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*Equal Opportunity Housing and Equal Opportunity Employment*

## AGENDA

### Minnesota Housing Board Meeting

Thursday, November 17, 2016

1:00 p.m.

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
  - A. (page 3) Regular Meeting of October 19, 2016
5. **Reports**
  - A. **Chair**
  - B. **Commissioner**
  - C. **Committee**
6. **Consent Agenda**
  - A. (page 15) Approval, Extension, Family Housing Fund Foreclosure Remediation Loan
  - B. (page 19) Commitment, Low and Moderate Income Rental (LMIR) Program and Flexible Financing for Capital Costs (FFCC)
    - Oxford Village, Hopkins, D7661
  - C. (page 23) Commitment, Low and Moderate Income Rental (LMIR) Program, Flexible Financing for Capital Costs (FFCC)
    - Indian Knoll Manor, Mound, D7878
  - D. (page 33) Approval, Family Homeless Prevention and Assistance Program (FHPAP) Administrative Capacity Initiative Awards
  - E. (page 37) New Initiative, Community Fix Up Loan (CFUL) Program, Hutchinson Housing and Redevelopment Authority (HRA)
  - F. (page 39) Approval, Modification, Section 236 Loan
    - Mesaba Villas South, Duluth, D0445
7. **Action Items**
  - A. (page 43) Approval, Resolution Authorizing the Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2016 Series F, and Authorizing Execution of Certain Documents Related Thereto
  - B. (page 45) Adjustment to Draft Amendment, Qualified Application Plan (QAP), Procedural Manual, and Self-Scoring Worksheet, 2017 Housing Tax Credit (HTC) Program
8. **Discussion Items**

None.
9. **Informational Items**
  - A. (page 47) Workforce and Affordable Homeownership Development Program
  - B. (page 51) Annual Conflict of Interest Disclosure Update
  - C. (page 57) 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Fourth Quarter Progress Report
  - D. (page 65) Post-Sale Report, Homeownership Finance Bonds 2016 Series GH
10. **Other Business**

None.
11. **Adjournment**

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## DRAFT MINUTES

**MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING****Wednesday, October 19, 2016**

10:00 a.m.

State Street Conference Room – First Floor

400 Sibley Street, St. Paul, MN 55101

**1. Call to Order.**

Chair John DeCramer called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 10:02 a.m.

**2. Roll Call.**

**Members present:** John DeCramer, Joe Johnson, Craig Klausing, Rebecca Otto, and Terri Thao. Stephanie Klinzing joined the meeting at 10:04 a.m.

**Minnesota Housing staff present:** Tal Anderson, Ryan Baumtrog, Abigail Behl, Nick Boettcher, Wes Butler, Kevin Carpenter, Jessica Deegan, Lori Gooden, Anne Heitlinger, Summer Jefferson, Mary Beth Kehrwald, Kasey Kier, Tresa Larkin, Debbi Larson, Diana Lund, Nira Ly, Leighann McKenzie, Paul Marzynski, Shannon Myers, Tom O’Hern, Ashley Oliver, Charissa Osborne, John Patterson, Caryn Polito, William Price, Ester Robards, Megan Ryan, Joel Salzer, Becky Schack, Kayla Schuchman, Nancy Slattsveen, Anne Smetak, Rick Smith, Lori Speckmeier, Barb Sporlein, Mike Thomas, Will Thompson, Mary Tingerthal, Karin Todd, Ted Tulashie.

**Others present:** Chip Halbach, Minnesota Housing Partnership; Cory Hoepfner, RBC Capital Markets; Paul Rebholz, Wells Fargo; Ramona Advani, Office of the State Auditor; Daniel Buchholtz, City of Spring Lake Park; John Rocker, Greater Minnesota Housing Fund; Michelle Adams, Kutak Rock (by phone).

**3. Agenda Review**

Chair DeCramer announced the following changes to the agenda:

- Daniel Buchholtz, City Administrator of the City of Spring Lake Park made a request to address the Board regarding item 7.A. The board will address this request at that point in the agenda.
- Corrections have been made to agenda item 7.A. regarding the Qualified Allocation Plan. Revised copies were distributed to members prior to the start of the meeting. Corrections were to delete some punctuation that was mistakenly included and to correct language regarding what applications would be subject to the proposed amendments
- Correction of a typographical error on page 141, the resolution for Grand Terrace. The word “moderate” is misspelled. The error had been corrected in the copy of the resolution for signing.
- A typographical error on the resolution that appears on page 285 of your packet. Red Lake Homes 12 is listed and it should read Red Lake Homes 13. The error had been corrected in the copy of the resolution for signing.

