Minnesota Housing Finance Agency

MEETINGS SCHEDULED FOR DECEMBER

Location:

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

THURSDAY, DECEMBER 18, 2014

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, December 18, 2014.

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

AGENDA
Minnesota Housing Finance Agency
Board Meeting
Thursday, December 18, 2014
1:00 p.m.

State Street Conference Room – First Floor
400 Sibley Street, St. Paul, Minnesota 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of November 20, 2014
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
   None.
6. **Consent Agenda**
   A. Selection, Community Fix-Up Fund
   B. Administrator Contract Assumption, Community Homeownership Impact Fund
   C. Modification of Loan Terms, Twin Cities Community Land Bank and Family Housing Fund
7. **Action Items**
   A. Commitment, Low and Moderate Income Rental (LMIR) Program
      - Highland Apartments, Willmar, D1758
8. **Discussion Items**
   A. Bond Sale Results, Residential Housing Finance Bonds, Series 2014 CDE
   B. Agency Risk Profile
9. **Informational Items**
   None.
10. **Other Business**
11. **Adjournment**

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MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, November 20, 2014
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 1:04 p.m.

2. Roll Call.

Members present: Chair Ken Johnson, Gloria Bostrom, John DeCramer, George Garnett, Joe Johnson, Stephanie Klinzing, and Rebecca Otto.

Minnesota Housing staff present: Paula Beck, Nick Boettcher, Laura Bolstad, Dan Boomhower, Rose Carr, Ji-Young Choi, Chuck Commerford, Diane Elias, Molly Eytcheson, Vicki Farden, Kim Gelhar, Mike Haley, Annie Johnson, Bill Kapphahn, Kurt Keena, Larry Kelly, Kasey Kier, Kim Luchsinger, Diana Lund, Carrie Marsh, Shannon Myers, Charissa Osborn, John Patterson, Tony Peleska, Devon Pohlman, Paula Rindels, John Rocker, Gayle Rusco, Megan Ryan, Becky Schack, Barb Sporlein, Kim Stuart, Will Thompson, Rob Tietz, Mary Tingerthal, LeAnne Tomera, Katie Topinka, Elaine Vollbrecht, Dan Walsh, Summer Watson, Carrie Weisman, Xia Yang, Amber Zumski-Finke.

Others present: Jean Lee, APAHC, CHI/RRFC; Cory Hoeppner, RBC Capital Markets; Chip Halbach, Minnesota Housing Partnership; Paul Rebholz, Wells Fargo; Jen Oscarson, MHEG; Tom O'Hern, Assistant Attorney General; Celeste Grant, Office of the State Auditor. By phone: Gene Slater, CSG Advisors; Michelle Adams, Kutak Rock.

3. Agenda Review

Chair Johnson announced that items 7C and 7D, the conduit bond approvals, would be presented and discussed together.

4. Approval of the Minutes

A. Regular Meeting of October 23, 2014

Auditor Otto moved approval of the minutes as written. Mr. Joe Johnson seconded the motion. Motion carries 6-0, with Ms. Bostrom abstaining.

5. Reports

A. Chair

There was no chair's report.

B. Commissioner

Commissioner Tingerthal reported that the Agency had a press event following the previous month's board meeting to highlight the $500 million in housing investments that had been approved at the meeting. Commissioner Tingerthal also reported that she had been offered and accepted the opportunity to serve another term as Agency Commissioner.

Commissioner Tingerthal provided the board with information about the Housing and Community Dialogue event that was held in Austin, Minnesota. The event, presented in partnership with the Greater Minnesota Housing Fund and USDA Rural Development, was well attended and attendees included representatives of area businesses, including Hormel.

Commissioner Tingerthal then shared that Assistant Commissioner for Single Family, Mike Haley, would retire from the Agency in December following 34 years of service. Commissioner Tingerthal also shared that Mr. Haley had been chosen to receive a lifetime achievement award from the Minnesota Mortgage Association. Related to Mr. Haley's retirement, Commissioner Tingerthal announced that Ms. Kasey Kier, a 20-year Agency employee who is currently the operations director for single family and previously served as the RFP and tax credit coordinator, had accepted the position of Assistant Commissioner for Single Family.

Next, Commissioner Tingerthal reported that there has been a great deal of activity pertaining to the next state budget. The Agency had its budget presentation with Minnesota Management and Budget and the Governor's Office and also participated in collaborative presentations on children, workforce, homelessness and Olmstead. Commissioner Tingerthal added that the requested changes to the Agency budget are related to those collaboration areas. Communications with the Governor are ongoing regarding the budget and it is anticipated that he will release his budget in mid-January. Until that budget is released, there will be a lot of back-and-forth on budget requests. Commissioner Tingerthal thanked Legislative Liaison Katie Topinka for her work on the presentations in the absence of an Assistant Commissioner for Policy and Community Development.

Commissioner Tingerthal reported that the Senate Health, Housing and Human Services Committee had a lengthy hearing where presentations were given by Wilder Research about the most recent homeless count and from the Agency and Minnesota NAHRO about housing. Commissioner Tingerthal stated that the committee asked good questions and the hearing was a good opportunity to lay a foundational understanding of housing issues for committee members.

Commissioner Tingerthal also directed members' attention to a memo that had been provided at their places regarding a fair housing complaint that had been filed with HUD and informed members that any questions they had could be directed to Tom O'Hern, Counsel to the Board.

The following employee introductions were made:

- Kurt Keena introduced three new members of the PBCA team:
    - Charissa Osborn has joined the Agency as a housing technician and will provide administrative and technical support to the entire team of 25 individuals. Ms. Osborn has degree in English writing and literature from Bethel and previously was the director of operations for a small non-profit.

- Annie Johnson will perform portfolio oversight and management for a number of properties. Ms. Johnson is a graduate of St. Olaf's and was previously employed as a housing compliance manager.
- Molly Eytcheson will oversee PBCA properties in her role as an HMO at the Agency. Ms. Eytcheson has degrees in Criminal Justice and Biology from Hamline University and was the director of compliance for Boisclair Corporation.

- Joel Salzer introduced Diane Elias, who joined the Agency as the program manager for the Family Homeless Prevention and Assistance Program, a very community-based program. Ms. Elias comes to the Agency from Washington County, where she had 17 years of experience managing housing programs. Ms. Elias also has 20 years of experience serving on boards and partnership groups that help communities become strong and vibrant.

C. Committee Reports

There were no committee reports.

6. Consent Agenda

A. Bridges Rental Assistance Program, Revisions to Program Manual

MOTION: Mr. Joe Johnson moved approval of the changes to the Bridges Rental Assistance Program manual. Ms. Klinzing seconded the motion. Motion carries 7-0.

7. Action Items

A. Income Limits, Step Up Program

Ms. Laura Bolstad presented this request to increase Step Up limits to 120% of area median income. Ms. Bolstad described the characteristics of the Step Up program and stated that changing the income limits would allow the Agency to better serve moderate-income buyers and allow them access to unique conventional products available only from HFAs. Ms. Bolstad stated that the Step Up program does not use scarce resources and that program activity contributes resources to Pool 3. Ms. Bolstad provided additional information about how the change would impact borrower profiles and program production and described the process of researching income limits and determining where the limit should be set.

In response to a question from Mr. Joe Johnson, Ms. Bolstad stated that an increase to the limit may allow the Agency to serve borrowers who have difficulty access other credit, but will primarily increase access to unique products, such as those that features a 3% downpayment and can reduce or eliminate mortgage insurance, that are available only through HFAs.

Mr. Johnson expressed concern that an increase to the limits may not align with the Agency's mission to assist low- and moderate-income borrowers. Ms. Bolstad acknowledged that the group served by this action is not the typical market, but added that the anticipated additional production would allow for increased contributions to Pool 3 and these additional contributions would allow the mission-driven programs to reach more people. **MOTION:** Ms. Bostrom moved approval of the changes to the Step Up Program income limits. Mr. DeCramer seconded the motion. Motion carries 7-0.

B. Resolution Authorizing the Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2014/2015 Series

Mr. Tietz presented this request for approval to issue bonds whose proceeds would be used to refund a higher coupon 2005 series and to fund new loan production. Mr. Tietz advised the board of some costs related to the transaction, including swap cancellation fees. Mr. Tietz then referred members to the memo from the Agency's financial advisor for additional information. Ms. Michelle Adams of Kutak Rock described the parameters of the resolution. **MOTION:** Mr. Garnett moved approval of the issuance and sale of the bonds and the adoption of Resolution No. MHFA 14-051. Mr. Joe Johnson seconded the motion. Motion carries 7-0.

C. Resolution Relating to Multifamily Housing Revenue Bonds, Series 2014 (Minneapolis Preservation Portfolio Project); Authorizing the Issuance and Sale Thereof

D. Resolution Relating to Multifamily Housing Revenue Bonds, Series 2014 (Gus Johnson Plaza Project); Authorizing the Issuance and Sale Thereof

Mr. Rob Tietz requested approval on a not-to-exceed basis of multifamily conduit bonds for the Minneapolis Preservation Portfolio Project, a 582-unit multiple building development in Minneapolis and Gus Johnson Plaza, a single 108-unit building in Mankato. Both projects are acquisition and rehabilitation projects.

Mr. Tietz stated that both projects are being financed with an FHA-insured loan and other private and governmental funding sources. For both projects, Minnesota Housing has approved deferred funds through the Agency's HOME Affordable Rental Preservation Program (HARP). Minnesota Housing has to act as a conduit issuer for short term tax-exempt bonds which will be issued to provide financing for their projects and will also provide 4% housing tax credits. The bonds will be repaid after the projects are completed and placed in service. Mr. Tietz added that the developers for the projects are paying all costs associated with the issuance of the short term bonds and the Agency would receive minor fees for its role as issuer. Mr. Tietz added that, as a conduit issuer, the Agency does not hold a legal or moral obligation to pay the bonds.

Ms. Michelle Adams of Kutak Rock described the parameters of each issue, and stated that, for each sale, the bonds would be fully collateralized.

In response to a question from Ms. Bostrom, Commissioner Tingerthal stated that, although conduit issues typically have little or no underwriting performed by the issuers, both projects have been thoroughly underwritten by the Agency because they are receiving a substantial amount of HOME resources. Mr. Gene Slater added that these are very safe transactions because both projects will have 100% cash collateral for the bonds.

Commissioner Tingerthal added that, prior to his retirement; Mr. Frank Fallon was instrumental in the Minneapolis project and stated it was a very important transaction involving more than 500 units of affordable housing in shadow of the new football stadium, which is an area that will likely see an increase in rents. **MOTION:** Mr. Joe Johnson moved approval of the issuance and sale of the bonds related to the Minneapolis Preservation Portfolio Project and the adoption of

Resolution No. MHFA 14-043 Auditor Otto seconded the motion. Motion carries 7-0. **MOTION:** Ms. Klinzing moved approval of the issuance and sale of the bonds related to Gus Johnson Plaza Project and the adoption of Resolution No. MHFA 14-050. Mr. DeCramer seconded the motion. Motion carries 7-0.

E. Resolution to Increase Short-term Debt Limit

Mr. Bill Kapphahn presented this request to increase the short-term debt limit, an action that would allow for additional warehousing of mortgage backed securities. Mr. Kapphahn stated that the increase was necessary because the activity has become more robust and there is a longer amount of time between bond issues. Commissioner Tingerthal added that staff had considered requesting a permanent amendment but felt it would be best to wait until the completion of the next capital adequacy study. The temporary waiver will allow staff to work through that process and, if needed, bring a permanent change in the future. In response to a question from Chair Johnson, Mr. Kapphahn stated that the limit was put in place more than five years ago. At that time, the limit was adequate for the Agency's borrowing activities, which did not include warehousing. **MOTION:** Ms. Bostrom moved approval of the temporary increase to the Agency's short-term debt limit and the adoption of Resolution No. MHFA 14-052. Mr. Joe Johnson seconded the motion. Motion carries 7-0.

8. Discussion Items

A. 2014 Affordable Housing Plan and 2013-15 Strategic Plan: Final Progress Report

Mr. John Patterson presented the final progress report for the year, stating it had been an extraordinarily successful year in which the Agency met many of its targets. Mr. Patterson highlighted activity in the first mortgage production and rental rehabilitation areas. Commissioner Tingerthal made note of the changes the board approved to the Affordable Housing Plan and highlighted the overall investment in the community over and above that plan, stating that the activity is a remarkable complement to the Agency's partners and staff. Chair Johnson stated it was an excellent year with good production and thanked staff for their hard work.

In response to a question from Mr. DeCramer, Mr. Patterson stated that the industry benchmark combines all types of activity together. Because of this, the Agency has purchased proprietary data from CoreLogic so that it can access disaggregated data that will allow more specific production comparisons and performance tracking.

In response to a question from Ms. Bostrom about the multifamily asset management numbers, Mr. Patterson stated that the Agency allocated money but decided to target the resources toward more immediate emergency needs and re-direct large need projects to the RFP. This change in the deployment of resources resulted in lower than anticipated production.

9. Informational Items

A. Post-sale Report, Homeownership Finance Bonds, 2014 Series D

B. Report of Costs in Excess of Predictive Model, Mt. Airy Public Housing Four-Plex, St. Paul, D7668

C. Schedule of 2015 Board Meetings

Information items; no report, discussion or action.

10. Other Business

Chair Johnson asked that Mr. Mike Haley reflect on his years with the Agency and, on behalf of the board and the people of the state of Minnesota, thanked Mr. Haley for his service. Mr. Haley shared comments about his 34 years with the Agency and stated that he has been consistently amazed by the level of commitment of the Agency's board members.

