineation for deletion.

Section 2. Amendment of Section 2(e)(iii) of Series Resolution. Section 2(e)(iii) of the Series Resolution is hereby amended to read as follows:

> "(iii) the interest rates borne by the Series Bonds; provided that the net interest cost on the Series 1 Bonds shall not exceed ~~4.75%~~ 5.50% per annum and the net interest cost on the Series 2 Bonds shall not exceed 2.00% per annum; and"

[Remainder of page intentionally left blank]

Section 3. Confirmation of Series Resolution. Except as modified by the provisions hereof, all provisions of the Series Resolution are hereby confirmed in the form originally adopted and said provisions shall continue in full force and effect, to the extent applicable, as to all Series Bonds.

Adopted by the Minnesota Housing Finance Agency this 25th day of July, 2013.

By: ____________________________
Chairman

Attest: __________________________
Commissioner

AGENDA ITEM: 7.A.
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Lyndale Commons, 4% Tax Credit Application Waiver

CONTACT: Phillip Hagelberger, 651-297-7219 Robert Porter, 651-297-5142
phillip.hagelberger@state.mn.us robert.porter@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☑ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is requesting the Board grant a waiver for a Housing Tax Credit Manual requirement.

FISCAL IMPACT:
No fiscal impact other than minor fees to be collected.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background

Background

In October of 2011, the City of Richfield issued tax exempt bonds for the construction of Lyndale Commons Apartments, a 94-unit apartment building. Prior to construction, the owner, Woodlake Richfield Apartments LLC (Woodlake), presented the project to various syndicators to obtain equity bids from the 4% Low Income Housing Tax Credits (LIHTC) that would be issued with the tax exempt bonds. Woodlake failed to find an interested party but proceeded to complete the project using personal financing as the source of funding. Eventually the members of Woodlake decided that, as individuals, they would purchase the LIHTC credits directly from the Woodlake. Woodlake's members have stated they proceeded with this new plan without the benefit of a tax credit consultant or legal counsel. Consequently, they failed to request the required preliminary determination from the City of Richfield and submit the required tax credit application to the Agency prior to the date the bonds were issued. The purpose of the determination is to ensure that the development is financially feasible. The Minnesota Housing Tax Credit Manual clearly states the determination must be made in advance of the bond sale. The purpose of that requirement is to allow the issuer and Minnesota Housing to determine whether the project is financially feasible.

In January of 2013, Terry McNellis of Woodlake met with Agency staff to discuss the issue of not having applied for an allocation of tax credits by the bond sale date. Mr. McNellis was accompanied by his attorney from Winthrop & Weinstine. They acknowledged that the Minnesota Housing Tax Credit Manual clearly states the determination *must* be made in advance of the bond sale but pointed out that the Qualified Allocation Plan (QAP) only requires that it *should* be determined as of the date of the sale. Woodlake contended that Section 42 of the IRS Code permits the appropriate determinations to be made as of the time the bonds were issued. Notwithstanding that difference, Agency staff required that Woodlake produce documentation that they had in fact intended to obtain and use the credit equity as a source of funding before the bonds were issued..

In February 2013, Agency staff received Woodlake's application for the preliminary determination letter, including the City of Richfield's after the fact preliminary determination letter and documentation verifying that the equity generated by the 4% LIHTC was part of the original financing strategy. The documentation submitted included a contract with a compliance specialist to lease 20% of the units to income qualified tenants. Documentation was provided by an accounting firm that showed, looking backward, that the financial feasibility requirement was satisfied as of the time of the issuance of the bonds. As the issue involved interpretation of Section 42 of the IRS Code, the matter was further discussed with the IRS which indicated that, as a matter of federal law, the determinations could be made as of the date of the bond issuance. Agency staff also required, and received, a written attorney opinion from Woodlake's tax counsel stating that Woodlake's proposal does not violate Section 42 of the IRS Code.

As a result, Agency staff recommends that, in this particular case, the Board approve a waiver of the Tax Credit Manual's requirement that the application be submitted prior to issuance of the bonds.

In order to clarify the Agency's application timing requirement for an allocation of 4% LIHTC when tax exempt bonds are issued by another bonding authority, the language in the 2014 QAP was revised to align with the Minnesota Housing Tax Credit Manual and approved by the Board at its April 4, 2013 meeting.

Minnesota Housing Finance Agency

AGENDA ITEM 7.B
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

This item was replaced at the meeting - see following pages

ITEM: Concordia Arms, Maplewood (D3352)
The Square on 31st (f/k/a Rochester Square) (D3446)

CONTACT: Susan Thompson, 651-296-9838
susan.thompson@state.mn.us

Anne Heitlinger, 651-296-9841
anne.heitlinger@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff will be requesting approval to increase the previously committed loan amounts from Housing Infrastructure Bond proceeds (HIB) and Preservation Affordable Rental Investment Fund (PARIF) for the above referenced developments.

The Minnesota Housing Finance Agency Board, at its May 23, 2013 meeting, approved these developments for commitment under the Low and Moderate Income Rental (LMIR) program and LMIR Bridge Loan program using rental housing tax-exempt bonds. Since May, rental housing bond interest rates have risen by approximately 100 basis points and could continue to rise until the bonds are issued. As a result, it will be necessary to increase the amount of the deferred loans to help fill the gaps created by higher financing costs. If the interest rates increase by another 20-25 basis points the amount of the increase will exceed the Commissioner's delegated authority to approve these increases. At this time the specific increased amounts are not known. Staff will present detailed reports on the developments and appropriate resolutions regarding the increased deferred loan amounts at the July 25, 2013 board meeting.

FISCAL IMPACT:
The higher interest rate for the LMIR loans will result in increasing the amount of deferred loans provided to the developments.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Development Summaries (to be provided at the meeting)
- Resolutions (to be provided at the meeting)

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Minnesota Housing Finance Agency

REPLACEMENT REPORT AGENDA ITEM 7.B
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Concordia Arms, Maplewood (D3352)
The Square on 31st (f/k/a Rochester Square) (D3446)

CONTACT: Susan Thompson, 651-296-9838, susan.thompson@state.mn.us
Anne Heitlinger, 651-296-9841, anne.heitlinger@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is requesting approval to increase the previously committed loan amounts from Housing Infrastructure Bond proceeds (HIB), Preservation Affordable Rental Investment Fund (PARIF), and LMIR Bridge Bonds for the above referenced developments.

The Minnesota Housing Finance Agency Board, at its May 23, 2013 meeting, approved these developments for commitment under the Low and Moderate Income Rental (LMIR) program and LMIR Bridge Loan program using rental housing tax-exempt bonds. Since May, rental housing bond interest rates have risen by approximately 130 basis points and could continue to rise until the bonds are issued. As a result, it is necessary to increase the amount of the deferred loans to help fill the gaps created by higher financing costs. If the interest rates increase by another 20-25 basis points the amount of the increase will exceed the Commissioner's delegated authority to approve. At this time the specific increased amounts are not known; therefore the attached reports reflect interest rates that include approximately 35 basis points cushion over current estimated bond rates.

FISCAL IMPACT:
The current Affordable Housing Plan includes $30 million in Housing Infrastructure Bond proceeds from the 2012 state bonding bill. Funding for the above referenced loans falls within the approved budgets and the loans will be made at an interest rate and on terms consistent with the AHP and will not have any fiscal impact on the Agency's financial condition. The PARIF loan will be funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Development Summaries
- Resolutions

CONCORDIA ARMS

The Minnesota Housing Finance Agency (Agency) Board, at its October 25, 2012, meeting, approved Concordia Arms for processing under the Low and Moderate Income Rental (LMIR), Low and Moderate Income Rental Bridge Loan (LMIR BL). At that time, the development was also selected for a deferred loan funded with Housing Infrastructure Bond (HIB) proceeds in the amount of $3,914,265, which was committed by Board Resolution #12-066. Subsequently, at the May 23, 2013 meeting, the Board adopted Resolution #13-038 committing the loans under the LMIR and LMIR BL programs. Based on market conditions at that time, the loans were sized based on an estimated 4.71% interest rate resulting in a LMIR loan of $4,020,000 and a LMIR Bridge Loan at $1,318,000. The Board Report anticipated that rates and maximum loan amounts would be subject to change based on market conditions at the time of the bond sale, and that any decrease in the LMIR first mortgage as a result of an increase in the interest rate may be offset by a commensurate increase in proceeds from Housing Infrastructure Bonds or other Agency resources.