**4. Approval of the Minutes.****A. Regular Meeting of September 22, 2016**

Auditor Otto requested a clarification to the minutes to more accurately represent comments made by her regarding cost containment. Terri Thao moved approval of the minutes as amended. Joe Johnson seconded the motion. Motion carries 6-0.

**5. Reports****A. Chair**

There was no report from the Chair.

**B. Commissioner**

Commissioner Tingerthal shared with the board that staff would provide a review of the marketing and communications initiatives at the December meeting. Commissioner Tingerthal reminded the board that the November meeting would be one week early and that prior to the meeting the board

would be invited to tour the Higher Ground project in downtown Saint Paul. Following the tour, the Agency's Housing with Services group would give a presentation at the Agency's offices in recognition of Hunger and Homelessness Awareness Week.

Commissioner Tingerthal announced that Governor Dayton would be participating in that afternoon's press conference for the RFP awards and invited board members to attend the conference and reception.

Regarding item 7.A, the proposed amendment to two current qualified allocation plans, Commissioner Tingerthal stated that the Agency had already received a number of verbal comments and she anticipated there would be a fair amount of material for the board to consider following the conclusion of the public comment period. Commissioner Tingerthal stated that she anticipated a committee meeting would be scheduled in early December at which the board would consider the comments and be asked to approve the proposed amendments.

**C. Committee**

There were no committee reports.

**6. Consent Agenda**

**A. Approval, Final Consolidated Plan for Housing and Community Development 2017-2021 and 2017 Annual Action Plan**

**B. Approval, Multifamily Division Section 3 and Minority or Women Business Enterprises Compliance Guides**

**C. Commitment, Low and Moderate Income Rental (LMIR) Program and Flexible Financing for Capital Costs (FFCC) - Oxford Village, Hopkins, D7661**

**D. Commitment, Low and Moderate Income Rental (LMIR) Program, Low and Moderate Income Rental Bridge Loan (LMIR-BL) Program, and Flexible Financing for Capital Costs (FFCC) - Grand Terrace Apartments, Worthington, D7719**

**MOTION:** Stephanie Klinzing moved approval of the consent agenda and the adoption of Resolutions No. MHFA 16-041 and MHFA 16-042. Craig Klausing seconded the motion. Motion carries 6-0.

**7. Action Items**

**A. Amendment, Qualified Allocation Plan (QAP) and Procedural Manual, 2017 and 2018 Housing Tax Credit (HTC) Program**

The request from Daniel Buchholtz to address the board was considered at this time. Auditor Otto inquired about the dates of the public comment period and Commissioner Tingerthal responded that the public comment period would begin that day. **MOTION:** Joe Johnson moved to hear comments from Mr. Buchholtz. Stephanie Klinzing seconded the motion. Motion carries 6-0.

Daniel Buchholtz introduced himself, stating his was the administrator for the city of Spring Lake Park and thanked the board for allowing his comments. Mr. Buchholtz described the city of Spring Lake Park as a small second ring suburb with housing stock from 1960s and 1970s. Mr. Buchholtz stated that the area median income within the city is below average and the city is challenged daily to provide services in an efficient and cost-effective manner.

Mr. Buchholtz described a senior housing project within the city that may be impacted by the proposed amendments to the QAP. Mr. Buchholtz stated the 190 unit affordable housing development includes units restricted to those aged 55 and older. The project is strongly supported by the mayor and the City Council, who have approved zoning and other requirements and are providing \$4 million in tax increment financing. Mr. Buchholtz stated that the proposed changes to the QAP do not take into account the effort required to prepare an application for bonds; adding

that this particular project has been in developments for more than six months. Mr. Buchholtz added that adoption of the proposed changes may result in a loss of trust in the system and cities and developers would be left wondering if future rules may change again without warning. Mr. Buchholtz warned that the changes could result in many lost units while developers and cities adjust to new rules. Mr. Buchholtz asked that the Agency not rush through the rule changes and take the time needed to engage stakeholders in order to not jeopardize current projects and take away an economic development opportunity for cities.