11. Adjournment.

The meeting was adjourned at 1:52 p.m.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.A.
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Selection, Community Fix Up

CONTACT: Krissi Hoffmann, 651-297-3121 krissi.hoffmann@state.mn.us
Cal Greening, 651-296-8843 cal.greening@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 initiative recommended in the attached Initiative Detail. The Community Fix Up Loan initiative accepts 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 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):
List all attachments
- Background and Initiative Detail

BACKGROUND

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 the partnership;
- Leverage and/or value-added features;
- A focused marketing plan; and
- Budget counseling, if required.

The following recommended initiative for Community Fix Up meets the guidelines for participation contained within the program concept.

INITIATIVE DETAIL

Region	Application Partners	Estimated Demand	General Program Description
Twin Cities Metro	Greater Metropolitan Housing Corporation (GMHC) Beltrami Neighborhood Council	12 loans, $180,000	_X New __Renewal GMHC is proposing to offer a discount initiative. The Beltrami Neighborhood association has committed $50,422 in Neighborhood Revitalization Program (NRP) to write down Fix Up loans to 2%. This will allow homeowners in the Beltrami neighborhood to make both value added improvements and maintenance repairs to sustain the livability and life of the housing stock. Community Fix Up loan income limits and loan amounts will be used.

Minnesota Housing Finance Agency

AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Assumption of Administrator Funding Agreements, Community Homeownership Impact Fund

CONTACT: Luis Pereira, 651-296-8276, luis.pereira@state.mn.us
Tal Anderson, 651-296-2198, tal.anderson@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:
Approve the assumption of interest by Community Neighborhood Housing Services in two previously-approved owner-occupied rehabilitation Impact Fund awards made to the Greater Frogtown Community Development Corporation.

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):

- Background

BACKGROUND:
The Greater Frogtown Community Development Corporation (GFCDC) and Community Neighborhood Housing Services (CNHS) are two Saint Paul-based nonprofit housing organizations that recently arranged an affiliation agreement with one another in which the organizations remain legally separate but operate under the assumed name of "NeighborWorks Home Partners." CNHS is the holder of the assumed name, and under the affiliation agreement it will deliver home improvement lending, housing counseling and homebuyer education workshops, property management, and community engagement functions. All current GFCDC staff has been re-assigned to CNHS, so while GFCDC will no longer have any employees, GFCDC as a nonprofit organization will remain as a Community Housing Development Organization/Community Based Development Organization used for conducting CNHS affordable housing development (e.g., through a community land trust program), as well as serve as a holding company for real estate owned.

Given that the home improvement functions will now be delivered by CNHS, GFCDC has requested that its interest in contracts related to this function be assigned to CNHS, in which CNHS assumes the responsibility for such agreements. GFCDC has two existing Impact Fund award Funding Agreements under which it is required to deliver an owner-occupied rehabilitation program, as follows:

- **Impact Fund award #10-2012-12**, in which $175,000 in deferred loan funds were awarded to GFCDC to operate an owner-occupied rehabilitation program, providing loans to 11 households in the Frogtown neighborhood. While 10 of 11 households have now received owner-occupied rehabilitation loans, 1-2 additional households are anticipated to benefit from the program before the award is closed out. The award expires on January 1, 2015.
- **Impact Fund award #11-2013-10**, in which $198,000 in deferred loan funds were awarded to GFCDC to operate the Frogtown Face Lift Rehab Program, providing owner-occupied rehabilitation loans to 11 households in the North End and/or Aurora St. Anthony neighborhoods of Saint Paul. No homeowners have been reported as receiving rehabilitation loans at this point. The award expires on August 1, 2015.

As new employees to CNHS, the same staff that administered the programs under GFCDC will continue to administer the programs under the new arrangement. Once CNHS assumes GFCDC's interest in both of the above awards, it will become the Administrator that is held legally responsible to comply with the Impact Fund Funding Agreements and the Impact Fund program Procedural Manual.

Minnesota Housing staff will ensure that the appropriate documents are executed transferring GFDC's contractual duties and obligations to CNHS and CNHS assuming those duties and obligations.

AGENDA ITEM: 6.C.
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Approval, Modification of Terms to the Revolving Lines of Credit to the Twin Cities Community Land Bank and the Family Housing Fund

CONTACT: Karen Johnson, 651-296-5146
karen.l.johnson@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 adoption of a Resolution to add additional terms to the revolving lines of credit extended to the Family Housing Fund (FHF) and its subsidiary, the Twin Cities Community Land Bank (Land Bank).

At its October 23, 2014 meeting, the board adopted a resolution to restructure the revolving lines of credit extended to the Land Bank and the FHF and to modify the loan maturity of both credit lines to December 31, 2018 under a 12-month wind-down date in advance of maturity. The maximum combined amount of the credit lines totals $20 million and the loan restructuring reallocated the amount of funds available under each credit facility.

FISCAL IMPACT:
The fiscal impact of this request is minimal. The lines of credit to the Land Bank and the FHF are funded through the Economic Development and Housing Challenge Fund (“Pool 2”) as a moderate risk revolving loan program.

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

ATTACHMENT(S):
- Background
- Resolution

Background

In 2009, Minnesota Housing provided a $10 million, 5% interim loan to the Family Housing Fund from Pool 2 resources to fund foreclosure remediation efforts. The Family Housing Fund used the loan to capitalize the newly-created Twin Cities Community Land Bank's (TCCLB) foreclosure remediation loan program. The loan was made to the Family Housing Fund and was passed on to TCCLB, with the Family Housing Fund remaining as obligor.

In November 2011, the board adopted Resolution No. MHFA 11-047, which transferred responsibility for a pilot program activity from MyHomeSource (MHS) to TCCLB by making a direct loan to TCCLB of $3 million available to lend to a private developer for foreclosure remediation.

In April 2012, the board adopted Resolution No. 12-026, allowing $5 million of the existing $10 million loan to FHF be restructured as a revolving direct line of credit to the FHF for housing related, strategic acquisition and other non- foreclosure recovery loans for single family homes. The board also adopted Resolution No. 12-025, which increased the direct loan to TCCLB from $3 million to $15 million and allowed the continued waiver of certain Economic Development and Housing Challenge Program rules pertaining to the limitation on interest rate, the form of application and the 20-month timeline for completion of owner occupied homes.

In August, 2012, the board adopted Resolution No. 12-057, which modified the maturity dates of both the loans to the Family Housing Fund and to the Twin Cities Community Land Bank, changing them from June 30, 2015 to June 30, 2016.

Finally, in October, 2014, the board adopted Resolution No. 14-044, which set the maximum loan amount for each loan at $10 million, extended the maturity date to December 31, 2018 and required a wind-down period to begin 12 months in advance of the maturity date.

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street – Suite 300
Saint Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING A MODIFICATION OF LOANS TO TWIN CITIES COMMUNITY LAND BANK AND FAMILY HOUSING FUND

WHEREAS, the Agency's Board has adopted Resolutions No. MHFA 11-047, 12-025, 12-026 and 12-057 related to financing offered to the Twin Cities Community Land Bank and Family Housing Fund;

WHEREAS, the Agency's Board adopted Resolution No. MHFA 14-044 approving a restructuring of its existing financing to the Twin Cities Community Land Bank (Land Bank) and to the Family Housing Fund (FHF) on October 23, 2014;

WHEREAS, the Agency approved a $10,000,000 revolving line of credit to the Land Bank for the purpose of foreclosure recovery and neighborhood stabilization; and

WHEREAS, the Agency approved a $10,000,000 revolving line of credit to the FHF to pass through to its subsidiary, the Land Bank, for the purpose of lending for strategic acquisition, interim financing, and land banking; and

WHEREAS, Agency staff has examined the structure of the existing financing and has determined that it would be suitable to modify additional terms of the revolving credit facilities to the Land Bank and the FHF; and

WHEREAS, Agency staff has determined that changes to the terms of the credit facility will assist in fulfilling the purposes of Minn. State. Ch. 462A and the Economic Development Housing Challenge Program;

NOW THEREFORE, BE IT RESOLVED THAT the Agency hereby approves the following changes to the terms of the credit facilities:

1. With respect to the $10,000,000 revolving line of credit to the Land Bank for the purpose of Foreclosure Recovery and Neighborhood Stabilization lending activities:
    a. The Land Bank shall limit the maximum exposure to $3,000,000 in outstanding eligible loans to any one developer;
    b. There shall be a 3.5% loan loss reserve provision on the outstanding balance of the loan portfolio;
    c. The Land Bank shall maintain a 15% net asset ratio and certify compliance with each disbursement request through the Compliance Certification and to be measured with each quarterly report;
    d. The Family Housing Fund guarantee on the loan shall be eliminated;
    e. The Land Bank shall update its foreclosure remediation lending policies and procedures and incorporate compliance into the credit agreement.

2. With respect to the $10,000,000 revolving line of credit to the Family Housing Fund to be passed through to the Land Bank for the purposes of Strategic Acquisition, Interim Financing, and Land Banking activities:
   a. The Land Bank shall maintain a current ratio of at least 2.5% and certify compliance with each disbursement request through the Compliance Certification;
   b. The Land Bank shall have a 7% loan loss reserve provision on the outstanding balance of the portfolios lending activities;
   c. The Land Bank shall maintain a 1.05 debt service coverage ratio and certify compliance with each disbursement request through the Compliance Certification and to provide its method of calculation;
   d. The Land Bank shall maintain a net asset ratio of 20%, if the outstanding balance of the line is greater than 50%, or 15%, if the balance is below 50%, and certify compliance with each disbursement request through the Compliance Certification and to be measured with each quarterly report;
   e. The Land Bank shall limit acquisitions without an identified take out to $3,000,000;
   f. The Land Bank shall pledge collateral to the Agency on projects without an identified take out;
   g. The Land Bank shall develop its strategic acquisition policies and procedures and incorporate compliance with those policies and procedures into the credit agreement.

NOW THEREFORE, BE IT FURTHER RESOLVED THAT all provisions Resolutions No. MHFA 11-047, 12-025, 12-026, 12-057 and 14-044 that are not modified by this resolution remain in force.

Adopted this 18th day of December, 2014.

____
CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM 7.A
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Highland Apartments, Willmar (D1758)

CONTACT: Caryn Polito, 651-297-3123
Caryn.Polito@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 a Low and Moderate Income Rental (LMIR) program commitment in the amount of $1,830,000, subject to the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2014 amended Affordable Housing Plan (AHP), the Board allocated $51 million in new activity for the LMIR program which includes $21 million from the Housing Investment Fund (Pool 2) and $30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loan falls within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate $67,703 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

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 7, 2013, meeting, approved this development for processing under the under the Low and Moderate Income Rental (LMIR) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$6,072,396		$6,383,045		$310,649	
Gross Construction Cost	$3,371,261		$3,531,396		$160,135	
Agency Sources:						
LMIR	$1,830,000		$1,830,000		$0	
Total Agency Sources	$1,830,000		$1,830,000		$0	
Other Non-Agency Sources:						
Housing Syndication Proceeds	$3,618,143		$3,758,792		$140,649	
MN DEED	$139,480		$139,480		$0	
GP Cash	$484,773		$484,773		$0	
Cash Flow	$0		$130,000		$130,000	
Sales Tax Rebate	$0		$40,000		$40,000	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
1 BR – tax credit and Section 8	72	$606	72	$637	0	$31
1 BR – Section 8	6	$606	6	$637	0	$31
Total Number of Units	**78**		**78**			

Factors Contributing to Variances:
Rents have increased since selection due to a HAP contract rent increase.

Construction costs came in on budget, and the HRA has identified additional plumbing, mechanical, and electrical work that is needed. The HRA is able to cover the increase in TDC through use of interim income (cash flow) as a source and a sales tax rebate as a source. The syndicator also increased its pricing from $.8825 to $.9169 per credit.

Other significant events since Board Selection:
Tax credits were awarded to the HRA of Willmar. The HRA of Willmar is assigning its assets to the HRA of Kandiyohi County. The executive director is the same for the HRA of Willmar and the HRA of Kandiyohi County. The tax credit team reviewed this request and assigned the credits to the HRA of Kandiyohi County. A full financial review of the HRA of Kandiyohi County was performed by Agency staff; the Kandiyohi HRA is a very strong financial sponsor.

DEVELOPMENT SUMMARY
DEVELOPMENT:

					D1758
Name:	Highland Apartments			App#:	M16592
Address:	115 Becker Ave SE				
City:	Willmar	County:	Kandiyohi	Region:	SWMIF

MORTGAGOR:

Ownership Entity:	Highland Apartments LP
General Partner/Principals:	HRA of Kandiyohi County

DEVELOPMENT TEAM:

General Contractor:	KUE Contractors Inc.
Architect:	I & S Group, Inc., Mankato
Attorney:	Faegre Baker Daniels LLP, Minneapolis
Management Company:	HRA of Kandiyohi County
Service Provider:	N/A

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 1,830,000	LMIR First Mortgage	
	Funding Source:	Hsg Investment Fund(Pool 2)
	Interest Rate:	5.25%
	MIP Rate:	0.25%
	Term (Years):	30
	Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
1BR	78	575	$ 637	$ 597	$ 25,480
TOTAL	78				

NOTES: HAP contract rents exceed 50% AMI limits

Purpose:
This proposal is for the rehabilitation of the Highland Apartments located in Willmar. Highland Apartments is a 78-unit building located near downtown Willmar and designed for residents 62 or older and others with limited disabilities. The property is fully occupied, with project based Section 8 assistance for 100% of the units. The property is currently owned and operated by the Willmar HRA, and the Kandiyohi HRA will be the sole and managing member of the General Partner of a new Tax Credit partnership. Seventy-two units (92% of total) will be covered by the declaration under the tax credit program. This property was determined to be at high risk due to substantial and immediate physical needs. Preservation of the 78 Section 8 units results in leveraging a present value of $5,405,000 in federal rent subsidies over the next 30 years.