Since that time, bond rates have increased approximately 130 basis points resulting in an increase to the deferred loan in excess of the Commissioner's delegated authority to approve. Interest rates will not be locked until the bonds are sold, which is currently anticipated to occur within the next two weeks. Current underwriting at 6.15% (based on a 35-year term) includes approximately 35 bp of cushion resulting in an estimated LMIR loan amount of $3,537,000 (a $483,000 reduction from the May 25, 2013 estimated loan amount) and an estimated LMIR Bridge Loan amount of $1,355,000 (a 3% increase). A portion of the permanent funding gap is being filled with additional equity and other cost savings, resulting in a requested $426,691 increase in the amount of the deferred loan (funded by Housing Infrastructure Bond proceeds), bringing the total deferred loan amount to $4,340,956. As before, the final loan amounts will be based on actual market rates at the time of the bond sale.

THE SQUARE ON 31St (fka ROCHESTER SQUARE)

The Minnesota Housing Finance Agency (Agency) Board, at its October 25, 2012 meeting, approved The Square on 31st for processing under the Low and Moderate Income Rental (LMIR), Low and Moderate Income Rental Bridge Loan (LMIR BL). At that time, the development was also selected for a deferred loan funded with Preservation Affordable Rental Investment Fund (PARIF) proceeds in the amount of $543,483 and a deferred loan funded with Housing Infrastructure Bond (HIB) proceeds in the amount of $4,082,305. Subsequently, at the May 23, 2013 meeting, the Board adopted Resolution #13-037 committing the loans under the LMIR and LMIR BL and PARIF programs. Based on market conditions at that time, the loans were sized based on an estimated 4.56% interest rate resulting in a LMIR loan of $2,326,090 and a LMIR Bridge Loan at $1,188,000. In the May 23, 2013 Board memo, the PARIF loan was reported to have been reduced to $243,483, due to an earlier staff funding modification. The Board Report anticipated that rates and maximum loan amounts would be subject to change based on market conditions at the time of the bond sale and that any decrease in the LMIR first mortgage as a result of an increase in the interest rate may be offset by a commensurate increase in proceeds from Housing Infrastructure Bonds or other Agency resources.

Since that time, bond rates have increased approximately 130 basis points resulting in an increase to the deferred loan in excess of the Commissioner's delegated authority to approve. Interest rates will not be locked until the bonds are sold, which is currently anticipated to occur within the next two weeks. Current underwriting at 6.00% (based on a 30-year term) includes approximately 35 bp of cushion resulting in an estimated LMIR loan of $1,984,353 (a $341,737 reduction from the May 25, 2013 estimated loan amount). The LMIR Bridge Loan amount is now estimated at $1,232,000, a 4% increase. A portion of the funding gap is being filled with deferred developer fee and other cost savings, resulting in a requested increase of $243,483 in the deferred loan amount (funded by the PARIF program),bringing the total deferred loan amount to $788,785. For The Square on 31st, the change in interest rate will now be offset by an increase in the amount of the PARIF loan, but will not include an increase in the amount of the deferred loan being funding through Housing Infrastructure Bond proceeds.

As before, the final loan amounts will be based on actual market rates at the time of the bond sale.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 13-048

RESOLUTION APPROVING COMMITMENT MODIFICATION
HOUSING INFRASTRUCTURE BOND – ECONOMIC DEVELOPMENT AND HOUSING CHALLENGE (EDHC) PROGRAM

WHEREAS, the Board has previously authorized the issuance of a loan commitment for the Housing Infrastructure Bond – EDHC loan for the development by its Resolution No. MHFA 12-066 with an expiration date of June 30, 2014; and

WHEREAS, the Board has previously authorized the issuance of a loan commitment to provide construction and permanent mortgage loans from the sale of new tax-exempt bonds (under the LMIR and LMIR BL Programs) for the development by its Resolution No. MHFA 13-038, with an expiration date of November 30, 2013; and,

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below, and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. Concordia Arms – D3352
    - Increase Housing Infrastructure Bond - EDHC funding commitment from $3,914,265 to $4,340,956

2. Except for the increased funding commitment, all other terms and conditions of MHFA Resolution No. 12-066 remain in effect.

Adopted this 25th day of July, 2013.

____
CHAIRMAN

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 13-049

RESOLUTION APPROVING COMMITMENT MODIFICATION
PRESERVATION AFFORDABLE RENTAL INVESTMENT FUND (PARIF) PROGRAM

WHEREAS, the Board has previously authorized the issuance of a loan commitment for the Preservation Affordable Rental Investment Fund loan for the development by its Resolution No. MHFA 13-037 with an expiration date of November 30, 2013; and

WHEREAS, the Board has previously authorized the issuance of a loan commitment to provide construction and permanent mortgage loans from the sale of new tax-exempt bonds (under the LMIR and LMIR BL Programs) for the development by its Resolution No. MHFA 13-037, with an expiration date of November 30, 2013; and,

WHEREAS, the application continues to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations, and policies.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby increases the funding commitment on the development noted below, and hereby confirms the renewal of said commitment, subject to any revisions noted:

1. The Square on 31st – D3346
    - Increase Preservation Affordable Rental Investment Fund funding commitment from $243,483 to $788,785.

2. Except for the increased funding commitment, all other terms and conditions of MHFA Resolution No. 13-037 remain in effect.

Adopted this 25th day of July, 2013.

____
CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Post-Sale Analysis, Homeownership Finance Bonds, 2013 Series C (GNMA and FNMA Pass-Through Program)

CONTACT: Don Wyszynski, 651-296-8207
don.wyszynski@state.mn.us

Bill Kapphahn, 651-215-5972
William.kapphahn@state.mn.us

REQUEST:

☐ Approval ☑ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☑ Other: Finance

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:

The Agency sold $37,000,000 of Homeownership Finance Bonds on June 19, 2013. Pursuant to the Debt Management Policy, the attached post-sale analysis is provided by the Agency's financial advisor, CSG Advisors. This is a discussion item and does not require approval.

FISCAL IMPACT:

None

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Post-Sale Analysis

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$37,000,000
Minnesota Housing Finance Agency
Homeownership Finance Bonds
2013 Series C
(Pass-Through Program)

POST-SALE ANALYSIS

KEY RESULTS FOR MINNESOTA HOUSING

Purpose. This transaction continues the innovative monthly pass-through bond issue approach that Minnesota helped pioneer last year. Series 2013 C uses tax-exempt bonds to finance loans already in the Agency's pipeline. These loans will all be pooled into Ginnie Mae and Fannie Mae mortgage-backed securities ("MBS").

Sizing. The issue is designed to lock in interest rates as Minnesota Housing's long term cost of funds for loans in its pipeline, limiting interest rate risk after loans are reserved, originated, pooled, and acquired. Minnesota Housing has been using the following approaches for its pipeline:

- For tax-exempt eligible loans: Minnesota Housing has used its zero participations (approximately $21 million were available prior to 2013 C) to protect itself against interest rate risk on its tax-exempt portfolio. Then, the Agency issues bonds for loans to be pooled into MBS and delivered by the end of the following month.

- For non-first-time homebuyer loans (starting this year): Minnesota Housing has hedged these loans through its positions in the to-be-announced ("TBA") mortgage market.

With conventional mortgage rates, pass-through bond rates and Minnesota Housing's reservation rates all remaining quite low until late May, tax-exempt production increased dramatically with some of the highest volume since before the financial crisis. Minnesota Housing currently expects to have approximately $80 million to $90 million of tax-exempt-eligible MBS for delivery at the end of July, and 2013C was initially designed to finance all this production.

With interest rates rising dramatically after Fed Chairman Bernanke's first hint in late May that the Fed might taper its purchase of treasuries and MBS sooner than expected, bond investors have been much more cautious (and/or looking to reduce their portfolios). As a result, the ultimate sizing of Series C was reduced to $37 million based on orders received.

Immediately subsequent to the sale Minnesota Housing began to hedge all its tax-exempt as well as non-first-time homebuyer loans through TBA, given the sharp increase in rates and the Agency's limited amount of zeros.

Timing. Series C was priced on Wednesday morning June 19th, prior to the concluding announcement of the Fed's Open Market Committee at 2 PM. This proved to be a valuable decision as treasury rates jumped by as much as 25 basis points by Thursday morning.

Key Strategic Objective. An important Agency objective is to finance new loans using Minnesota Housing's existing zero participations to achieve maximum allowable spreads, whenever possible. As a result of the higher bond rates to finance the loans already in the pipeline, Minnesota Housing will use $13.5 million of its zeroes in order to earn full spread on Series C.

Major Design Decisions. Key decisions by the Agency have been to:

- Use the pass-through structure that has generally resulted in yields approximately 80 basis points below traditionally structured single-family bonds.

- Continue to include a 10-year par call at the Agency's option that will let the Agency potentially take advantage of interest rates at that time to either refund the bonds or sell the MBS and pay off remaining bonds.

- Include Fannie Mae as well as Ginnie Mae MBS in the issue, with an upper limit of 45%.