Auditor Otto thanked Mr. Buchholtz for his comments and asked that he also submit them in writing during the public comment period. Auditor Otto added that Agency staff is good at considering comments to the best of their ability while continuing to meet the priorities of the Agency. Mr. Buchholtz added that the city had not yet submitted an application, but was preparing to submit on January 2, adding that the rule changes allow a very short window of time during which applicants can adjust their applications.

Chair DeCramer also asked that Mr. Buchholtz submit his comments in writing and thanked him for his appearance at the meeting.

Ms. Schuchman thanked Mr. Buchholz for his comments. Ms. Schuchman presented this request to the board, stating that Section 42 of the tax code requires an allocation plan that governs distribution of tax credits and the board had previously approved the 2017 allocation plan in 2015, and the 2018 allocation plan earlier in 2016. Ms. Schuchman stated the plans govern distribution outside of suballocators and the plan applies to both 9% and 4% tax credits. Ms. Schuchman stated the proposed amendments apply to 4% tax credit deals that are financed by private activity bonds. Ms. Schuchman stated that private activity bonds have grown increasingly scarce and are usually used in conjunction with 4% tax credits. Ms. Schuchman stated the proposed amendments are to ensure that projects financed with 4% tax credits and private activity bonds meet the priorities of the Agency.

Ms. Schuchman stated that staff is recommending that the proposed amendments apply to projects that were submitted after September 30 and that have not be recommended for either selection or non-selection by October 19.

Ms. Schuchman provided an overview of the proposed amendments, which included: raising the minimum point requirement to 50 points from 40 points in the 2018 QAP and 30 points in the 2017 QAP; requiring strategic policy thresholds apply to 4% credits in addition to 9% credits; requiring owners to maintain rent and income restrictions for 30-years; requiring that no more than 53% of project costs be covered by bonds issued by Minnesota Housing; requirement of board approval of 4% tax credit projects whose costs exceed the predictive model by more than 25%.

Ms. Schuchman added that staff will offer a pre-application process that will allow applicants to get an early indicator if their project is anticipated to meet the new requirements.

Ms. Schuchman stated that, given current high demand for bonding authority, the Agency anticipates there will be robust public interest and comments and will have quite a bit of dialogue with the public over the past month. Ms. Schuchman stated there will be a public hearing and that notice of the hearing and public comment period will be published in the statewide Star Tribune, the State Register, and on Minnesota Housing's website. Comments received will be reviewed and changes to the proposed amendments will be brought to the board for its review and approval at the December meeting. Following approval by the board, the revised qualified allocation plans will require approval by the Governor.

Commissioner Tingerthal added that one of the reasons we expect to hear comments is because, historically, when 4% credits are awarded, it has been considered automatic to receive private activity bonds. It historically had been very difficult to get affordable housing developments to work with 4% credits and private activity bonds only and projects would need to come to Minnesota Housing for additional resources for funding gap. These projects were subject to the same pointing system used for 9% credits. In the past few years, the median income in the Twin Cities has increased, so rents considered affordable at 60% of area median income have gotten relatively high. Commissioner Tingerthal added that very high prices are being paid for tax credits and very low rates are available for long-term loans and these factors have combined to result in developers not needing to secure gap funding for developments, and very large projects are getting in the queue at Minnesota Management and Budget (MMB) to request private activity bonds. Commissioner Tingerthal added that MMB allocates bonds mostly on a first-come, first-served basis and the only criteria in place for access to the bonds is a priority scale for preservation, general occupancy, and restricted to seniors. This process and these priorities have been in place for a long time and, for at least the past 10 years, there has not been any scarcity of private activity bonds because the deals did not work without additional gap funding. Commissioner Tingerthal stated that, as we have observed the shrinking of available bonding authority, we have shared that with you in a general way at these meetings and have worked through the summer to prepare the recommendation before you today. Commissioner Tingerthal stated that it is an excruciating recommendation because we want a lot of affordable housing in Minnesota and we want to use all of the available resources, but must put in place a plan to manage what is now a scarce resource.