Target Population:
Highland Apartments targets general occupancy residents aged 62 or older and others with limited disabilities, including households of color. Current residents at Highland Apartments are predominantly white, non-hispanic (93.5%) and have very low incomes; the average income of tenants is $12,219 per

year. One quarter of the households qualify under HUD's definition of very low income, while an additional 72% have incomes that qualify as extremely low income. Of the 78 resident households, 70 qualify based on disability; 25 householders are age 62 or older, with 17 households qualifying under both statuses.

Project Feasibility:
The project is feasible as proposed. Minnesota Equity Fund will be the limited partner contributing $3,758,792 in tax credit equity. DEED has committed $139,480, the HRA has committed $484,733 in the form of a loan at 9% interest. The cash flow (interim income) and sales tax rebate will be bridged at the time of closing. The TDC of $81,834 per unit is below the predictive model of $136,595 per unit.

Development Team Capacity:
Southwest Minnesota Housing Partnership (SWMHP) serves as the developer while the Kandiyohi HRA will maintain ownership through a new tax credit limited partnership. SWMHP is a Minnesota non-profit housing developer whose mission is to "Create thriving places to live, grow and work through partnerships with communities." They have developed/rehabilitated 58 multi-family developments (over 1300 units) and 45 (313 units) single-family developments since its inception in 1992.

Willmar HRA was established in 1965 began managing buildings in 1971. The development is in their portfolio and as a pre-paid Section 8 loan, the Agency has oversight as a TCA (traditional contract administrator).

Physical and Technical Review:
This is a moderate rehab workscope of an existing 3-story apartment building. The rehabilitation will address physical needs, which along with the new financing, will stabilize the development for the long-term.

Market Feasibility:
The property has had a stable 97% or higher occupancy over the past 5 years; the property has a waiting list of 43 households and will continue to benefit from the Section 8 rental assistance. The market study concluded that the renovation of the property is feasible within this market and will have a positive impact on the community.

Supportive Housing:
NA

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit	Per LTH Unit
Total Development Cost	$6,383,045		$81,834	
Acquisition or Refinance Cost	$1,405,000		$18,013	
Gross Construction Cost	$3,531,396		$45,274	
Soft Costs (excluding Reserves)	$1,041,649		$13,354	
Non-Mortgageable Costs (including Reserves)	$405,000		$5,192	
Total LMIR Mortgage	$1,830,000		$23,462	
First Mortgage Loan-to-Cost Ratio		29%		
Agency Deferred Loan Sources				
Total Agency Sources	$1,830,000		$23,462	
Total Loan-to-Cost Ratio		29%		
Other Non-Agency Sources				
Syndication Proceeds*	$3,758,792		$48,190	
MN DEED	$139,480		$1,788	
Cash Flow	$130,000		$1,667	
HRA Loan	$484,773		$6,215	
Sales Tax Rebate	$40,000		$513	
Total Non-Agency Sources	$4,553,045		$58,372	

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

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM

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

Name of Development:	Highland Apartments
Sponsors:	Housing and Redevelopment Authority of Kandiyohi County
Guarantors:	Housing and Redevelopment Authority of Kandiyohi County
Location of Development:	Willmar
Number of Units:	78
General Contractor:	KUE Contractors Inc.
Architect:	I & S Group, Inc.
Amount of Development Cost:	$6,383,045
Amount of Low and Moderate Income Rental (LMIR) Mortgage:	$1,830,000

WHEREAS, Agency staff has determined that such applicant is an eligible sponsor under the Agency's rules; that such permanent mortgage loan is 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) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $1,830,000; and

2. The LMIR commitment shall expire on June 30, 2015; and

3. The end loan commitment shall be entered into on or before the expiration of the LMIR commitment; and

4. The end loan closing must occur within 18 months of the date of the end loan commitment; and

5. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.25 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization schedule and

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

7. Agency staff shall review and approve the Mortgagor; and

8. 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

9. Housing and Redevelopment Authority of Kandiyohi County 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

10. Housing and Redevelopment Authority of Kandiyohi County shall guarantee the mortgagor's payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

11. 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 18th day of December 2014.

____

CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Bond Sale Results, Residential Housing Finance Bonds, Series 2014 CDE

CONTACT: Rob Tietz, 651-297-4009
rob.tietz@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:
Staff will provide the board with a verbal summary of the results of this sale. A complete post-sale report will be provided to the board at its January, 2015 meeting.

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):
None

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AGENDA ITEM: 8.B
MINNESOTA HOUSING BOARD MEETING
December 18, 2014

ITEM: Agency Risk Profile

CONTACT: Will Thompson, 651-296-9813
will.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:
The Agency faces a number of risks to achieving its objectives. The Agency Risk Profile is a component of the Enterprise Risk Management (ERM) framework and is produced annually to demonstrate and communicate critical risk information to the board.

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:

- Agency Risk Profile

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Minnesota Housing Finance Agency

2015 Agency Risk Profile

Introduction

A risk profile is defined as a periodic documentation of the critical risks to an organization to achieving its stated objectives over a specified future time period. Critical risk is defined as the chance of something happening that would have a clear and direct impact on the achievement of Agency objectives.

The primary purpose for an Agency Risk Profile is to assist the Commissioner, Chief Risk Officer and management team in communicating risk-related issues with the Board.

This risk profile was developed with input from six members of the Risk Management Committee and their selected staff members. Staff was directed to complete individualized components of an online Agency Risk Profile which contained previously identified critical sources of risks to the Agency. For selected risk sources staff was asked to assess and provide:

- The impact to the Agency should these identified risks occur
- The likelihood of these risks occurring
- The strength of controls in place to prevent, or lessen the impact of the identified risks
- Additional comments regarding the identified risks.

Risk source assessments are intended to focus on critical risks confronting the Agency that may impact the Agency's ability to achieve the goals of its 2013 – 2015 Strategic Plan and/or 2015 Affordable Housing Plan.

Risk sources were assessed using risk impact, likelihood, and assurance; definitions of these terms are contained in Appendix A.

A Risk Level for each critical risk source was determined according to a Risk Assessment Matrix, which is contained in Appendix B.

Agency Risk Profile

The Agency Risk Profile is comprised of an Executive Summary, Aggregate Results Heat Map Current and Previous Years, Risk Profile Matrix and Risk Source Narratives.

Executive Summary

The economy and markets continue to improve nationally and in Minnesota. As the Agency embarks on its largest annual program budget ever approved, changes to the Agency's business model are key to maximizing affordable housing for low- and moderate-income Minnesotans. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. There is widespread recognition that the Agency has evolved as an organization to better meet the growing demand for affordable housing. Past changes to programs, financing strategies, and supporting technology were considered during the development of this Risk Profile, as well as the current action plan that emphasizes focus on how the Agency does its work. Eleven risk sources were assessed, and none received a Very High risk level ranking. Six risk sources received a High risk level ranking, which increased by one from the previous year. Overall, the Agency is well aware of these critical sources of risk and has executed, or is contemplating, mitigation strategies to address them.

Aggregate Results Heat Map

Current and previous years aggregate results of critical risk source assessments have been plotted to a heat map graph, shown on the next page.

Heat maps are a graphical representation of data where the individual values contained in a matrix are represented as colors. The heat map is intended to visually convey which risk sources pose the greatest challenges to the achievement of Agency objectives. Generally, assessed sources of risk that are plotted in the upper right quadrant of the grid have a greater impact and a higher likelihood of occurrence. The color of the plotted data point for each risk source indicates the level of assurance staff has in existing controls and mitigation strategies.

An Inherent Index score is calculated by multiplying the assessed impact by the likelihood. The Inherent Index is designed to measure the risk that an activity would pose if no controls or other mitigating factors were in place.

The Residual Index measures the risk that remains after controls and mitigation activities are taken into account. A Residual Index score is calculated by multiplying the assessed impact by likelihood by level of Assurance. Residual Index tiering has been incorporated into the Risk Assessment Matrix (Appendix B) to better delineate risk levels.

Additional information regarding heat maps and the calculation of Inherent and Residual Indexes is contained in Appendix C.

A	Interest Rates
B	Information Technology
C	Bond Markets
D	Counterparties
E	Federal Resources
F	Operational Capacity
G	Compliance
H	Loan Performance
I	State Appropriations
J	Business Continuity
K	Planning and Execution

A	Interest Rates
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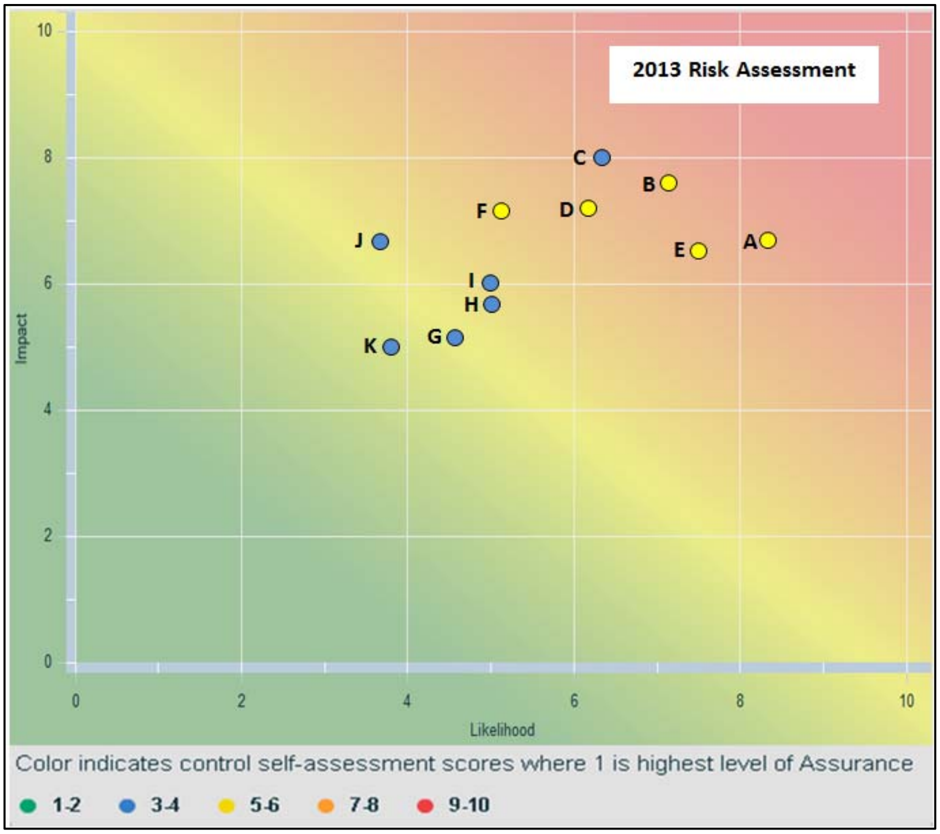

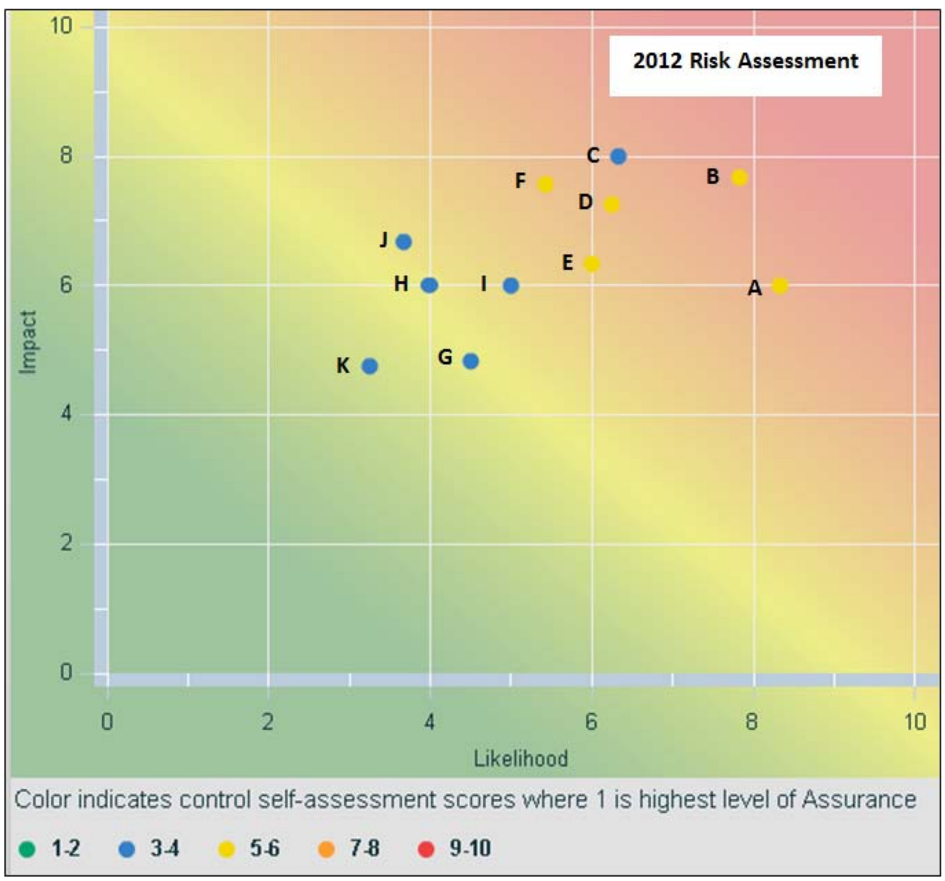

Risk Profile Matrix

Updates to the Risk Profile Matrix include risks that have been added or removed, trends and previous ratings for comparison.