- Initially consider including a companion series to refund remaining series of NIBP Program Bonds, but since tax-exempt pass-through rates rose to approximately the same 3.01% rate as the NIBP Program Bonds, there was no financial benefit to such refunding at the present time.

Accomplishments. Following were key results.

1. **Interest Rate.** The 2013 Series C bonds were priced at a yield of 3%, significantly below South Dakota's yield of 3.25% the prior week as they raised yields to find enough investors. South Dakota's high yields set a market standard that Minnesota Housing needed to overcome in order to keep the 2013 C rates and earnings spread reasonable.

2. **Comparison to Traditional Bonds.** Traditional tax-exempt bonds would have required a yield at least 100 basis points higher, so the pass-through structure continues to be quite attractive.

Bond Results. Following are key highlights:

1. **Investor Interest.** There were a limited number of investors. The managers received orders from a total of 6 investors, one of whom had initially indicated an interest in $21.75 million but chose not to participate when the total issue size had to be significantly reduced.

2. **Rates.** The 3% yield was significantly below South Dakota's and matched Ohio's level of the prior week, despite greater market cautiousness in advance of the Fed meeting results.

Measuring Transaction Benefits to Minnesota Housing. Minnesota Housing's key objective was to permanently finance loans already in its pipeline at the lowest cost possible, while achieving a full spread and minimizing the use of zero participations.

Zero Participations. The Agency used approximately $13.5 million of its $21 million of stock zero participations, leaving a balance of $7.5 million for other loans in the pipeline. With rates rising even further since the Fed announcement, the Agency will need to use both these zeros and other approaches for the non-TBA loans in its pipeline. The Agency has sufficient cash in Pool 2 as well as potential cash in its RHFB indenture debt service reserve funds to buy and hold those MBS it does not finance or sell.

FEATURES OF THIS ISSUE

Structure

1. **Tax Status.** The bonds were sold as tax-exempt bonds not subject to the federal AMT.

2. **Single Maturity.** All bonds mature in 2043, 30 years after closing. There are no serial or intermediate term bonds, PAC bonds or any of the other traditional housing bond structures that allocate mortgage revenues to investors based on maturity or prepayment speed. Instead, each investor owns and receives a pro rata share of all principal and interest.

UNDERWRITING

Underwriting Fees**.** As with the prior pass-through issues, takedowns were established at lower levels than industry standards or Minnesota Housing precedent on traditional long-term tax-exempt bond sales. Management fees were appropriate, consistent with industry standards, and in the same range as fees reported for other housing issues of similar size and structure.

****

ISSUE DETAILS

Key Dates:	2013 C Bond Pricing:	
	Institutional Order Period:	Wednesday morning, June 19, 2013
	Closing Date:	July 25, 2013

Use of Proceeds. The bond issue provides $37 million to purchase GNMA and FNMA mortgage-backed securities. The average rate on the loans is expected to be approximately 3.05%.

Market Conditions

Economic Calendar**.** Over the weeks leading up to the pricing there had been relatively little change in economic indicators themselves but enormous consequences of Fed Chairman Bernanke's speech of May 22nd which suggested to the market that the Fed may begin tapering off its purchases of treasury bonds and MBS sooner than expected.

Unemployment claims have dropped slightly in recent weeks. The unemployment rate inched up from 7.5% in April (the lowest in 4 years) to 7.6% as more individuals sought to rejoin the workforce but is still well above the Fed's announced target of 6% for ending purchases of treasuries and MBS. Capacity utilization for May was revised down from 77.8% to 77.6%. However, consumer confidence has risen, as announced on June 13 from 0.1% to 0.6%. This, together with the continuing rise in the stock market and reactions to Bernanke's speech, created an upwelling of positive anticipation.

Treasuries**.** Ten-year treasury yields dropped steadily through April with unfolding negative news about the euro zone and reached a low of 1.66% at the beginning of May. Rates then gradually increased but remained below the 2% threshold until Bernanke's speech on May 22nd. Rates rose to 2.25% on June 12th, the highest level in several years, as investors became fearful that an end to Fed purchases – and eventually sale of Fed investments – will dramatically boost bond yields. The treasury bond auction the week before the sale attracted the least amount of purchasers in many months. The 10-year treasury was 2.22% when the bonds were offered.

Municipals. During the month leading up to the sale, municipals fell significantly more than treasuries, with spreads widening significantly. As shown below, the 10-year AAA MMD Index rose 42 basis points compared to 23 basis points on 10-year treasuries, and the 30-year AAA MMD rose 57 basis points compared to 19 basis points on 30-year treasuries. Factors affecting municipals include:

- Volume of new issuance continues at low levels, although supply is increased by continuing refunding opportunities.
- Despite the absolute low level of rates, buyers have adjusted, and there has been ongoing and renewed retail and institutional interest. Both retail and institutional buyers have become more wary of longer maturities out of concern that a rise in interest rates would cut the principal value of such investments.
- Despite the low absolute level of rates, credit spreads continue to be relatively wide with a spread of approximately 80 basis points between the AAA 30-year G.O. MMD index and A-rated G.O.s.
- There have been significant weekly outflows in municipal bond funds in the last 3 weeks.
- MMD as a percentage of treasuries has risen dramatically to levels not seen since late 2012.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio	30-Year Treasury	30-Year MMD	MMD/ Treasury Ratio
2010 A*	9/15/10	2.67%	2.39%	89.5%	3.79%	3.72%	98.2%
2011 A/B*	3/22/11	3.34%	3.27%	97.9%	4.44%	4.85%	109.2%
2011 C/D*	6/7/11	3.01%	2.63%	87.4%	4.27%	4.23%	99.1%
2011 E*	8/24/11	2.29%	2.26%	98.7%	3.63%	3.89%	107.2%
2011 F/G*	11/22/11	1.94%	2.18%	112.4%	2.91%	3.83%	131.6%
*2012 RHFB ABCD***	3/27/12	2.20%	1.97%	89.5%	3.29%	3.34%	101.5%
2012 A*	7/31/12	1.51%	1.66%	109.9%	2.56%	2.84%	110.9%
2012 B*	10/2/12	1.64%	1.69%	103.0%	2.81%	2.86%	101.8%
2013 A*	1/9/13	1.88%	1.69%	89.9%	3.06%	2.80%	91.5%
2013 B*	4/8/13	1.76%	1.72%	97.7%	2.91%	2.94%	101.0%
*2013 RHFB A/B/C***	5/14	1.96%	1.81%	92.3%	3.17%	2.93%	92.4%
2013 C	As of 6/17	2.19%	2.23%	101.8%	3.35%	3.50%	104.4%
Change from RHFB 2013 A/B/C to 2013 C		**+23 bps**	**+42 bps**	**+ 9.5%**	**+19 bps**	**+ 57 bps**	**+ 12%**

*Homeownership Finance Revenue Bonds
**Residential Housing Finance Bonds (RHFB)

Municipal Calendar. The Minnesota sale calendar was relatively light with the largest other sales from East Bethel on Wednesday for $18.875 million and Prior Lake ISD on Thursday with $48.915 million.

Other proposed single-family issues are a traditional structure for Maine of $40 million non-AMT and $55 million AMT bonds and a Mississippi taxable pass-through of $30.07 million. Multi-family transactions include a Colorado $31 million taxable multi-family pass-through, an Illinois HDA $14.43 million issue, a NYSHFA $61.6 million transaction, and two NYC HDC issues including $45 million taxable bonds and a $218.23 million tax-exempt issue.

MBS Yields. MBS yields are very relevant because investors can choose between purchasing MBS directly or purchasing HFAs' taxable bonds backed by MBS. In effect, bond purchasers look as much to the spread between HFA bonds and MBS as they do to the spread between HFA bonds and treasuries.

In recent weeks, MBS yields have increased significantly, largely in line with the increases in the 10-year treasury.

Type	Delivery	Coupon	Measure	Oct. 2, 2012	Jan. 8	March 1	March 15	April 9	June 17, 2013
GNMA	1 month	3.50	Price	109 26/32	108 4/32	107 25.5/32	107 8/32	108 11.5/32	104 24.5/32
			Yield*	2.43%	2.61%	2.65%	2.71%	2.59%	2.98%
FNMA	1 month	3.50	Price	107	106 5/32	105 25/32	105 9/32	106 4.5/32	103 7.5/32
			Yield*	2.67%	2.79%	2.86%	2.92%	2.82%	3.15%
10-year treasury	n/a	n/a	Yield	1.64%	1.89%	1.86%	2.01%	1.76%	2.19%
GNMA to treasury	n/a	n/a	Yield*	79 b.p.	72 b.p.	79 b.p.	70 b.p.	83 b.p.	79 b.p.