Commissioner Tingerthal added that part of the request includes a moratorium on reviewing applications. The reason for this is the Agency does not know how many projects are out there, where they are located, or how they may score and felt the most fair way to implement the proposed changes is to give notice to everyone that changes are being considered and hear from them how the changes may impact projects for which applications are being prepared. Auditor Otto commented on the Agency not accepting applications between October 1 and December 22 and asked if any applications had been received since October 1. Commissioner Tingerthal responded that no applications had been received since that date. Stephanie Klinzing inquired how the dates were chosen and Ms. Schuchman responded that the timeline was intended to allow applications to come in immediately following the Board's December meeting. Terri Thao inquired how many applications are typically received during that time of year. Ms. Schuchman responded that it would be difficult to say what would have happened this year because it is an unprecedented situation as far as bond activity. Ms. Schuchman stated there is not sufficient bonding authority at MMB to fund the projects that are out there right now and the Agency anticipates a large number of projects will come in next year after the new bonding year opens at MMB. Commissioner Tingerthal added that the decision about tax credits has historically been set at a low bar in terms of points and the Agency typically has received applications for tax credits after a project has received a bond allocation. Staff is proposing to flip that decision-making process, with the assumption that most developers would want to know if the projects meet the minimum score and criteria for tax credits before they apply for bonds. Commissioner Tingerthal added that staff has discussed giving a preliminary read to developers on where we think their projects would score high enough to obtain tax credits and that the Agency could put a process out there so that developers aren't waiting until that December 22 date to determine if their project would meet the proposed criteria.

Craig Klausing inquired about the public notice process and Ms. Schuchman responded that information appears in the statewide Star Tribune, in the State Register, on the Minnesota Housing website, and an eNews is distributed to a contact list of several thousand.

Chair DeCramer stated he understood basically that what we are doing is tightening the belt and monitoring bonding availability by implementing a more stringent analysis, but it was also his understanding that if the bond availability changes over time, we can change the criteria again. Chair DeCramer stated he was concerned about the moratorium on accepting applications because there are communities with projects in process for which they would like to request bonds, but are subject to a changing policy. Chair DeCramer stated he liked the idea of a pre-application screening that includes a date for the pre-application because this is a first-come, first-served process and some communities have been working on these projects for several months or years. Ms. Schuchman responded that staff will provide the details of the pre-application process by November 1, and there would be about a 10-day delay in accepting applications.

Joe Johnson stated that he wanted to be careful that no one is misled by the pre-screening; that our telling them their application meets requirements is not construed as a commitment to fund. Commissioner Tingerthal responded that staff will work with Tom O'Hern on the language to ensure that it is clear a funding commitment is not being made. Auditor Otto stated that it is important for the board to review the public comments and see what the reactions are to these changes.

Terri Thao suggested that two motions be made and Commissioner Tingerthal agreed that it would be appropriate to have one motion for the release of the draft amendments for public comment and a separate motion regarding the policy directions that include the moratorium and the pre-application.

**MOTION:** Terri Thao moved approval to release the draft amendments for review and public comments. Joe Johnson seconded the motion. Motion carries 6-0. **MOTION:** Terri Thao moved approval of the policy changes, including but not limited to the moratorium and pre-application process. Craig Klausing seconded the motion. Motion carries 6-0. Chair DeCramer reiterated that if the bonding availability continues to change, the board does have the option to revisit these changes at a future date.

**B. Resolution Authorizing the Issuance and Sale of Rental Housing Bonds, 2016 Series C, for a Multifamily Housing Development in Worthington, Minnesota**