The Risk Profile has been arranged into a "Top Eleven" format and lists first the higher level critical risk sources as determined by scoring on the Risk Assessment Matrix (Appendix B).

The Risk Profile Matrix lists the 11 previously identified critical sources of risk. The matrix lists the risk sources, from the highest to lowest risk level, as determined by the Residual Index score.

One critical source of risk, Operational Capacity, has a higher level of assessed residual risk in 2014 than in 2013. Loan Performance has a lower level of assessed residual risk, moving from Moderate to Low. Additional detail on these and other risk sources is available in the Risk Source Narratives.

		2014 Risk Level			2013 Risk Level			2012 Risk Level			2011 Risk Level	2013-14
		Rank	Residual Index	Inherent Index	Rank	Residual Index	Inherent Index	Rank	Residual Index	Inherent Index	*Index scores not available*	**Change**
A	Interest Rates	1	327	58	1	337	57	2	298	52	High	Better
B	Information Technology	2	294	53	2	331	54	1	344	60	High	Better
D	Counterparties	3	262	48	4	237	44	3	267	45	Moderate	Worse
E	Federal Resources	4	239	50	5	236	49	5	192	38	Moderate	Worse
F	Operational Capacity	5	227	41	6	175	36	6	191	40	Moderate	Worse
C	Bond Markets	6	210	47	3	238	51	4	238	51	High	Better
G	Compliance	7	130	26	7	118	24	8	102	22	Moderate	Worse
I	State Appropriations	8	117	30	9	105	30	7	120	30	Moderate	Worse
J	Business Continuity	9	77	26	10	76	26	10	87	26	High	Worse
H	Loan Performance	10	72	23	8	109	28	9	96	24	Not Identified	Better
K	Planning and Execution	11	64	21	11	68	22	11	49	18	Moderate	Better

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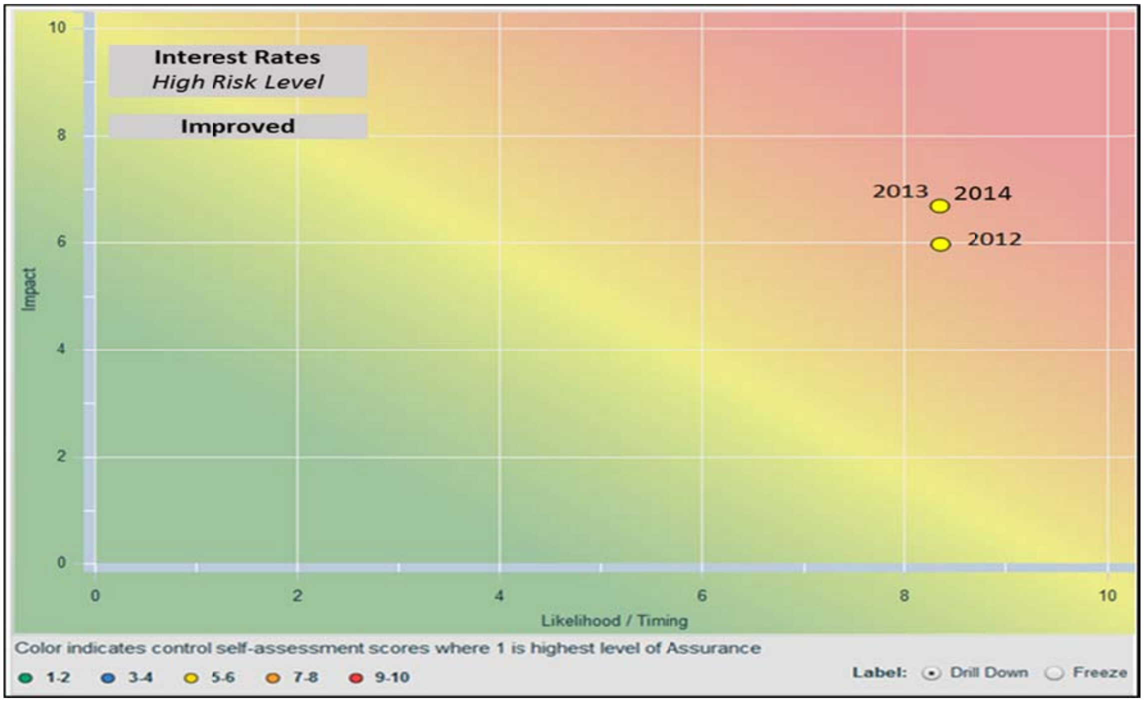
Risk Source Narratives

The Risk Source Narratives describe the source of each risk, the objectives impacted by that risk and any mitigating actions that are in place or planned.



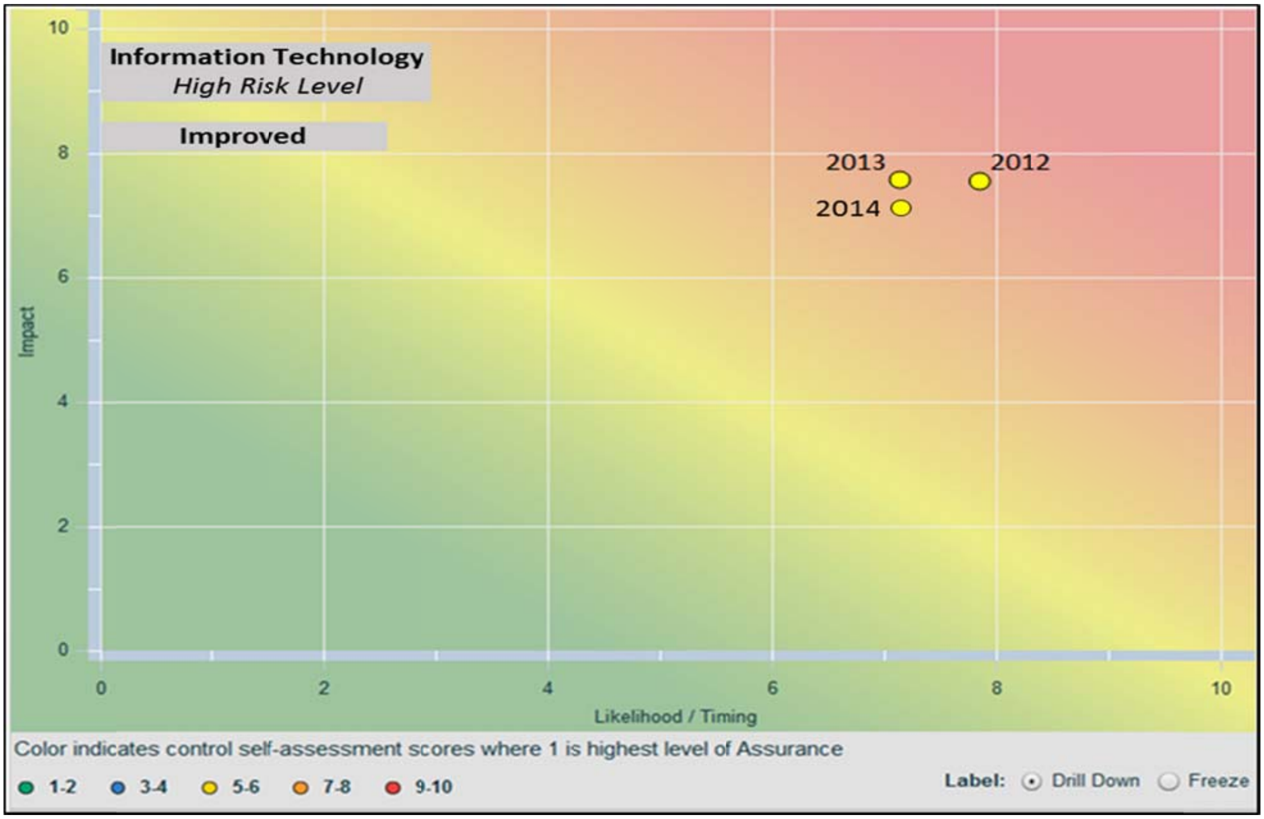
	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.00)	Likely (8.33)	Could Be Improved (5)	High (52)	High (298)
2013	Serious (6.67)	Likely (8.33)	Could Be Improved (5)	High (57)	High (337)
2014	Serious (6.67)	Likely (8.33)	Could Be Improved (4.67)	High (58)	High (327)

Overall, interest rates were assessed as a high risk source, which is unchanged from the previous assessment. A slight improvement in the assessed level of assurance drove down the residual index from 337 to 327. The Mortgage Bankers Association expects the average rate on a 30-year, fixed rate mortgage to rise slowly to 5.1 percent by the end of 2015, a full percentage point higher than third quarter 2014. Interest rate management is a key activity at Minnesota Housing because the Agency's large portfolio of assets is the primary revenue-generation tool. Continued volatility of interest rates is highly likely in the current economic environment. Interest rate volatility is out of the Agency's control; however, depending on the interest rate environment, the Agency encounters both challenges and opportunities. Interest rates in the general economy can at any time rise (high rate environment) or fall (low rate environment). Each scenario presents unique challenges to the Agency's business model. The Agency is currently in a low rate environment. A low interest rate environment, which benefits borrowers, is stressful to the Agency's financial results. Low rate environments generally cause high rates of mortgage loan prepayments, challenging the Agency to produce enough new lending to repopulate the balance sheet with assets at acceptable yield levels. In this environment, Agency interest rates are often very similar to rates in the conventional market, so loan production is maintained partially with use of scarce mortgage enhancements (i.e., deferred loans and grants). Assets held as cash in low rate environments produce diminished investment income, including periods of negative arbitrage when prepayments received are temporarily invested below bond yield until bonds can be repaid with the prepayments. Low rates also diminish earnings on committed but undisbursed state appropriations, resulting in less potential for overhead recovery payments to cover actual costs. Short term volatility in interest rates is also a risk because there is a time differential between when the Agency commits to purchase a loan and when the loan is delivered to and financed by the Agency. If interest rates rise dramatically in that time period, the Agency's anticipated profitability can be greatly reduced, eliminated or turned into a loss. While interest rate risks are currently monitored in an effective manner, the increase in packaging loans for sale in the securitization market has increased the volume of loans that are subject to interest rate movements.

Effectiveness of Control / Mitigation Activities:
Several aspects of interest rate management require careful management to affect the desired long-term impacts. These aspects include:

- Calling bonds more frequently as a strategy to use cash more effectively
- Maximizing interest rate spread on bonds
- Hedging exposure to variable rate debt
- Setting program interest rates in a market-sensitive manner
- Loan warehousing
- Effective loan pipeline management
- Selling the Agency’s mortgage-backed securities on the secondary market

Additionally, technically competent and experienced Agency staff has the ability to take advantage of short-term opportunities in a low or high rate environment while ensuring long-term financial viability due to continuous discipline and sound ethical decision-making skills at all levels of the Agency.



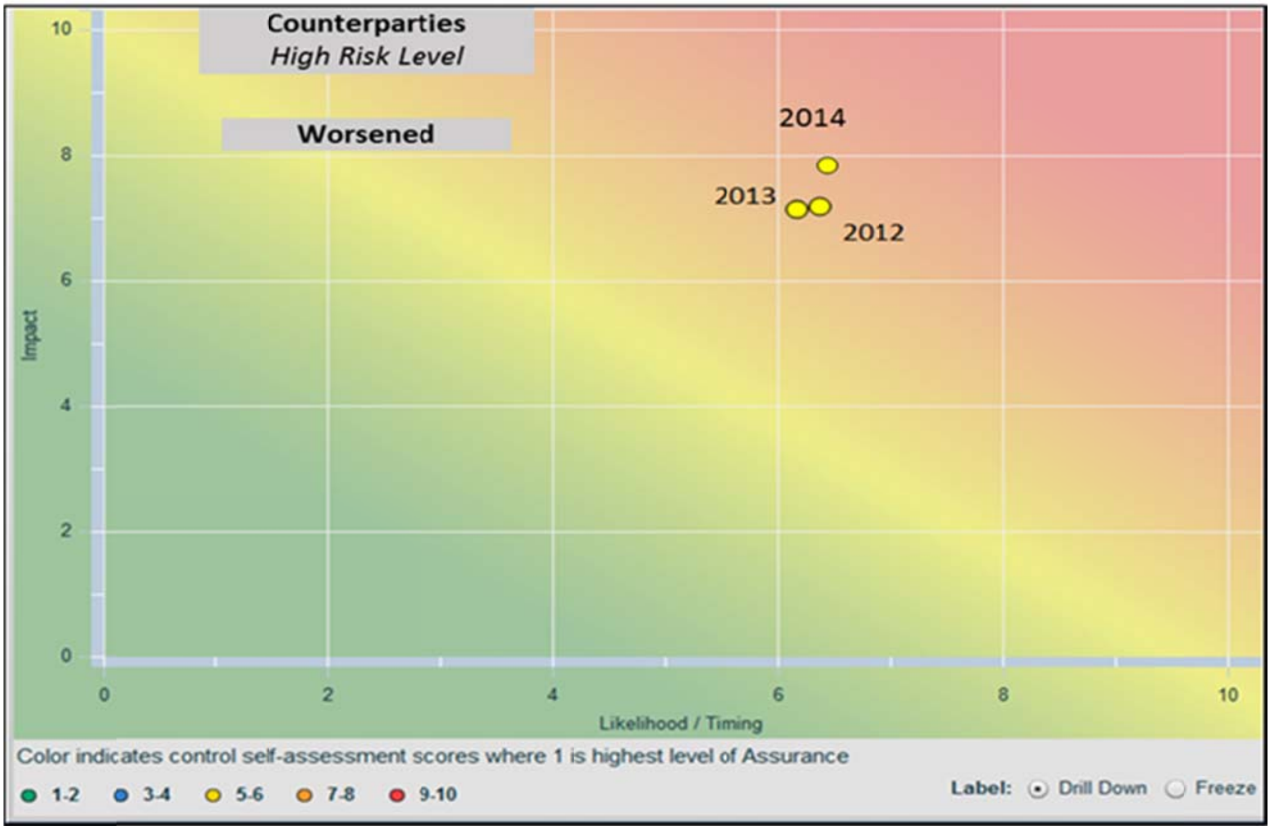
	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.67)	Likely (7.83)	Could Be Improved (5.50)	High (60)	High (344)
2013	Serious (7.57)	Likely (7.14)	Could Be Improved (5.43)	High (54)	High (311)
2014	Serious (7.43)	Likely (7.14)	Could Be Improved (5.29)	High (53)	High (294)