*at 100% PSA

Chart 1: GNMA I 3.5 Coupon, July Delivery

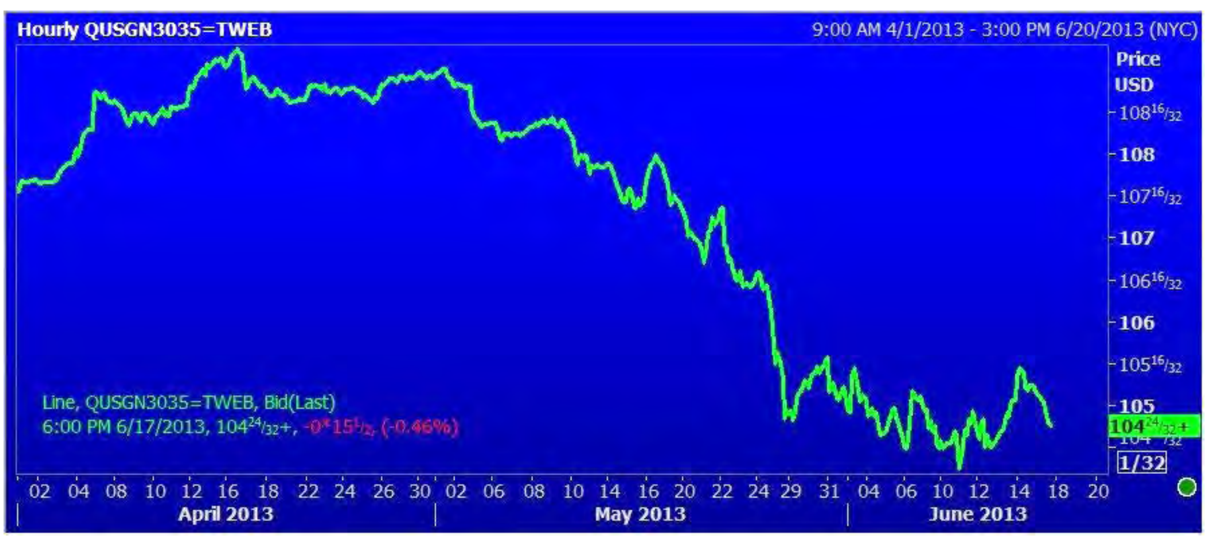
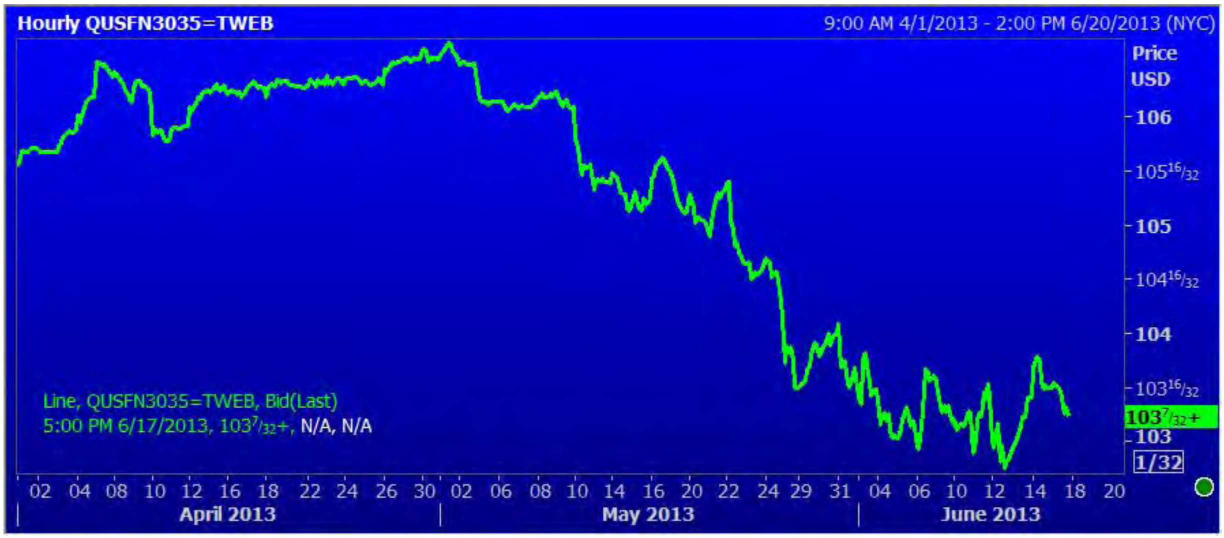


Chart 2: FNMA 3.5 Coupon, July Delivery



COMPARABLES

Recent Housing Comparables. New Mexico and Delaware priced tax-exempt single-family pass-through issues in May, both at about 60 basis points above the 10-year treasury and about equal to the GNMA I yield at 100% PSA. On the Thursday prior to Minnesota Housing's sale, Ohio priced a $22 million issue, and South Dakota priced a $67 million transaction:

- Ohio priced at 3.0%, a spread of 81 basis points to the 10-year treasury and 22 basis points to the GNMA I yield at 100% PSA.

- South Dakota, however, cheapened this level by 25 basis points to 3.25%, creating by far the widest spreads of any tax-exempt pass-through issue that has been done (106 basis points to the 10-year treasury and 47 basis points to the GNMA I yield at 100% PSA).

In comparison, Minnesota Housing's 3.0% rate was approximately 80 basis points to the 10 year treasury and 18 basis points to the GNMA I yield at 100% PSA at the time of pricing, significantly better spreads than South Dakota and about the same or slightly better than Ohio.

AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
July 25, 2013

ITEM: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2013

CONTACT: Bill Kapphahn, 651-215-5972
William.Kapphahn@state.mn.us

Don Wyszynski, 651-296-8207
Don.Wyszynski@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ________________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency's board-approved Debt Management Policy calls for the ongoing review and management of swap transactions including regular reporting to the board. This reporting is accomplished though the Semi-annual Variable Rate Debt and Swap Performance Report.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2013

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

- Basis Risk: During the period January, 2013 to June, 2013 the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation. Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from $38.3 million on January 1, 2013 to $27.4 million on July 1, 2013. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events.

- Liquidity Risk: The short-term credit ratings of all the Agency's liquidity providers were unchanged from January 1, 2013 to July 1, 2013. The State Street Bank liquidity facilities, which were set to expire on March 21, 2013, were replaced with facilities from Wells Fargo Bank effective March 13, 2013.

- Long-term Debt, Fixed vs. Variable Graph: Total outstanding variable rate debt decreased to 16% of total long-term debt at July 1, 2013 compared to 17% at January 1, 2013.