Michelle Adams of Kutak Rock joined the meeting by phone for items 7.B and 7.C. Kevin Carpenter requested authorization to issue bonds in an amount not-to-exceed \$5.5 million to fund a short term bridge loan for a 48-unit workforce housing rental development in Worthington. Michelle Adams described the parameters of the bond resolution, adding that the board would be approving the sale and offering documents for the sale, which would be a negotiated sale to RBC Capital Markets as the underwriter. Ms. Adams stated the board would be approving the preliminary official statement, to which the official statement would be very similar. Ms. Adams stated that authorized officers are approved to approve the terms of the final series bonds subject to an amount not-to-exceed \$5.5 million, a maturity date of not later than three years, an interest rate not-to-exceed 2.5%, and underwriter's compensation not-to-exceed 1.5% of the principal amount of the series bonds. Ms. Adams stated the board was also being asked to approve the bond purchase agreement and continuing disclosure undertakings which had been reviewed by authorized officers. Ms. Adams stated that the development must be 40% occupied by qualifying tenants with income at or below 60% of area median income to comply with the tax-related covenants of the bonds. Finally, Ms. Adams stated that the resolution allows for authorized officials of the agency to consult with other professionals to determine if it is in the best interest of the Agency to sell the bonds and may decide to not sell the bonds if it is found to not be in the best interest of the Agency. **MOTION:** Joe Johnson approved this request and the adoption of Resolution No. MHFA 16-039. Terri Thao seconded the motion. Motion carries 6-0.

**C. Resolution Authorizing Homeownership Finance Bonds Generally and Authorizing the Issuance and Sale of Homeownership Finance Bonds 2016 Series G and H and Approving the Execution and Delivery of Related Documents**

Mr. Carpenter stated the board was being asked to approve the transaction generally and also approve specific actions by authorized officers. Mr. Carpenter stated the request was to issue one or more series of bonds up to a maximum aggregate principal of \$300 million to fund the Agency's homeownership programs. Mr. Carpenter stated the Agency planned to sell \$51 million in two series of resolutions the day following the meeting. Mr. Carpenter added that these types of bonds are sold frequently and today's action would give the Agency capacity for the upcoming and future issues.

Ms. Adams reviewed the resolution with the board, adding that the title is slightly different than in previous resolutions. The pass through program had formerly been called the Ginnie Mae / Fannie Mae pass through program, but the current issue is called the mortgage backed securities pass through program because Freddie Mac securities will be part of the program going forward. Ms. Adams stated the board was being asked to approve the specifics of the sale of the G and H series bonds as well as any future bonds issued under those resolutions. Ms. Adams stated the bonds would be sold to RBC Capital Markets, Wells Fargo, and Piper Jaffray. Ms. Adams described the parameters of the bonds, stating they were not-to-exceed \$300 million in cumulative principal, must be issued no later than September 30, 2017, and have a maturity date of not-to-exceed 30 years from the date of issue. Ms. Adams stated the rate to be borne by each series is not-to-exceed 5.5% and that rate includes a cushion to allow for changes in the market and that the underwriter's fee is not-to-exceed 1% of the principal amount of the series bonds. Ms. Adams stated the board was being asked to approve the forms of the preliminary official statement, the official statement, and the continuing disclosure undertaking. Ms. Adams further stated that the Agency is making promises regarding the tax exempt bonds that it will covenant compliance of the loans with the tax code provisions that allow tax exempt status. Ms. Adams also stated the resolution allows authorized officers of the agency the discretion to not proceed with the sale if it is found to not be in the best interest of the Agency. **MOTION:** Stephanie Klinzing moved approval this request and the adoption of Resolution No. MHFA 16-040. Terri Thao seconded the motion. Motion carries 6-0.

**D. 2016 Consolidated Request for Proposals**

Wes Butler and Kasey Kier described for the board the RFP process. Wes Butler stated that all the selected projects really stress the mission of the Agency that housing is the foundation for success. Mr. Butler stated the Strategic Plan and Affordable Housing Plan were used as guiding documents for the selection of the projects and that funds in the 2017 Affordable Housing Plan would be used to finance the production.

Kasey Kier described the RFP process, stating it combines agency and partner funding into a single application, resulting in a simplified process that is not duplicated in any other state. Ms. Kier stated the process for the next RFP begins immediately following selections, with debriefings, discussion of priorities, and opportunities for process improvement. No action needed.

**E. Single Family Selections, Community Homeownership Impact Fund**

The Single Family Impact Fund team (LeAnne McKenzie, Nick Boettcher, Nancy Slattsveen, and Nira Ly) presented these recommendations requesting more than \$9.6 million in funding for 32 proposals, with 57% of projects located in the metro, and 43% located in Greater Minnesota. Staff described the RFP process and noted that scoring process improvements had been implemented since the previous funding round, including changes to be responsive to changing demographics, with point increases for projects that allow seniors to age in place and for large family housing. The team also improved marketing towards underserved populations, with a review of an organizations

current and past work to reach those markets. A Special Niche category was added this year as well, which focuses on owner-occupied rehabilitation projects and affordability gap projects that do not duplicate existing programs and efforts. Ms. Ly stated that organizational due diligence reviews for financial stability and ability to carry out proposed activities continued this year. Community Recovery, Economic Integration, Locational Efficiency, and Workforce Housing scoring criteria were also refined with the use of the Community Profiles tool. Ms. Ly stated that these improvement processes will continue for future RFPs.