Information Technology (IT) is assessed as a high risk source, which is unchanged from the previous assessment. A slight decrease in the assessed impact and a slight improvement in the assessed level of assurance drove down the residual index from 311 to 294. The lower assessed impact and higher assurance reflects a slight recalibration in sensitivity due to the completion of three major technology projects, Property Online Reporting Tool (PORT), Multifamily Workbook and the updated Agency website. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. Each aspect of this environment requires information technology systems to make them work effectively. Systems in place today have been effective and have passed risk, audit and compliance standards tested in our financial audit. The need to adapt quickly, increasing compliance requirements, and sophistication in the type of funding sources used to fund Agency programs underscore the need for adequate technology to access potential new sources of capital while lessening the likelihood of compliance failures. Multifamily Roadmap, Multifamily Benedict Group, Inc. (BGI) Loan Servicing Software, Single Family Loan Origination System, Single Family Si Sense Business Intelligence, and Customer Relationship Management are five major projects with significant technological components currently underway. Data Warehouse System and Document Management System are two more major projects to begin in 2015. There is increasing confidence in the process to identify, request, explore, approve and track new technology projects; however, high levels of risk to implementing efficient and effective IT systems remain. Identified risks include:

- Business line and BTS personnel must develop deeper understanding of the business requirements to determine the most effective technology solutions.
- Communications between Business line and BTS personnel must be enhanced to implement the most effective technology solutions.
- Strong project management practices and realistic timelines are needed to successfully implement technology solutions.
- Adequate staff resources both in BTS and the business lines are needed to support Agency information technology systems projects.
- Current State of Minnesota contracting procedures make it difficult to procure needed software or services on a timely basis.

There is a visible executive leadership for technology and business process improvements and increased staff communication regarding information technology systems projects.

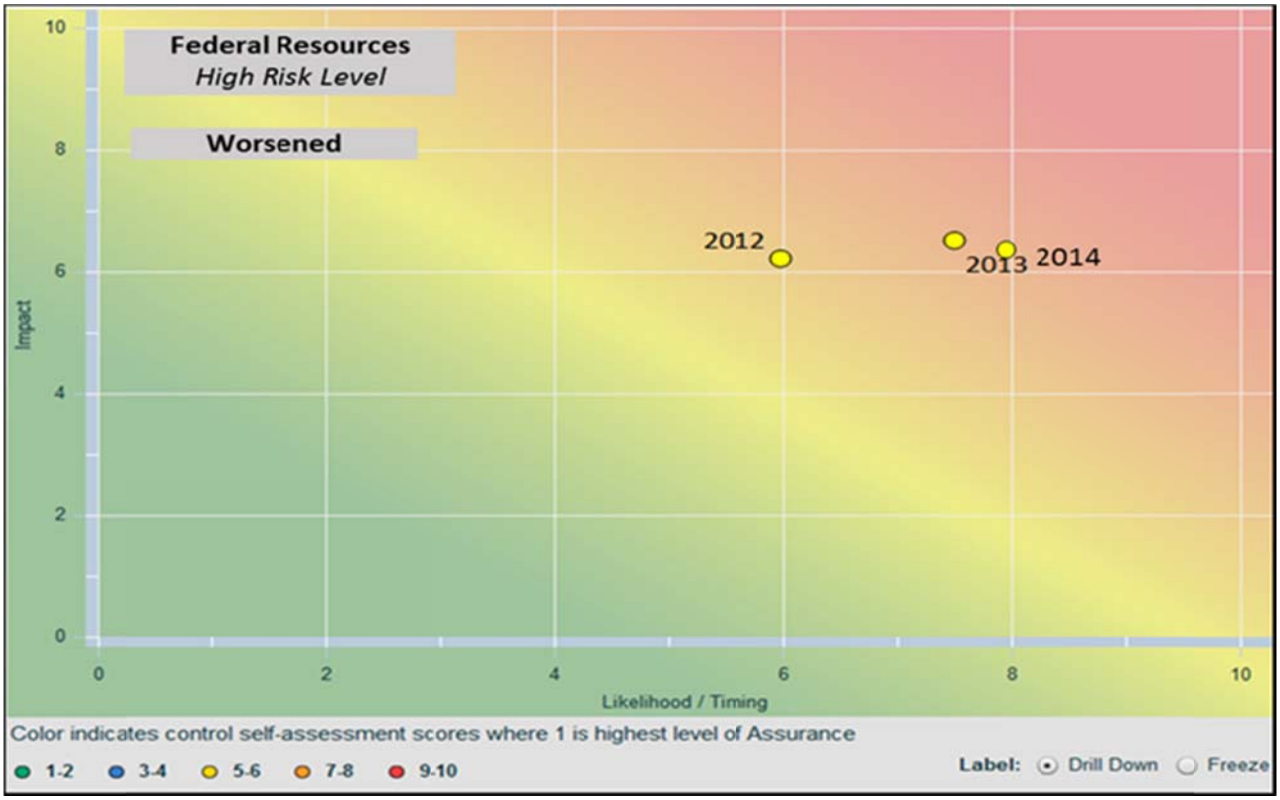
Effectiveness of Control / Mitigation Activities:
The Agency has increased both its Business Technology Support (BTS) staffing and operations budget and has adopted a process to identify, request, explore, approve and track new technology projects. Technology improvements are identified as a priority in the 2013 – 2015 Strategic Plan. The Agency has a Business Technology Investment Committee (BTIC) comprised of the Commissioner, Deputy Commissioner, Chief Financial Officer (CFO) and Chief Information Officer (CIO) to prioritize and coordinate technology investments. In addition, the Operations Committee, which is comprised of the Deputy Commissioner, CIO and Director of Operations, is tasked to resolve administrative and operational issues.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.25)	About as Likely as Not (6.25)	Could Be Improved (5.75)	High (45)	High (267)
2013	Serious (7.17)	About as Likely as Not (6.17)	Could Be Improved (5.33)	High (44)	High (237)
2014	Serious (7.5)	About as Likely as Not (6.33)	Could Be Improved (5.33)	High (48)	High (262)

Counterparties are assessed as a high risk source, which is unchanged from the previous assessment. A slight increase in the assessed impact and likelihood, combined with no change in assurance, drove up the residual index from 237 to 262. The higher residual index is primarily a result of continued lack of competition at the master servicer level and a potential new entrant, the National Housing Foundation, as a direct competitor for Single Family loan originations. Counterparties are vital to the Agency accomplishing its strategic and affordable housing plans. Counterparties include Government-Sponsored Enterprises (GSEs), other Minnesota state agencies, credit rating agencies, capital markets participants, lenders, guaranteed investment contract (GIC) providers, brokers, realtors, grantees, sub-grantees, vendors and borrowers. The likelihood of disruptions to Agency activities by counterparties is recognized as a concern. There is still a great deal of uncertainty around the fate of GSEs. Agency relationships with lenders impact its ability to conduct and attract new businesses. Complex policies, processes and deadlines in working with state contracted vendors increase costs. Nonprofit and government program administrators continue to find it difficult to raise capital to fund operations and services in the current economic environment.

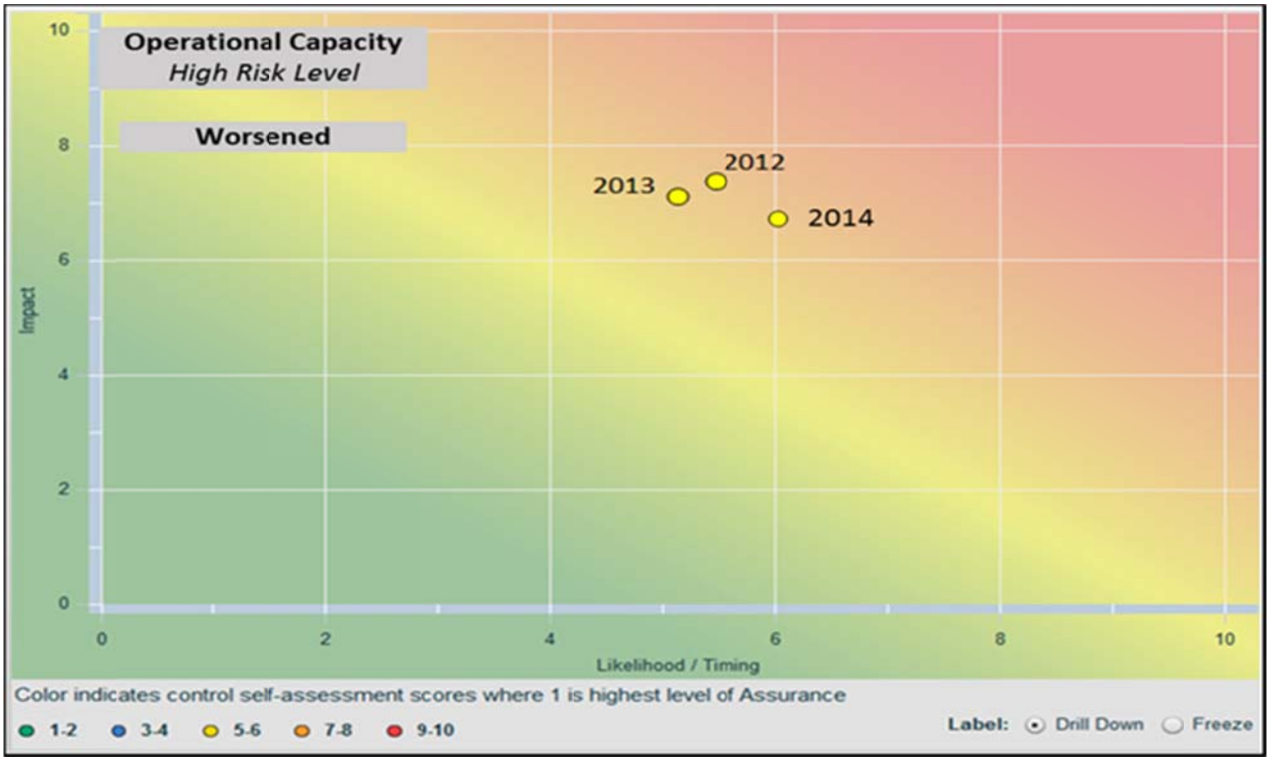
Effectiveness of Control / Mitigation Activities:
Counterparty risk is addressed on an ongoing basis through strengthening relationships with sole source providers and developing alternative processes when necessary. The Agency can comment on the GSEs' fate through its membership in the National Council of State Housing Agencies (NCSHA); however, it cannot control the outcome. The Agency continues to work with lenders and other key counterparties to better understand process, program and technological needs. The Agency performed enhanced counterparty due diligence for organizations that applied for Homeownership Impact and Ending Long-Term Homelessness Initiative Fund resources during 2014 and is evaluating additional due diligence processes for 2015.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.33)	About as Likely as Not (6.0)	Could Be Improved (5.0)	High (38)	Moderate (192)
2013	Serious (6.50)	Likely (7.5)	Could Be Improved (4.5)	High (49)	High (236)
2014	Serious (6.25)	Likely (8)	Could Be Improved (4.5)	High (50)	High (239)

Federal Resources are assessed as a high risk source, which is unchanged from the previous assessment. A slight increase in the assessed likelihood, moderated by a smaller decrease in impact, drove the residual index up from 236 to 239. The higher assessed likelihood reflects the notion that federal resources will continue to diminish due to the results of the 2014 federal elections. The lower assessed impact reflects the notion that federal resources are a smaller portion of the Agency's program budget. Because federal funds are a critical source of funding for a number of Agency programs; diminishing federal resources are an Agency-wide concern. Given the large size of federal budget deficits it is highly likely that there will be continuing pressures to reduce federal resources for housing.