Minnesota Housing Finance Agency

Semiannual Variable-Rate Debt and Swap Performance Report

July 01, 2013

Minnesota Housing Finance Agency

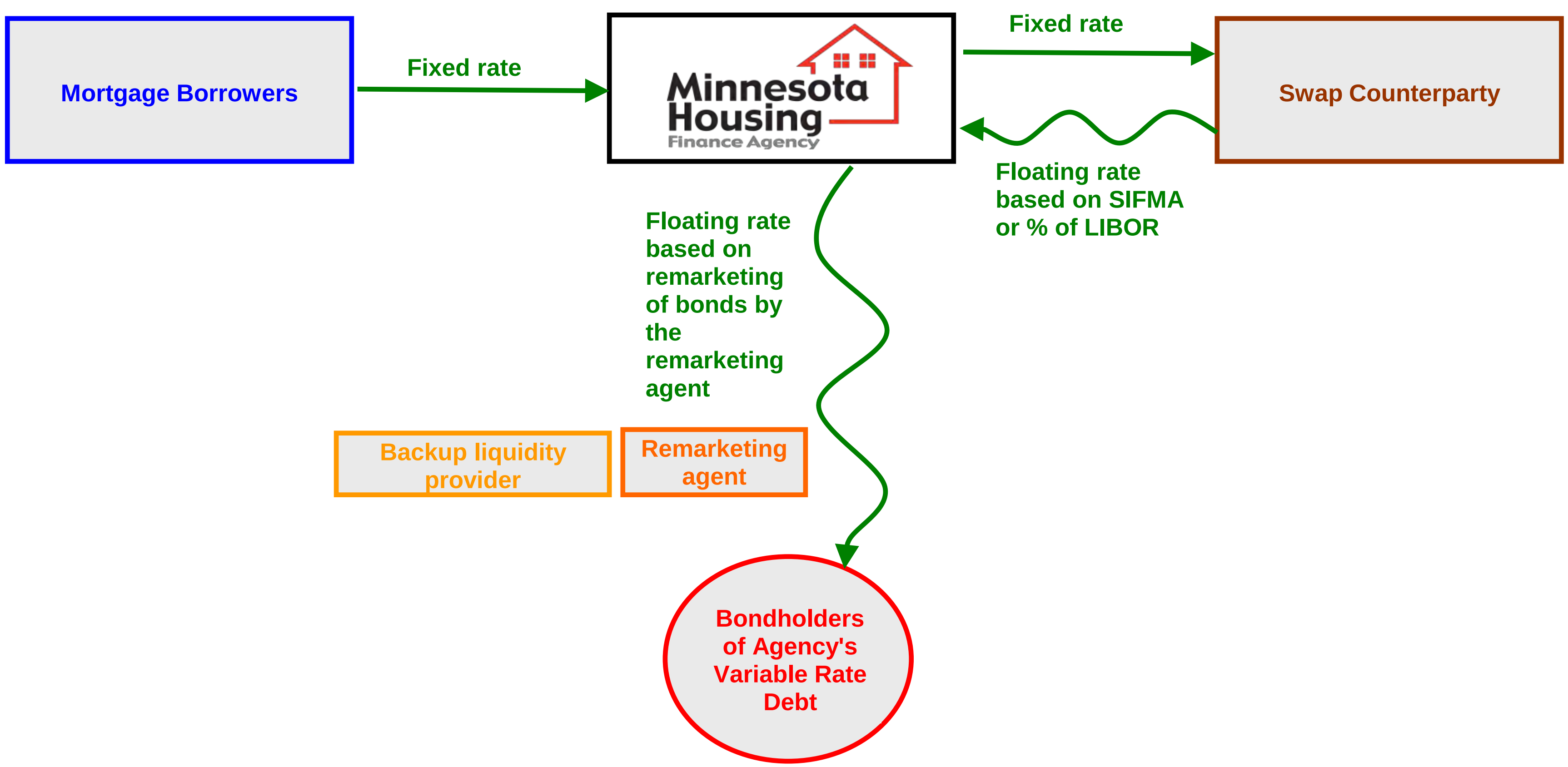
Overview of Swaps

July 01, 2013

Bond Series	Issue Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2003 B	07/23/2003	$ 25,000,000	$ 20,725,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2003 J	10/15/2003	25,000,000	13,845,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2004 G	07/01/2204	50,000,000	26,450,000	Royal Bank of Canada	64% of LIBOR + 26 basis points
RHFB 2005 C	03/02/2005	25,000,000	16,330,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 I	06/02/2005	40,000,000	26,015,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 M	08/04/2005	60,000,000	37,660,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2006 C	03/21/2006	28,335,000	22,020,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2007 E (Taxable)	03/07/2007	25,000,000	10,675,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 J (Taxable)	05/17/2007	37,500,000	16,340,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 S	12/19/2007	18,975,000	18,975,000	The Bank of New York Mellon	100% of SIFMA Index Rate + 6 basis points
RHFB 2007 T (Taxable)	12/19/2007	37,160,000	21,250,000	The Bank of New York Mellon	One-month LIBOR
RHFB 2008 C	08/07/2008	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 C	02/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 F	12/01/2009	34,120,000	19,815,000	Royal Bank of Canada	100% of SIFMA + 8 basis points
	Totals	**$ 486,090,000**	**$ 330,100,000**		.

Floating-to-Fixed Interest Rate Swap Structure

Overview



Basis Risk

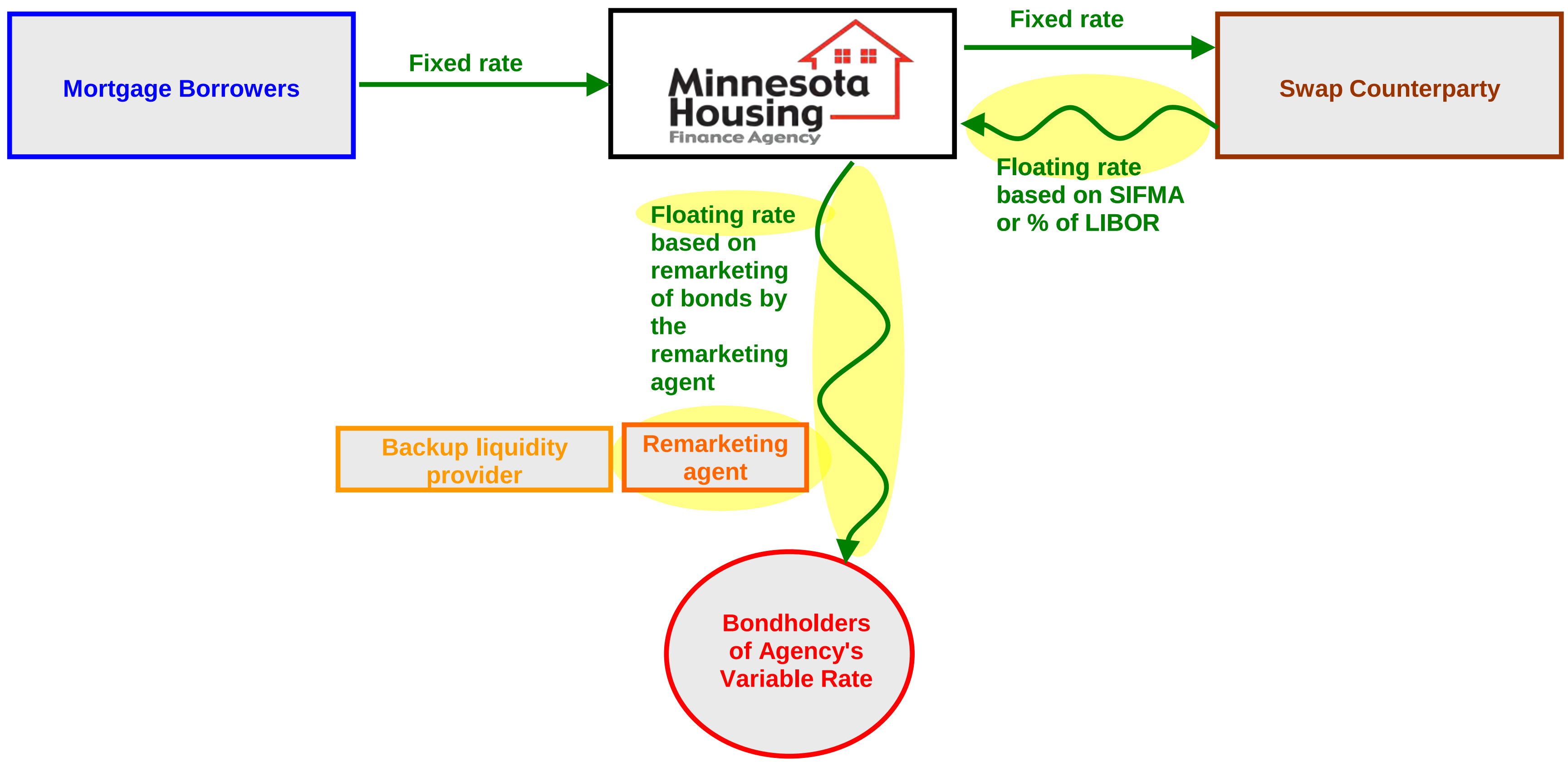
July 01, 2013

Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 20,725,000	$ **(108,049)**	3.532%	**3.488%**	98.75%
RHFB 2003 J	10/15/2003	13,845,000	**(75,777)**	4.183%	**4.148%**	99.16%
RHFB 2004 G	07/22/2004	26,450,000	**(160,875)**	4.165%	**4.122%**	98.97%
RHFB 2005 C	03/02/2005	16,330,000	**(145,515)**	3.587%	**3.505%**	97.71%
RHFB 2005 I	06/02/2005	26,015,000	**(211,669)**	3.570%	**3.493%**	97.84%
RHFB 2005 M	08/04/2005	37,660,000	**(448,259)**	3.373%	**3.261%**	96.68%
RHFB 2006 C	03/21/2006	22,020,000	**(218,909)**	3.788%	**3.670%**	96.88%
RHFB 2007 E (Taxable)	03/07/2007	10,675,000	**123,699**	5.738%	**5.836%**	101.71%
RHFB 2007 J (Taxable)	05/17/2007	16,340,000	**195,750**	5.665%	**5.770%**	101.85%
RHFB 2007 S	12/19/2007	18,975,000	**(48,311)**	4.340%	**4.294%**	98.94%
RHFB 2007 T (Taxable)	12/19/2007	21,250,000	**318,990**	4.538%	**4.717%**	103.94%
RHFB 2008 C	08/07/2008	40,000,000	**(258,498)**	4.120%	**3.988%**	96.80%
RHFB 2009 C	02/12/2009	40,000,000	**(492,013)**	4.215%	**3.935%**	93.36%
RHFB 2009 F	12/01/2009	19,815,000	**(67,124)**	2.365%	**2.301%**	97.29%
	Totals	**$ 330,100,000**	**$ (1,596,560) ***			

* The cumulative net of total variable interest paid on all VRDO's (**$39,864,575**) and all variable interest received from the swap counterparties (**$41,461,135**).