The staff stated that the recommended projects meet strategic priorities of the Agency and highlighted the following activities:

- 19 recommended proposals will provide housing for large families. The City of Lakes Community Land Trust and Dayton's Bluff Neighborhood Housing Services have both committed to building large family homes, with CLCT building a home that will include an accessory dwelling unit.
- 25 projects will serve workforce housing needs, with two having committed leverage from local employers, including a five home project in Marshall Minnesota which will include down payment assistance and a project with the Perham HRA that will include downpayment assistance from the city and from two local employers.
- Staff has worked with tribes to serve the housing needs of Indian communities. The Lower Sioux Community will receive funding from the Indian set-aside to capitalize a program that will provide six mortgages to community members.

Next, the team provided information about program administrators and households and individuals who benefit from these programs. Nancy Slattsveen highlighted the Village on Rivoli project from Dayton's Bluff NHS. Ms. Slattsveen stated the project is a result of a partnership with the Railroad Island taskforce, a resident group in the area. The proposal recommended for funding is the third of a five part master plan for Railroad Island and includes 12 new large single family homes with access to green space and views of Downtown Saint Paul. Ms. Slattsveen provided additional information about the neighborhood, the planning for the project and community features to be included. Next, West Hennepin Affordable Housing Land Trust was profiled, with information being shared about a single parent household that was able to purchase a three-bedroom rambler in a quiet, safe neighborhood through the organization's rehabilitation work.

Nick Boettcher described the experiences of a Southwest Minnesota Housing Partnership (SWMHP) counseling client who moved to Worthington from Ethiopia to secure better opportunities for himself and his children. The client began working with an SWMHP counselor in 2012 to prepare for homeownership and has now purchased a home.

Leighann McKenzie shared the story of a man in northern Minnesota who was able to address significant structural issues in his home with the assistance of Headwaters Regional Development Commission, an organization that receives both Impact Fund and DEED Small Cities funding. Through the program, the homeowner was able to repair his roof and water damage, add insulation, and replace siding and is now proud of his home.

Stephanie Klinzing stated she appreciated hearing the stories and they give us a better understanding of why we do the work we do. Ms. Klinzing then inquired if the land in the Lower Sioux project was owned by the tribe or by the homeowners. Staff responded that one project is for acquisition and rehabilitation and some of the land is located outside the reservation and the other project will be located on reservation land. Rick Smith, Indian Housing Liaison, stated that there is a mix of ownership types, with families having an option to secure a homesite lease on tribal land

where infrastructure improvements have been made, or the option to select a site of their choice within a 10-mile radius of the community. Land outside of the community would be owned by the homeowner. Ms. Klinzing stated the Agency should review which model works best.

Commissioner Tingerthal added that she attended a ribbon cutting with Mr. Smith in the past year, adding that Sioux reservations in particular have little buildable land that is trust land. Commissioner Tingerthal added that the sites are very tight and the tribe has been trying to acquire additional land for incorporation into the trust, it can be a contentious discussion with the surrounding communities. Commissioner Tingerthal added that this having this program available for trust land in the surrounding communities is a good solution for the Sioux community.

Stephanie Klinzing inquired about the Grand Marais project and if there were problems getting construction workers for the project, adding that she believes there have been a lot of people who had left the construction industry during the recession. Ms. Ly responded that there are communities where finding construction workers is an issue and that there are not many developers or contractors in Greater Minnesota. Ms. Ly added that there is much needed in terms of workforce housing development, but due to the limited number of contractors and developers, the costs of those projects can go up. We've seen this in certain other communities as well. Commissioner Tingerthal added that things have gotten a bit better the past year or so since the stadium construction had been completed but in some communities that are far from a major center, it is very tough to get competitive bids and skilled tradespeople and that does tend to add to costs for both Multifamily and Single Family development.