Effectiveness of Control / Mitigation Activities:
The Agency actively participates in federal policy initiatives through its national organization, the National Council of State Housing Agencies (NCSHA), and regularly meets with its congressional delegation to demonstrate the positive impact of programs funded with federal resources, but the complexity and severity of the budget deficit makes it a difficult risk source to mitigate. The Agency focuses compliance efforts on programs with federal funding to ensure that funds are not lost due to non-compliance.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.57)	About as Likely as Not (5.43)	Could Be Improved (4.57)	High (40)	Moderate (191)
2013	Serious (7.13)	About as Likely as Not (5.13)	Could Be Improved (4.63)	High (36)	Moderate (175)
2014	Serious (6.88)	About as Likely as Not (6)	Could Be Improved (5)	High (41)	High (227)

Operational Capacity is assessed as a high risk source, which is an increase from the previous assessment. A slight decrease in the assessed impact and an increase in likelihood, combined with a slight deterioration in assurance, drove up the residual index from 175 to 227. The higher residual index is primarily a result of three new assistant commissioners being brought on to the senior leadership team, replacing long-serving senior leaders. Having a strong organizational capacity is fundamental to the Agency's ability to implement effective strategies and fulfill its mission. Up to eight percent of Agency employees will retire in the next five years. The business is becoming more and more complex, leading to the possibility that positions will need to be upgraded to attract qualified replacements. State salaries are considered low and recruiting a pool of qualified replacements is important. In many areas of the Agency, staffing levels remain a concern due to high volume and significant process and systems changes.

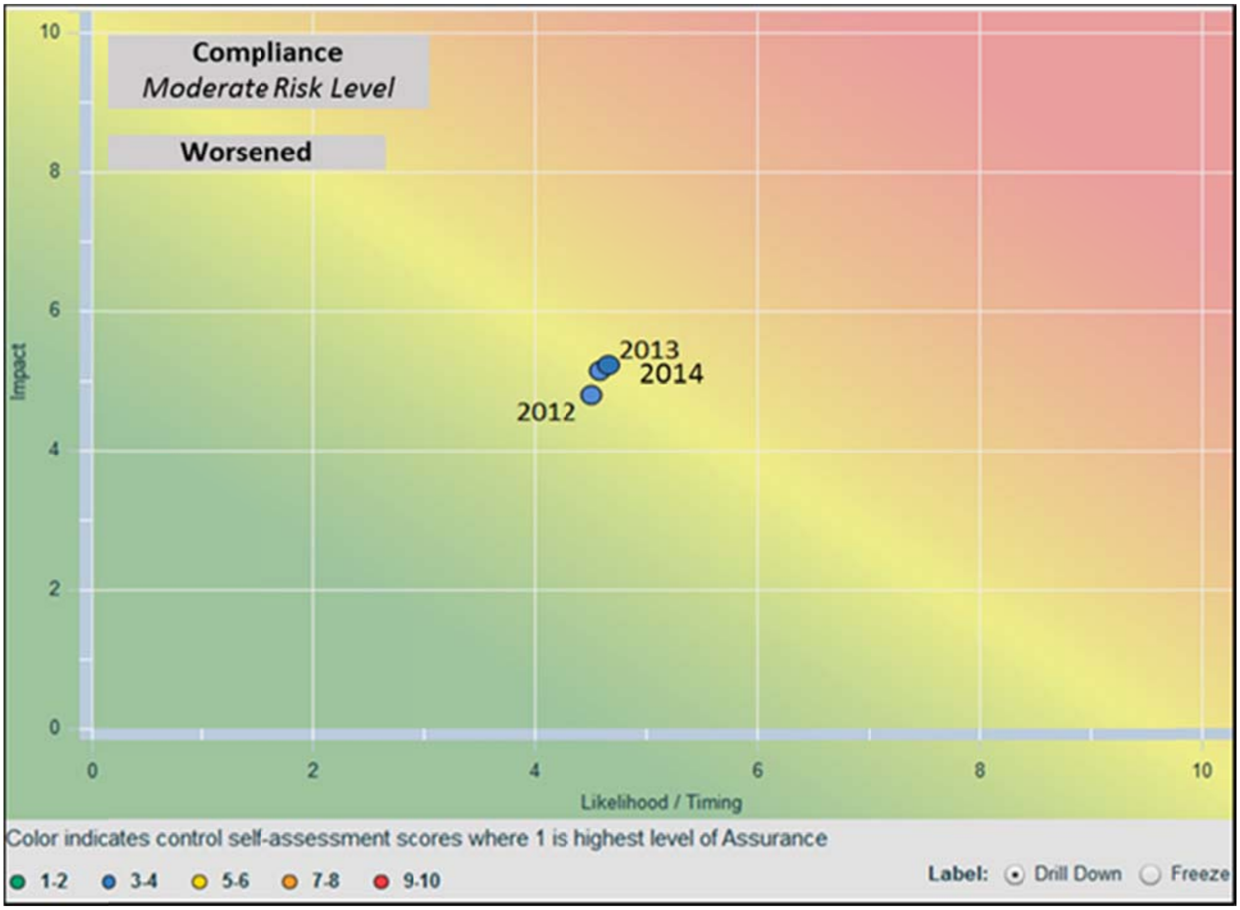
Effectiveness of Control / Mitigation Activities:
Strengthening organizational capacity is a priority of the Strategic Plan, specifically areas related to the work force planning, professional development, managing risks, and improving business processes and technology. The Agency added six Full Time Equivalents (FTE's) to the 2015 operating budget to address its growing business needs. Additionally, the Agency has successfully recruited and on-boarded 30 outside new hires in 2014. Management will provide several opportunities for staff to ask questions and

express any concerns as the Agency moves forward with three new members of the senior leadership team. The Agency will be coordinating seven training sessions for staff in the next year on Dealing with Conflict, Business Writing, and Effective Presentations. The Agency developed and implemented a new recruiting plan that includes updating job descriptions before posting positions, using new recruiting outlets, and working with hiring managers on interviewing and selection. The Agency completed a compensation study and was successful at the state level in increasing compensation levels. An employee engagement survey is routinely conducted and findings acted upon. To improve first mortgage loan capacity, the Agency successfully repositioned its single family lending products. Multifamily is moving from planning to implementation of the Multifamily Roadmap Reengineering Project by streamlining processes and building staff capacity to think about continual process improvements. The new mentor program kicked off in September with 17 mentor-mentee pairs.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (45)	High (238)
2013	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (51)	High (238)
2014	Serious (7.33)	About as Likely as Not (6.33)	Good (4)	High (47)	High (210)

Bond Markets are assessed as a high risk source, which is unchanged from the previous assessment. Assessed impact declined while likelihood and assurance are unchanged from the previous assessment, driving down the residual index from 238 to 210. Bond Markets were assessed as the third-highest risk source in 2013; it has dropped to the sixth-highest for 2014. The Agency relies on the capital markets to fund its largest and most profitable programs. As loan originations continue to be very strong, Minnesota Housing is one of the few housing finance agencies accessing the bond market on a regular basis. The Agency has brought six single family bond transactions to the market this year, which achieved attractive bond yields that ensure low mortgage interest rates for our borrowers while generating important income for the Agency.

Effectiveness of Control / Mitigation Activities:
While there is nothing that the Agency can do to mitigate the volatility of the market, there is a technically competent and experienced finance team in place. The Agency can use a tax-exempt mortgage-backed securities monthly-pass through structure or shift to selling off loan production in the To Be Announced (TBA) market without having to sell bonds if that proves to be a more attractive financing alternative. Additionally, the Agency added a new loan financing strategy that utilizes the tax-exempt sales of single mortgage-backed securities to enhance a flexible and nimble response to changing market conditions. The Finance Team has scheduled its annual finance team planning meetings to be held in February.

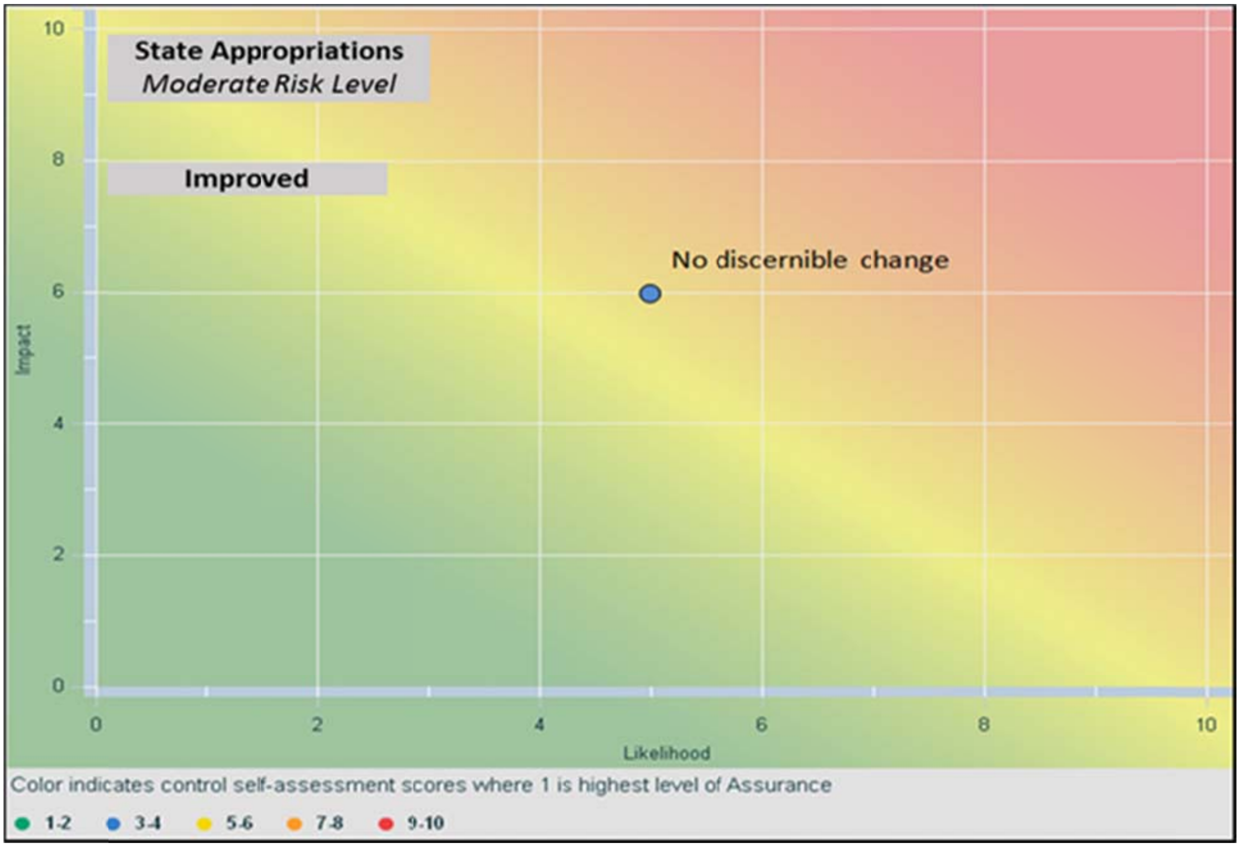


	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.83)	Unlikely (4.50)	Good (4.33)	Moderate (22)	Moderate (120)
2013	Moderate (5.14)	Unlikely (4.57)	Good (4.43)	Moderate (24)	Moderate (118)
2014	Moderate (5.29)	Unlikely (4.71)	Good (4.43)	Moderate (26)	Moderate (130)

Compliance is assessed as a moderate risk source, which is unchanged from the previous assessment. A slight increase in the assessed impact and likelihood drove the residual index up from 118 to 130. The higher assessed impact is due to an Agency-wide focus on increased compliance requirements related to the Consumer Financial Protection Bureau amending Regulation X, which implements the Real Estate Settlement Procedures Act of 1974, amending Regulation Z, which implements the Truth in Lending Act, and the complexity of the published Final Rule amending the HOME Investment Partnerships (HOME) Program regulations. Each funding source and program (old, existing, new) involves compliance requirements; some can be very complex and cumbersome. The Agency has staff that understands the compliance requirements, but there is some turnover and new and changing requirements are a reality. The business systems to help track and report on compliance are varied, not well integrated, outdated, and not well known by a variety of staff. A complaint was recently filed with the U.S. Department of Housing and Urban Development (HUD) claiming that the State, Minnesota Housing and the Met Council have violated the Fair Housing Act. The complaint was signed by the cities of Brooklyn Park, Brooklyn

Center, and Richfield, and the Metropolitan Interfaith Council on Affordable Housing (MICAH). The complaint contends that the State, Minnesota Housing and the Metropolitan Council have failed to affirmatively further fair housing across the Twin Cities region.