Floating-to-Fixed Interest Rate Swap Structure

Basis Risk



Basis Risk

July 01, 2013

Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 20,725,000	$ (108,049)	3.532%	**3.488%**	98.75%
RHFB 2003 J	10/15/2003	13,845,000	(75,777)	4.183%	**4.148%**	99.16%
RHFB 2004 G	07/22/2004	26,450,000	(160,875)	4.165%	**4.122%**	98.97%
RHFB 2005 C	03/02/2005	16,330,000	(145,515)	3.587%	**3.505%**	97.71%
RHFB 2005 I	06/02/2005	26,015,000	(211,669)	3.570%	**3.493%**	97.84%
RHFB 2005 M	08/04/2005	37,660,000	(448,259)	3.373%	**3.261%**	96.68%
RHFB 2006 C	03/21/2006	2,020,000	(218,909)	3.788%	**3.670%**	96.88%
RHFB 2007 E (Taxable)	03/07/2007	10,675,000	123,699	5.738%	**5.836%**	101.71%
RHFB 2007 J (Taxable)	05/17/2007	16,340,000	195,750	5.665%	**5.770%**	101.85%
RHFB 2007 S	12/19/2007	18,975,000	(48,311)	4.340%	**4.294%**	98.94%
RHFB 2007 T (Taxable)	12/19/2007	21,250,000	318,990	4.538%	**4.717%**	103.94%
RHFB 2008 C	08/07/2008	40,000,000	(258,498)	4.120%	**3.988%**	96.80%
RHFB 2009 C	02/12/2009	40,000,000	(492,013)	4.215%	**3.935%**	93.36%
RHFB 2009 F	12/01/2009	19,815,000	(67,124)	2.365%	**2.301%**	97.29%
	Totals	**$ 310,100,000**	**$ (1,596,560) ***			

* The cumulative net of total variable interest paid on all VRDO's (**$39,864,575**) and all variable interest received from the swap counterparties (**$41,461,135**).

Counterparty / Termination Risk

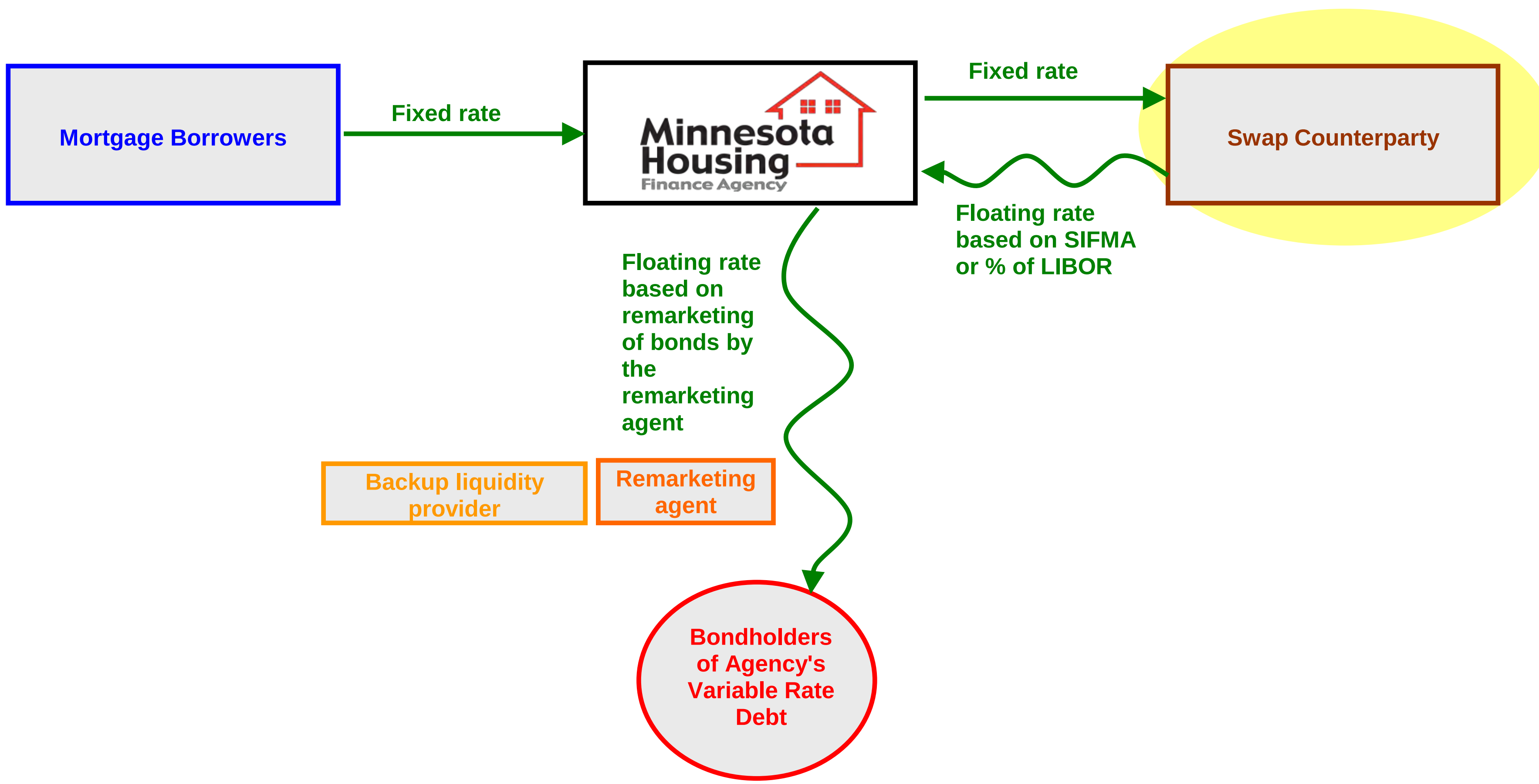
July 01, 2013

Bond Series	Counterparty	Long-term Credit Rating at Inception	Long-term Credit rating	Long-term Credit Outlook	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Market Value*
RHFB 2003 B	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	$ 20,725,000	01/01/2033	21	3.532%	$ (1,098,241)
RHFB 2003 J	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	13,845,000	07/01/2033	14.3	4.183%	(1,304,816)
RHFB 2005 C	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	16,330,000	01/01/2035	9.2	3.587%	(627,112)
RHFB 2005 I	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	26,015,000	01/01/2036	9.2	3.570%	(1,422,752)
RHFB 2005 M	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	37,660,000	01/01/2036	8.4	3.373%	(1,976,947)
RHFB 2006 C	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	22,020,000	01/01/2037	10.6	3.788%	(1,516,656)
RHFB 2007 S	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	18,975,000	07/01/2038	27.4	4.340%	(1,221,468)
RHFB 2007 T	The Bank of New York Mellon	Aa1/AA-	Aa1/AA-	Stable/Stable	21,250,000	07/01/2038	11.8	4.538%	(1,975,426)
	Total The Bank of New York Mellon				**176,820,000**				**(11,143,418)**
RHFB 2004 G	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	26,450,000	01/01/2032	11.3	4.165%	(2,439,263)
RHFB 2007 E	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	10,675,000	07/01/2038	12	5.738%	(1,582,048)
RHFB 2007 J	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	16,340,000	07/01/2038	11.8	5.665%	(2,447,455)
RHFB 2008 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2048	20.6	4.120%	(3,885,835)
RHFB 2009 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2039	18.9	4.215%	(5,166,336)
RHFB 2009 F	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	19,815,000	07/01/2039	4.2	2.365%	(764,575)
	Total Royal Bank of Canada				**153,280,000**				**(16,285,513)**
	Total All Swaps				**$ 330,100,000**				**$ (27,428,930)**

* A positive market value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination.
Valuations are provided by DerivActiv.