Stephanie Klinzing also asked to draw attention to the Mankato mobile home replacement project where they looked at the homes and determined it was more cost effective to bring in a new home rather than repairing an existing home. Ms. Klinzing stated her experience has been that it may cost less to provide a new home rather than repair an existing home. Ms. Klinzing also stated that the amount of subsidy for this project when compared with the cost of building multifamily and single family housing was significantly less. Ms. Klinzing also stated that mobile homes may not always be permanent housing for people, but was a good, affordable transition option, especially for persons who have been living somewhere that is not safe, comfortable, or attractive. For those persons, a mobile home can be a blessing and an upgrade for their life.

Commissioner Tingerthal responded that the board recently had a presentation on some of the facts about manufactured home parks in Minnesota from Community Development Director Margaret Kaplan and the Agency is continuing to look at the various issues that surround manufactured. Commissioner Tingerthal added that she cannot at this time say what kind of recommendations regarding manufactured housing staff will bring to the board, but did state that the number of issues related to manufactured housing communities has definitely increased in the past year. Commissioner Tingerthal added that the Agency has received a one-time appropriation to the Impact Fund for manufactured housing and staff will be working with the groups who brought that legislation forward, which allows investment in manufactured housing community infrastructure as an allowable use under the Challenge program.

Stephanie Klinzing stated she appreciated the fact that the funding recommendations look at senior housing, stating that demographically there are many elderly persons and she is excited to see the multi-generational work as well as aging-in-place represented. Ms. Klinzing stated that it is wonderful if we can support efforts to keep people in their homes and not needing services beyond what can be obtained in their homes. **MOTION:** Terri Thao moved approval of the Single Family RFP

selections. Auditor Otto seconded the motion. Motion carries 4-0, with Joe Johnson and John DeCramer recusing themselves due to relationships with funded organizations.

**F. Multifamily Selections, Amortizing Loans, Deferred Loans, 2017 Housing Tax Credits, and Tax-exempt Bonds**

Kayla Schuchman acknowledged staff for their work and contributions to the selections process and also acknowledged the improvements to the process and technology over the past several years. Ms. Schuchman stated requests for funding exceeded funds available by four-to-one for low income housing tax credits and by five-to-one for deferred resources. Ms. Schuchman stated that the funding awards will support more than 1,400 multifamily units through funding from the Challenge, HOME, the National Housing Trust Fund, housing tax credits, Section 811 Rental Assistance, amortizing debt, and the senior rental housing pilot programs. Ms. Schuchman added that many projects promote multiple priorities of the Agency. Ms. Schuchman stated that sublocator and partner funding is subject to approval by those entities. Ms. Schuchman stated that this year's RFP included 30 project-based rental assistance vouchers from the Metro HRA.

Ms. Schuchman shared with the board a project highlighting preservation activities, a rural development portfolio that was at risk of market conversion. Ms. Schuchman stated the current mortgages on the properties had either expired or were eligible for pre-payment, putting the rental assistance at risk. The projects serve eight communities in the southern part of the state. DEED has contributed funding for this portfolio preservation and USDA Rural Development has agreed to add 62 units of rental assistance, supplementing the 164 units already receiving rental assistance. Ms. Schuchman stated this is a first of its kind transaction in Minnesota, but follows a national model to consolidated Rural Development properties into a single transaction, which achieves some efficiencies.

Como By the Lake, a property serving seniors and those with disabilities represents another preservation activity. Ms. Schuchman stated the property is in an area of economic integration, with access to transit and services, and also offers on-site services. Ms. Schuchman stated the previous owner had acted to terminate the Section 8 contract and sell the development. A resident council formed and solicited buyers to preserve the property. Aeon was selected as the buyer and, with the assistance of Agency resources, will stabilize the property, address physical needs, and continue to offer rental assistance to residents.

Ms. Schuchman next highlighted Pike Lake Marsh, a large family development in an area of opportunity with access to higher performing schools. Ms. Schuchman stated the property is a 68-unit new development located one mile from Prior Lake. The development has access to trail systems, and is located in a higher-income census tract. The development features two-bedroom and larger units.