Effectiveness of Control / Mitigation Activities:
The Agency has identified several compliance related projects as part of its technology roadmap. The Property Online Reporting Tool (PORT) phase one is complete and phase two is underway. The Agency completed updating all required record retention schedules. Related to Data Practices, the Agency designated a Responsible Authority, Data Practices Compliance Officer, and Division designees, updated the Data Practices Manual, and provided training to staff. Because there is a consistent negative financial risk to the Agency for federal non-compliance, staff has been allocated to provide the appropriate level of compliance. Conditions continue to improve, as demonstrated by another Annual Contract Review (ACR) period with no audit findings for the Performance-Based Contract Administration (PBCA) program audit and good audit results for the National Foreclosure Mitigation Counseling (NFMC) Program. The Agency was not audited on HOME, Housing for Persons with HIV/AIDS (HOPWA), or the Neighborhood Stabilization Program (NSP) during the last twelve months. The Agency selected a vendor to conduct an analysis of compliance requirements pertaining to lenders and servicers, as well as all requirements which may pertain to the Agency as an investor in homeownership loans. The Board selected McGladrey LLP as a new audit firm this year. McGladrey issued an Unqualified Opinion regarding the Agency’s 2014 financial statements.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6)	About as Likely as Not (5)	Good (4.0)	High (30)	Moderate (120)
2013	Moderate (6)	About as Likely as Not (5)	Good (3.5)	High (30)	Moderate (105)
2014	Moderate (6)	About as Likely as Not (5.5)	Good (3.5)	High (33)	Moderate (117)

State Appropriations are assessed as a moderate risk source, which is unchanged from the previous assessment. Assessed impact and assurance are unchanged from the previous assessment. A slight increase in the assessed likelihood drove the residual index up from 105 to 117. Diminishing state appropriations will likely result in reductions in program activity and may require that some current activities be reduced or eliminated. State resources are critically important for funding certain activities, especially the Housing Trust Fund (HTF), which is used for on-going rental assistance. The state is projected to have a budget surplus in the current two-year budget cycle, following tax increases passed by the 2013 legislature and strengthening of the state's economy. The Agency received a 33% increase in its biennial budget from $76.1 million for the FY 2011-2013 biennium to $100.5 million for the FY 2014-2015 biennium. The Agency's programs have continued to enjoy broad bipartisan support as evidenced by the $100 million of General Obligation and Housing Infrastructure bonding authority from the 2014 Legislature.

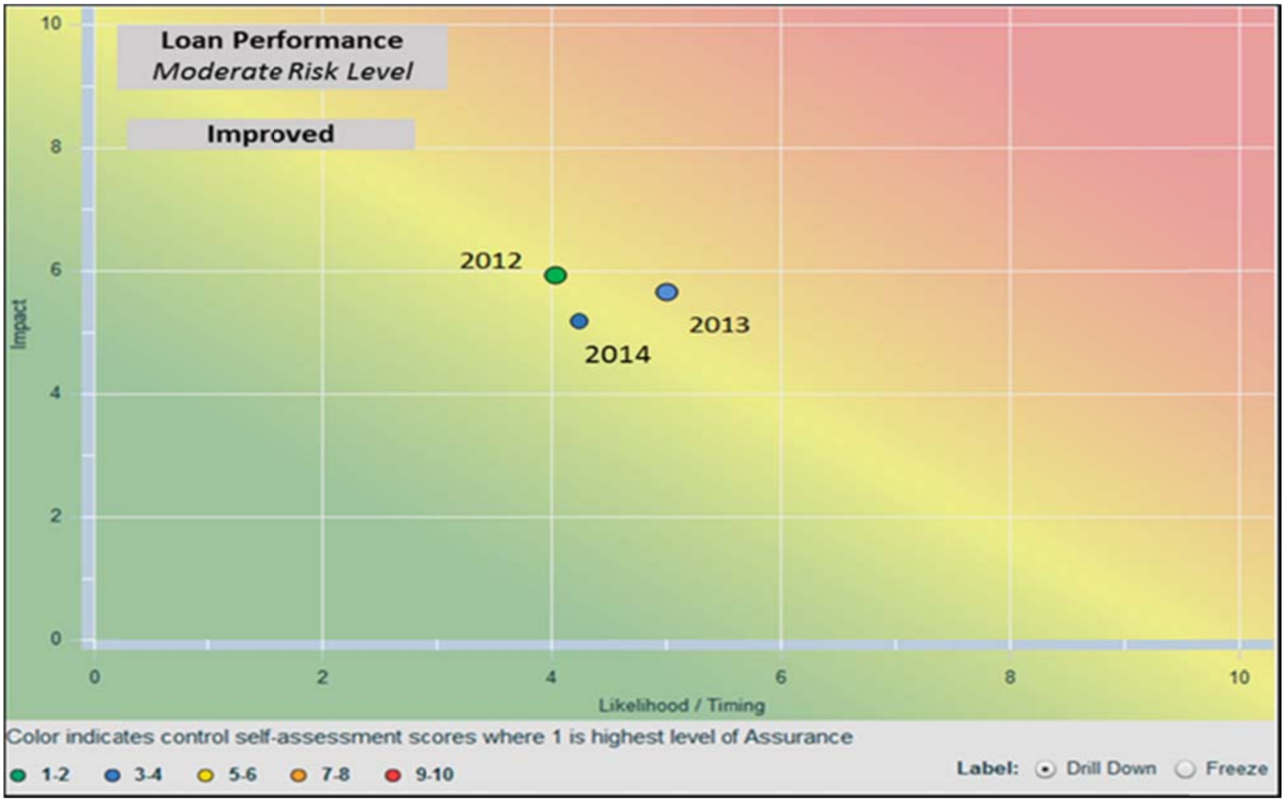
Effectiveness of Control / Mitigation Activities:
The Agency is in the process of hiring an Assistant Commissioner for Policy and Community Development, who will lead efforts at the state legislature. The Agency is broadly supported by external advocacy groups, which is essential and helpful in mitigating potential cuts, but competing priorities from other parts of the state budget are always a threat. The Agency has some flexibility with Pool 3 funds, but resources are limited.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (87)
2013	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (76)
2014	Serious (6.33)	Unlikely (4)	Good (3)	Moderate (26)	Low (77)

Business Continuity is assessed as a low risk source, which is unchanged from the previous assessment. Assessed impact decreased slightly, likelihood increase slightly, and assurance was unchanged from the previous assessment. Business Continuity is defined in this context as the activity performed by the Agency to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions. The Agency has a Continuity of Operations Plan and a designated Continuity of Operations Plan (COOP) Manager. However, the Plan is not well known by many within the Agency.

Effectiveness of Control / Mitigation Activities:

There is a great deal of information regarding different types of business continuity planning documents, and detailed updating or review of the procedures is underway. The Plan is currently being updated with a scheduled completion date in mid-2015. The critical business systems and technology-related parts of the Plan are current and tested. However, the staffing and communications aspects of the Plan are not current. Once the Plan is drafted, training and testing will be conducted. The Agency updates its Employee Policies and Procedures Manual as needed. There is a disaster recovery plan that is tested and audited on an annual basis. The Agency information technology and application system(s) audit for the fiscal year ending June 30, 2014 were tested as part of the financial statement audit and were determined to be effective.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.00)	Unlikely (4)	Good (4.00)	Moderate (24)	Low (96)
2013	Moderate (5.67)	About as Likely as Not (5)	Good (3.67)	Moderate (28)	Moderate (109)
2014	Moderate (5.33)	Unlikely (4.33)	Good (3)	Moderate (23)	Low (72)

Loan Performance is assessed as a low risk source, which is a decrease from the previously assessed moderate risk level. A decrease in the assessed impact and likelihood combined with an improvement in assurance drove the residual index down from 109 to 72. The lower assessed impact and likelihood reflect the notion that loan losses from the single family whole loans will continue to decline as the housing market recovers and the portfolio runs off. The Agency has a single family whole loan portfolio in excess of $924 million, a $320 million portfolio of largely uninsured multifamily first mortgage loans and over $100 million of uninsured second mortgages. The Agency is at risk of financial loss in the event of a severe downturn in the real estate markets. Losses resulting from the recent economic downturn and subsequent collapse of the single family housing market already cumulatively exceed $80 million. Losses are slowing down as the real estate market is improving, and as the whole loan portfolio pays off and is replaced with Mortgage Backed Securities. Also, new multifamily loan production is partially insured under the HUD Risk Sharing program, and the older uninsured loans are gradually paying off.

Effectiveness of Control / Mitigation Activities:
Effective asset monitoring policies and procedures and competent staff are considered effective control activities. Agency staff has worked closely with loan servicers and has supported a variety of efforts to reduce both loan delinquency and loss severities. Single Family's Enhanced Loss Mitigation Strategy proved to be successful in keeping more families in their homes while reducing the Agency's financial losses from foreclosed properties.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.75)	Unlikely (3.25)	Good (2.75)	Moderate (18)	Low (68)
2013	Moderate (5.00)	Unlikely (3.80)	Good (3.00)	Moderate (22)	Low (76)
2014	Moderate (5.2)	Unlikely (3.6)	Good (3.00)	Moderate (21)	Low (64)

Planning and Execution is assessed as a low risk source, which is unchanged from the previous assessment. Assessed impact increased slightly from previous year, likelihood decreased slightly and assurance is unchanged, resulting in a residual index that declined from 76 to 64. Effective planning is vital to any organization, especially one that makes significant financial investments in various programmatic areas. The Agency has a Strategy Management Framework that includes a "family" of planning and reporting documents and processes. The "head of the family" is the 2013-2015 Strategic Plan, which was adopted by the Board in June 2012. The plan was developed based on robust research and analysis of housing and finance market data, and an extensive external community and internal staff engagement. It includes the Agency's vision, mission, priorities and strategies. The Plan was well-received by many audiences. The Agency is completing the last year of 2013-15 Strategic Plan and is currently soliciting feedback from partners and stakeholders to help create the 2015-2017 Strategic Plan.

Every year, Agency staff develops an Affordable Housing Plan, the one-year business plan that implements the Strategic Plan. The 2015 Affordable Housing Plan was adopted by the board on September 25, 2014. The Affordable Housing Plan includes funding by program area and estimated number of households assisted and units produced, as well as other work plan highlights. Divisional work plans are based on the Affordable Housing Plan and then individual work plans are developed to support divisional work plans. All plans are aligned with the Strategic Plan. Each plan has one or more corresponding reporting documents containing a variety of performance measures - Results Management Report, Super Report, Annual Assessment and Report, Quarterly Division Reports, Individual Performance Appraisals.

Effectiveness of Control / Mitigation Activities:
For the past three years, 100% of the employees' appraisals were completed. The Agency has several staff skilled in planning and a divisional team responsible for overseeing all of the Agency's planning and reporting work. Planning is well supported by the Senior Leadership Team and is a highly visible part of the organization. The Deputy Commissioner continues to represent the Agency on the State's Continuous Improvement Steering Committee, which should provide access to new ideas and resources. Finally, the Agency is surveying partners and stakeholders to provide input on the next strategic plan to better understand the affordable housing and community development issues around the state. No additional mitigation is necessary at this time.

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Appendix A

Risk Impact

Assess each risk factor according to the criteria below. Do not grant credit for existing controls or mitigating strategies. Do not consider how often the impact may occur. Instead, rate as if the factor manifests itself without controls one or more times. Only one criteria for an impact level need apply to assess at that level.

9 – 10 Major

- Negative impact on Net Assets – over $250 million
- Catastrophic impact on financial statements (e.g., critical contractual ratios are no longer met)
- Liability threats challenge the going concern status of the Agency
- Long-term impairment of critical functions makes the Agency vulnerable to mission failure
- Non-compliance with Federal / State law, statue, or rule
- Agency's Strategic Plan cannot be achieved
- Agency's Affordable Housing Plan cannot be achieved
- Identified issues are serious variations from the organization's values (e.g., Fraud, Conflict of Interest)
- Process owner has not completed an evaluation of segregation of duties for employees' assigned tasks
- Process generates unusual transactions
- Activities are very complex. Employee training to perform activities is lengthy. Judgment is critical in performance of activities and is mostly principles based.

7 – 8 Serious

- Negative impact on Net Assets – $100 million to $250 million
- Regulatory penalties are required
- Serious liability or lawsuit potential
- Financial ratings drastically revised
- Serious Long-term Agency brand (reputation) impairment
- Significant negative impact on ability to achieve strategic plan
- Significant negative impact on ability to achieve Affordable Housing Plan
- Issues significantly contrary to organizational values
- Process owner has evaluated employees' assigned duties within the process and determined that there are existing concerns related to incompatible duties.
- Process generates estimation transactions.
- Activities are very complex. Employee training to perform activities is lengthy. Judgment required in decision-making is mostly rules based.

5 – 6 Moderate

- Negative impact on Net Assets – $50 to $100 million
- Impaired business functions cause customer service to significantly deteriorate
- Moderate Agency brand (reputation) issues
- Moderate liability (e.g., lawsuits) potential

- Business practices significantly inconsistent with industry standards
- Moderate negative impact on the Agency's strategic plan
- Moderate negative impact on the Agency's Affordable Housing Plan
- Identified issues are inconsistent with the organization's values
- An evaluation of segregation of duties for employees' assigned tasks has not be completed
- Process generates non-routine transactions.
- Moderate activity complexities; Moderate individual judgment; few aspects of operation covered by established practices. Employee training to perform activities is lengthy.

3 – 4 Minor

- Negative impact on Net Assets – $10 to $50 million
- Inconvenient impact on critical business functions
- Compliance issues should be easily resolved with only minor financial consequences
- Small and temporary impact to Agency brand (reputation)
- Strategic plan will not be impaired or impact will not require altering the plan
- Affordable Housing Plan will not be impaired or impact will not require altering the plan
- An evaluation of segregation of duties shows no issues and is sufficiently documented and verifiable
- Process generates routine transactions that do not relate to the company's primary business activities
- Activities are low complexity. Some individual judgment required.

1 – 2 Insignificant

- Negative impact on net income – less than $10 million
- Critical functions will not be impaired
- No liability or threats to Agency brand (reputation)
- A segregation of duties evaluation has determined that there are no existing concerns within the past 12 months. The evaluation is sufficiently documented and verifiable.
- Process generates routine transactions related to the company's primary business activities.
- Activities are relatively straight forward. Employee training for activity performance is very minimal.

Likelihood

Assess the likelihood that the impact of the risk factor occurs. Do not consider the mitigation effect of existing controls.