Floating-to-Fixed Interest Rate Swap Structure

Counterparty / Termination Risk



Liquidity Risk

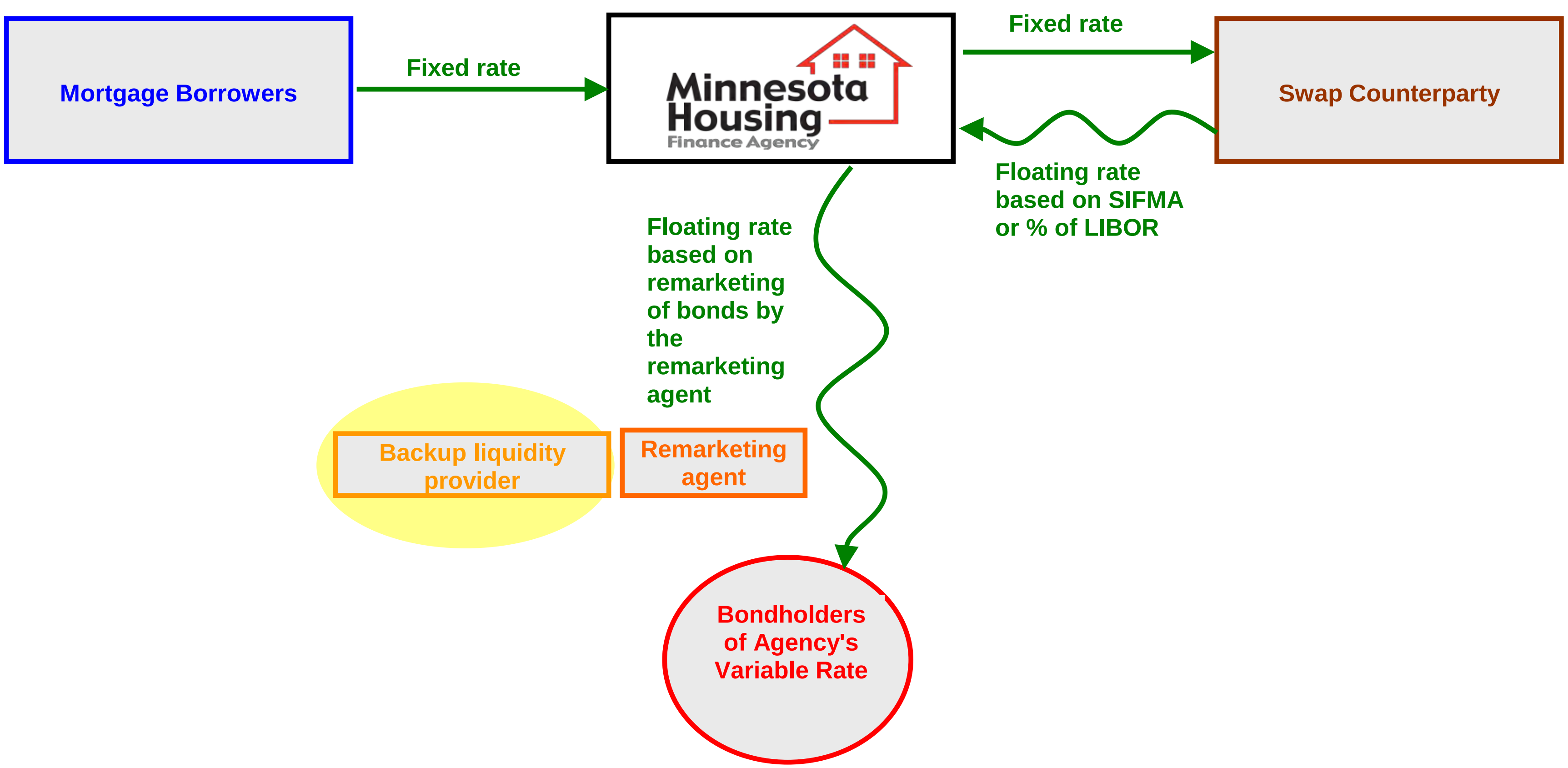
July 01, 2013

Bond Series	Current Liquidity Provider	Long-term Credit Rating	Long-term Credit Outlook	Short-term Credit Rating	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	$ 20,725,000	01/01/2033	07/17/2015	0.650%	0.300%
RHFB 2003 J	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	13,845,000	07/01/2033	07/17/2015	0.650%	0.300%
RHFB 2004 G	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	26,450,000	01/01/2032	07/17/2015	0.650%	0.195%
RHFB 2005 C	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	16,330,000	01/01/2035	07/17/2015	0.650%	0.195%
RHFB 2005 I	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	26,015,000	01/01/2036	07/17/2015	0.650%	0.195%
	Royal Bank of Canada subtotal				**103,365,000**				
RHFB 2005 M	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	37,660,000	01/01/2036	07/17/2015	0.685%	0.195%
RHFB 2006 C	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	22,020,000	01/01/2037	03/21/2015	0.450%	0.092%
RHFB 2007 E	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	10,675,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 J	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	16,340,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 S	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	18,975,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 T	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	21,250,000	07/01/2048	03/21/2015	0.450%	0.092%
	Wells Fargo subtotal				**126,920,000**				
RHFB 2008 C	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	40,000,000	07/01/2048	08/07/2015	0.250%	0.250%
RHFB 2009 C	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	40,000,000	07/01/2036	02/12/2016	0.250%	0.250%
RHFB 2009 F	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	19,815,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**99,815,000**				
	Total All Liquidity Providers				**$ 330,100,000**				

[1]Federal Home Loan Bank of Des Moines

Floating-to-Fixed Interest Rate Swap Structure

Liquidity Risk



Liquidity Risk

July 01, 2013

Bond Series	Current Liquidity Provider	Long-term Credit Rating	Long-term Credit Outlook	Short-term Credit Rating	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	$ 20,725,000	01/01/2033	07/17/2015	0.650%	0.300%
RHFB 2003 J	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	13,845,000	07/01/2033	07/17/2015	0.650%	0.300%
RHFB 2004 G	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	26,450,000	01/01/2032	07/17/2015	0.650%	0.195%
RHFB 2005 C	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	16,330,000	01/01/2035	07/17/2015	0.650%	0.195%
RHFB 2005 I	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	26,015,000	01/01/2036	07/17/2015	0.650%	0.195%
	Royal Bank of Canada subtotal				**103,365,000**				
RHFB 2005 M	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	37,660,000	01/01/2036	07/17/2015	0.685%	0.195%
RHFB 2006 C	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	2,020,000	01/01/2037	03/21/2015	0.450%	0.092%
RHFB 2007 E	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	10,675,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 J	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	16,340,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 S	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	18,975,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 T	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	21,250,000	07/01/2048	03/21/2015	0.450%	0.092%
	Wells Fargo subtotal				**106,920,000**				
RHFB 2008 C	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	40,000,000	07/01/2048	08/07/2015	0.250%	0.250%
RHFB 2009 C	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	40,000,000	07/01/2036	02/12/2016	0.250%	0.250%
RHFB 2009 F	FHLB - Des Moines[1]	Aaa/AA+	Negative/Stable	P-1/A-1+	19,815,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**99,815,000**				
	Total All Liquidity Providers				**$ 310,100,000**				

[1]Federal Home Loan Bank of Des Moines

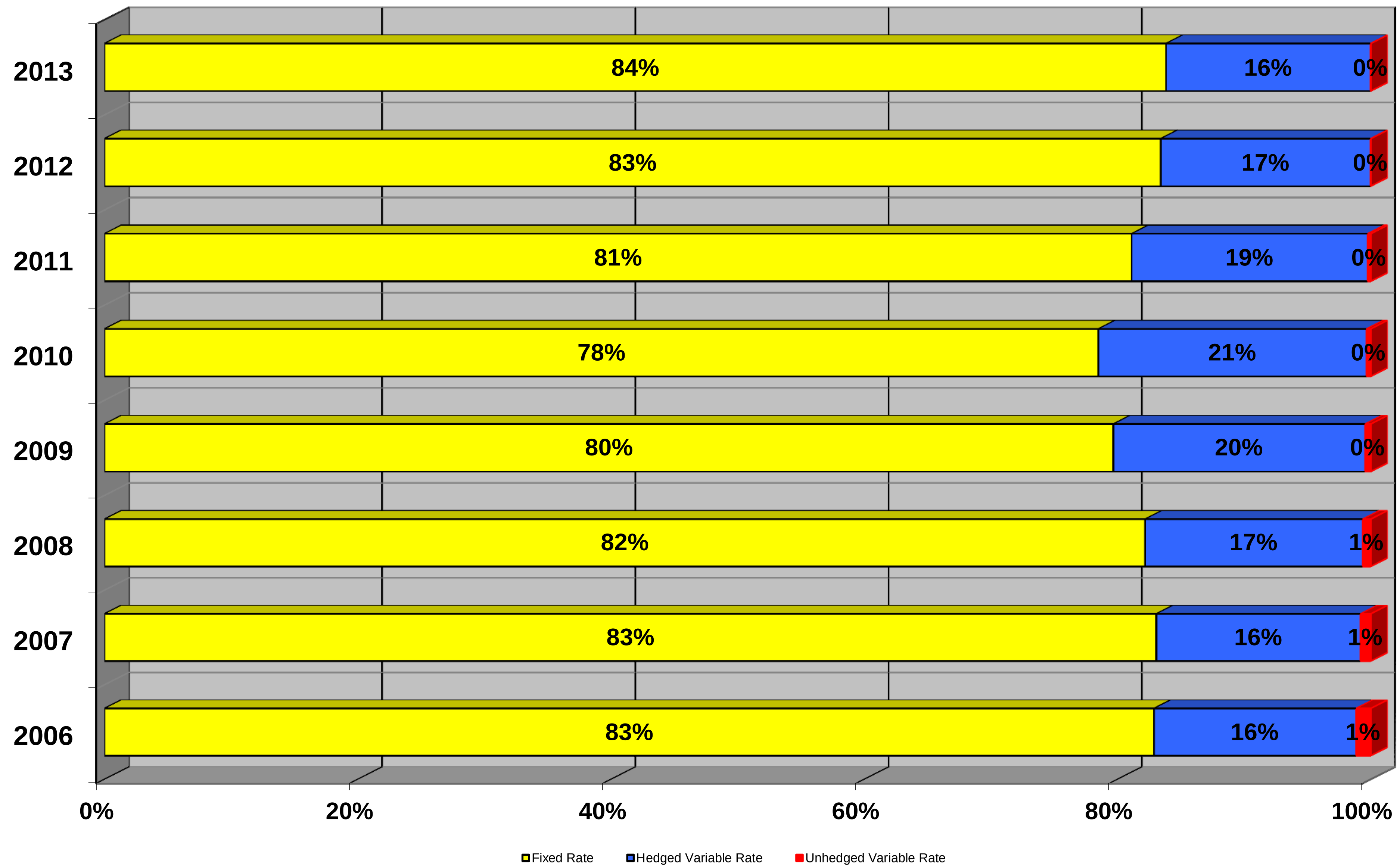
LIQUIDITY RENEWAL REQUIREMENTS
July 01, 2013

Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/13	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2003 B	Royal Bank of Canada	01/01/2033	01/01/2022	07/17/2015	25,000,000	20,725,000	20,725,000	9,975,000	BNY[1]
2003 J	Royal Bank of Canada	07/01/2033	01/01/2023	07/17/2015	25,000,000	13,845,000	12,090,000	8,145,000	BNY[1]
2004 G	Royal Bank of Canada	01/01/2032	07/01/2016	07/17/2015	50,000,000	26,450,000	23,810,000	17,325,000	RBC[2]
2005 C	Royal Bank of Canada	01/01/2035	01/01/2015	07/17/2015	25,000,000	16,330,000	13,110,000	-	BNY[1]
2005 I	Royal Bank of Canada	01/01/2036	01/01/2015	07/17/2015	40,000,000	26,015,000	16,310,000	-	BNY[1]
	Royal Bank of Canada subtotal				165,000,000	103,365,000	86,045,000	35,445,000	
2005 M	Wells Fargo	01/01/2036	07/01/2015	07/17/2015	60,000,000	37,660,000	29,945,000	-	BNY[1]
2006 C	Wells Fargo	01/01/2037	01/01/2016	03/21/2015	28,335,000	2,020,000	20,385,000	19,760,000	BNY[1]
2007 E	Wells Fargo	07/01/2038	07/01/2016	03/21/2015	25,000,000	10,675,000	9,445,000	6,890,000	RBC[2]
2007 J	Wells Fargo	07/01/2038	07/01/2016	03/21/2015	37,500,000	16,340,000	14,455,000	10,380,000	RBC[2]
2007 S	Wells Fargo	07/01/2038	07/01/2017	03/21/2015	18,975,000	18,975,000	18,975,000	18,975,000	BNY[1]
2007 T	Wells Fargo	07/01/2048	07/01/2017	03/21/2015	37,160,000	21,250,000	15,630,000	15,630,000	BNY[1]
	Wells Fargo subtotal				206,970,000	106,920,000	108,835,000	71,635,000	
2008 C	FHLB - Des Moines[3]	07/01/2048	07/01/2018	08/07/2015	40,000,000	40,000,000	40,000,000	33,210,000	RBC[2]
2009 C	FHLB - Des Moines[3]	07/01/2036	07/01/2019	02/12/2016	40,000,000	40,000,000	40,000,000	40,000,000	RBC[2]
2009 F	FHLB - Des Moines[3]	07/01/2016	NA	12/01/2016	34,120,000	19,815,000	-	-	RBC[2]
	FHLB - Des Moines subtotal				114,120,000	99,815,000	80,000,000	73,210,000	
	Total All Liquidity Providers				486,090,000	310,100,000	274,880,000	180,290,000	

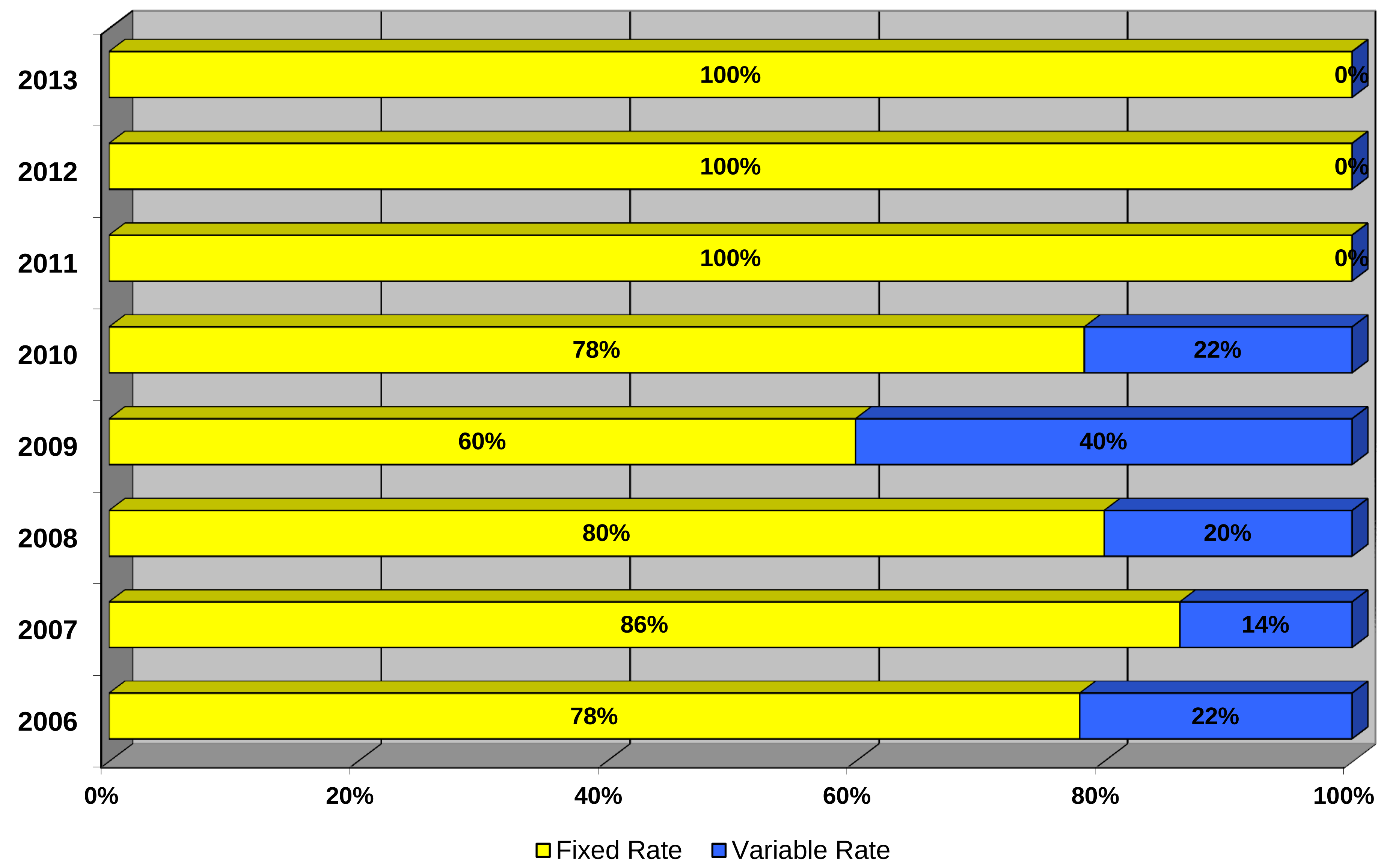
[1]The Bank of New York Mellon
[2]Royal Bank of Canada
[3]Federal Home Loan Bank of Des Moines

Minnesota Housing Finance Agency

Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30



Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30



Minnesota Housing Finance Agency

GLOSSARY OF TERMS

The following are explanations of certain terms used in this presentation:

Amortization Risk

Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing's variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing's bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk

Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. The outstanding swap agreements contain varying collateral requirements based on the respective parties' credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

GLOSSARY OF TERMS (continued)

LIBOR

London Interbank Offered Rate.

Liquidity Risk

Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as "bank bonds," would bear interest at a higher "bank rate" and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA

Securities Industry and Financial Markets Association.

Tax Risk

All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

GLOSSARY OF TERMS (continued)

Termination Risk

Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are

the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs

Variable Rate Demand Obligations ("VDROs") are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.