9 – 10 Major Highly Likely

At least 90% probability - Expected to occur in most circumstances
Within the past 12 months, the following conditions have existed within the process:

- Task errors not predictable, limits not established
- Major activity bottlenecks, impact on upstream or downstream functions
- Staff has little or no experience, skills, training, and certifications
- Major transactional changes (e.g., major volume spikes, contractual changes)
- Changes in key personnel or staff

7 - 8 Likely
At least 66% but less than 90% probability - Will probably occur in most circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors often in excess of approved limits
- Activity bottlenecks, impact on upstream or downstream functions
- Staff has insufficient skills, training, and certifications
- Significant transactional changes (e.g., major volume spikes, contractual changes)
- Changes in personnel or staff

5 - 6 About as likely as not
At least 33% but less than 66% probability - Might occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors occasionally in excess of approved limits
- Shortages in staffing levels
- Thinly experienced and skilled staff
- Moderate transactional changes (e.g., volume, nature)
- Some changes in key personnel or staff

3 - 4 Unlikely
At least 10% but less than 33% probability - Could occur at some time
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors within approved limits
- Reasonable staffing levels;
- Adequately experienced and skilled staff
- Minimal transactional changes (e.g., volume, nature)
- Minimal changes in key personnel or staff

1 - 2 Rarely if ever
Less than 10% probability - May only occur in exceptional circumstances
Within the past 12 months, the following conditions or indicators have existed within the process:

- Task errors within approved limits
- Appropriate staffing levels
- Highly experienced and skilled staff
- No change in volume and nature of transactions
- No change in key personnel or staff who perform or monitor controls

Assurance (Effectiveness of Mitigation Activities)

Assess the effectiveness of existing procedures, mitigating strategies and overall Agency-wide controls, regardless of which business area performs activities (i.e., activities do not have to be performed by areas or employees reporting to you). Mitigation or controls can be written policies and procedures, fraud risk assessments, control automation, control self-assessments, standard management reporting, etc. Assess controls that mitigate the selected risks based on criteria below.

Tip: You may conclude that you rely on activities performed by other business areas to mitigate risks in your business area. If this is the case, you may assess controls provided by other business areas as you understand them, or you may request other business areas to assess control assurance from their base of knowledge. Regardless of your approach, be sure to document your reasoning.

9 - 10 Ineffective

Control effectiveness is not driven by the organization, but is solely dependent on each individual's background and standards.

Within the past 12 months, the following indicators have existed within the process:

- Ineffective and fragmented controls
- Undocumented procedures, mitigating strategies, entity-wide controls
- Inappropriate or no guidance from "tone at the top" (control environment)
- General inability of key personnel or staff to design and execute effective, cohesive mitigating activities

Within the past 12 months, the following conditions have existed within the process:

- No written guidance for performing tasks
- Key controls that mitigate the risks are mostly manual
- No participation in a control self-assessment program

7 – 8 Poor

Organizational values and behavior expectations are not well defined or consistently understood beyond management.

Within the past 12 months, the following indicators have existed within the process:

- Controls are documented but not performed consistently
- Controls are only partially effective, and the area copes as best they can
- No documented accountability
- Clear evidence of ongoing internal conflicts in the area
- Ineffective or no internal monitoring of controls

Within the past 12 months, the following conditions have existed within the process:

- Some written task guidance in various forms(e.g., personal notes), but may not immediately be available to auditors due to inconsistent format and / or unapproved status
- Key controls that mitigate the risks are mostly manual and hybrid
- Limited participation in a control self-assessment program

5 – 6 Could be improved
Comprehensive policy statements on organizational values and behavior expectations are published to all internal and external stakeholders.

Within the past 12 months, the following indicators have existed within the process:
- Compliance with written policies and procedures at all levels is accepted as the norm
- Controls documented and generally performed, but are not sufficiently responsive to operational changes
- Internal monitoring exists but significant deficiencies in effectiveness were observed
- Some written procedures and standards exist, but may not be sufficiently clear or comprehensive
- Accountability is not enforced

Within the past 12 months, the following conditions have existed within the process:
- Written task guidance for important aspects; immediately available to auditors upon request
- Key controls that mitigate the risks are a combination of automated, hybrid and manual
- Full participation in a control self-assessment program

3 – 4 Good
Cultural norms ensure compliance with organizational values and policies at all levels. Employees believe that ’no one is above the law’ because Management's "tone at the top" demonstrates they embrace organizational values in their daily actions.

Within the past 12 months, the following indicators have existed within the process:
- Organizational values and policies require both short- , mid- and long-term benefit
- Formalized processes exist to ensure that organizational values and policies remain the norm
- Controls are effective, documented and followed on most occasions
- Clear ownership of control responsibility and role accountability
- Controls are responsive to operational changes
- Technically competent and experienced staff with some turnover
- No significant deficiencies observed in internal monitoring
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management (e.g., internal audit) in the past three years

Within the past 12 months, the following conditions have existed within the process:
- External audit has reviewed controls within the past 2 – 3 years with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

1 – 2 Effective
Board, management and employees alike demonstrate through their actions that behavior outside of organizational values and policies is unacceptable.
In the past 12 months, the following indicators have existed within the process:
- Accountability at all levels is culturally driven

- Embedded ability to take advantage of short-term opportunities while ensuring long-term viability due to continuous discipline and sound ethical decision-making skills at all levels
- Effective, documented controls are in place
- Technically competent and experienced staff with minimal turnover
- Highly effective management review takes place
- No deficiencies observed in control environment (e.g., procedure manual, controls well documented, clear standards and trending for control exceptions)
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management in the past two years

Within the past 12 months, the following conditions have existed within the process:

- External audit has reviewed controls within the past year with satisfactory results
- Key controls that mitigate the risks are primarily automated and hybrid
- Full participation in a control self-assessment program
- Written task guidance is comprehensive, including (i) how and when to perform tasks; (ii) what tasks are supposed to achieve; (iii) how to handle exceptions; (iv) how tasks affect the process; and (v) how tasks affect upstream and downstream processes

Appendix B

Risk Assessment Matrix

Section A: Inherent Risk Score Table

Risk Source Description:		*Likelihood*				
		1 - 2 Rarely if ever May occur only in exceptional circumstances	3 -4 Unlikely Could occur at some time	5 - 6 About as likely as not Might occur at some time	7 - 8 Likely Will probably occur in most circumstances	9 - 10 Major Highly Likely Expected to occur in most circumstances
Impact	9 - 10 Major Would stop achievement of goals and objectives	Moderate	High	High	Very High	Very High
	7 - 8 Serious Would threaten goals and objectives; requires close management	Moderate	Moderate	High	High	Very High
	5 - 6 Moderate Would necessitate adjustment to the overall function and require corrective action. May have a negative impact	Low	Moderate	High	High	High
	3 - 4 Minor Would threaten an element of the function. May cause small delays or have a minor impact on quality	Low	Low	Moderate	Moderate	High
	1 - 2 Insignificant Impact on function, or its objectives is negligible. Routine procedures would be sufficient to deal with the consequences	Low	Low	Moderate	Moderate	High

Section B: Assessed Assurance (Effectiveness of control / mitigation activities)

1 - 2 Effective	3 - 4 Good	5 -6 Could be improved	7 - 8 Poor	9 - 10 Ineffective

Section C: Residual Risk Score Table

Risk Level	Residual Index Score	Definition
Very High	Above 350	Would prevent achievement of objectives, cause unacceptable cost overruns or schedule delays and requires close Executive attention
High	201 to 350	Substantial delays to project schedule, significant impact on technical performance or cost, and requires close management attention
Moderate	101 to 200	Requires identification and control of all contributing factors by monitoring conditions, and reassessment of program / project milestones
Low	100 and below	Normal control and monitoring measures sufficient

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Appendix C

Assessed impact is on the y axis, likelihood is the x axis. Each critical risk has a data point associated with its assessed impact and likelihood. Additionally, each critical risk data point is color coded to reflect the level of assessed assurance *(Figure 1)*.

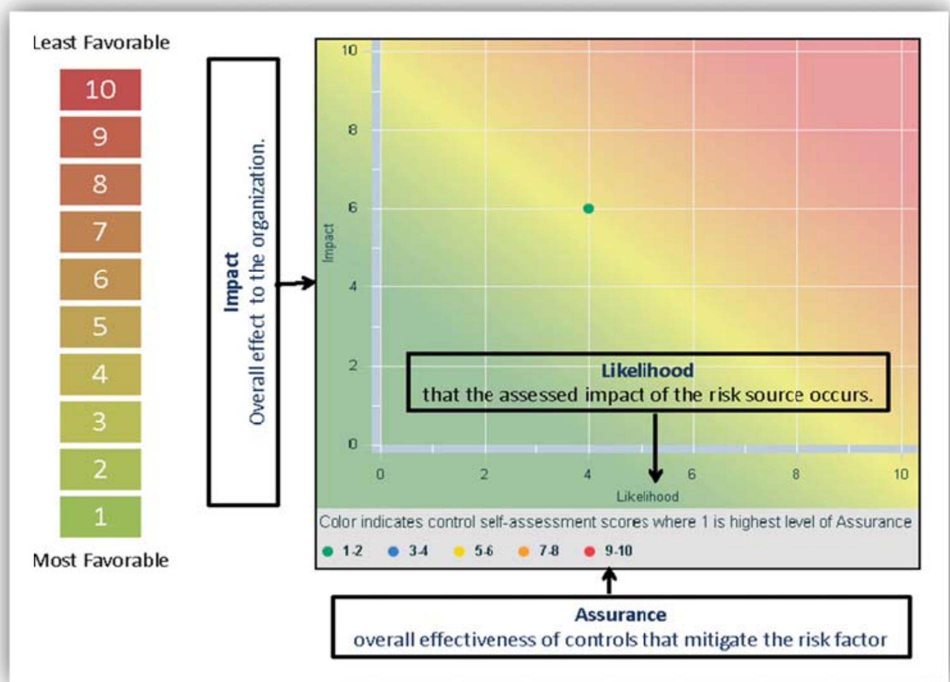

Figure 1

A general heat map overview example, with the risk source Compliance, is provided to demonstrate risk source placement within a grid and formulas for calculating inherent and residual indexes *(Figure 2)*.

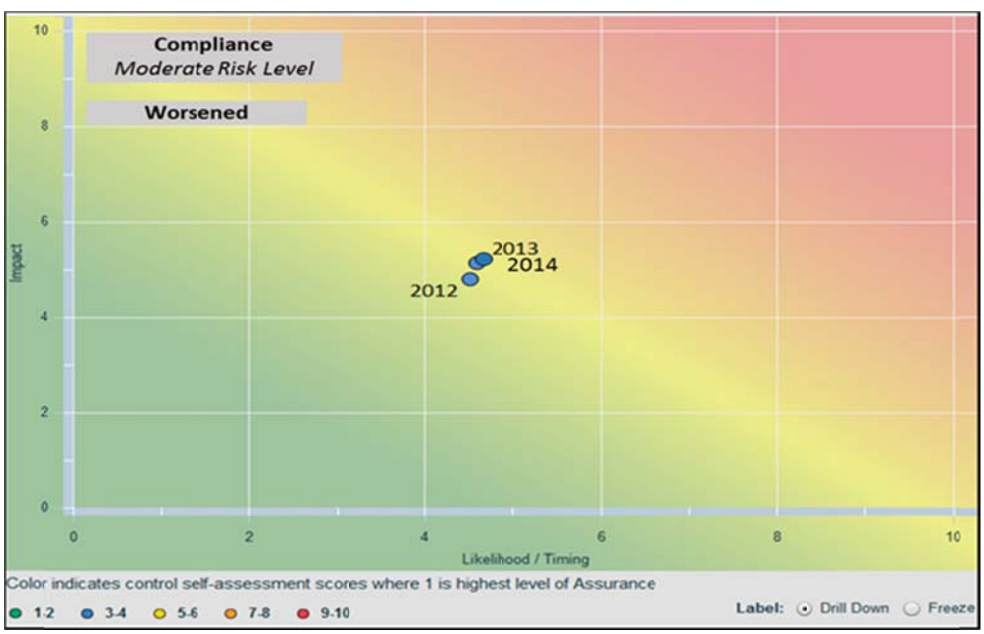

Figure 2

Inherent Index is calculated by multiplying an individual Impact score by an individual Likelihood score to produce an individual Inherent Index score. All individual Inherent Index scores are averaged to produce an Inherent Index score for each Risk Source. Compliance was assessed 7 times and the average of the individual Inherent Index scores is 26, which is listed as the Average in the Inherent Index column of Table 1.

Table 1:

Risk Source - Compliance	Impact	Likelihood	Inherent Index	Assurance	Residual Index
Risk Profile - 1	4	3	12	3	36
Risk Profile - 2	6	5	30	4	120
Risk Profile - 3	7	8	56	6	336
Risk Profile - 4	6	6	36	6	216
Risk Profile - 5	5	3	15	4	60
Risk Profile - 6	5	4	20	4	80
Risk Profile - 7	4	4	16	4	64
Average	**5.29**	**4.71**	**26**	**4.33**	**130**

The Residual Index measures the risk that remains after controls, mitigation activities, are taken into account. Residual index is calculated by multiplying an individual Inherent Index score by an individual Assurance score to produce an individual Residual Index score. All individual Residual Index scores are averaged to produce a Residual Index score for each Risk Source. Compliance was assessed 7 times and the average of the individual Residual Index scores is 130, which is listed as the Average in the Residual Index column of Table 1.

Residual Index tiering has been incorporated into the Risk Assessment Matrix to better delineate risk levels.

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