Next, Ms. Schuchman highlighted Fox Point townhomes, situated in an area with changing demographics and a need for large family units. This new development will have 30 three-bedroom units and eight two-bedroom units. The development will expand housing opportunities for large families in Mower County. Three Rivers Community Action will provide support to residents of the building; who are expected to include immigrant and refugee families. Ms. Schuchman added that Austin, where the property will be located, is both a top jobs center and a long commute community. The vacancy rate in Austin is 1% and it is expected that 120 new jobs will be added at the Hormel Institute. Ms. Schuchman stated the Fox Point Townhomes project is a public/private partnership, with the city and the Hormel Foundation providing support.

Next, Ms. Schuchman highlighted a project that meets the Agency priority of supporting housing that is responsive to aging demographics. Maysa House in Moorhead will create new senior housing units under the Senior Housing Pilot. The development will offer 24 units of affordable independent living with access to services, and will set-aside eight units for households with incomes at or below 30% of area median income. Residents will have access to a full continuum of care for seniors. The project is the result of community participation in the Greater Minnesota Housing Institute, as well as the community's 2009 comprehensive plan, which found a lack of housing for seniors.

Next, Ms. Schuchman described how the recommendations provide supportive housing, with 270 units funded, including 108 units for households that have experienced long-term homelessness. Two recommended developments will focus on reducing homelessness for individuals exiting incarceration, with resources targeted to ex-offenders who face high barriers to accessing stable housing.

Ms. Schuchman next described Solace Apartments, which is the first project proposed to be funded with National Housing Trust Fund resources. The project will offer 72 units of housing for persons with incomes at or below 30% of area median income who have histories of homelessness, trauma, and incarceration. The development is being funded in partnership with the Department of Corrections, Beacon Housing Collaborative, and Better Futures MN. Ms. Schuchman shared that Better Futures MN provides services for the community integration of men leaving incarceration and provided a profile of a participant.

Ms. Schuchman stated the non-selected applications they did not rank for the highly competitive 9% tax credits, without which they were not financially feasible. Ms. Schuchman stated staff would offer technical assistance for the non-selected applications to help their competitiveness in future RFPs. Commissioner Tingerthal pointed out to the board that one resolution they are being asked to adopt was for the reservation of tax exempt volume cap. Commissioner Tingerthal stated staff had spent a significant amount of time drafting the resolution, which demonstrates the Agency is committed to funding the projects, but does not know at this time from which year bond cap will be allocated. As an example, Commissioner Tingerthal stated the Rural Development portfolio project will likely take a longer time to be reading for bonding, so that allocation may come from a future year. Commissioner Tingerthal stated this resolution is another mechanism the Agency has put into place to best manage the scarce tax exempt bond availability.

Mr. Klausning inquired about the process for contacting the non-selected applicants. Commissioner Tingerthal responded that the vast majority of the non-selected applicants choose to have technical assistance sessions and many times those sessions will lead to a successful application the following year. Commissioner Tingerthal stated staff reaches out immediately and many of those technical assistance meetings happen within 60 days.

Stephanie Klinzing inquired about the use of the term "high performing schools." Ms. Schuchman responded that the definition is included in the qualified allocation plan and that the verbatim term is "access to higher performing schools." Ms. Schuchman added that a school is considered higher performing if it meets or exceeds the statewide average for two of the following three measures: third grade reading, eighth grade math, graduation rates.

Joe Johnson followed upon Mr. Klausning's comment, stating there are some developers with non-selected applications who have a lot of experience with the process. Ms. Schuchman agreed that

there are many developers who really know where the bar is and staff conducts about 70 technical assistance sessions each year.

Terri Thao inquired how this year 1,400 units funded compared to previous years. Ms. Schuchman responded the Agency funded just fewer than 1,100 units last year, but more deferred funding was provided. Ms. Schuchman stated there is a unit increases that she believed was related to the low interest environment and the high syndication proceeds being received for tax credits. Ms. Schuchman added that, without housing infrastructure bonds, the Agency was unable to fund as many supportive housing projects, which have higher costs on a per-unit basis. Ms. Schuchman added that more is being done with 9% tax credits this year, which have a lower need for per-unit deferred funding than projects using 4% tax credits. **MOTION:** Auditor Otto moved adoption of Resolution No. MHFA 16-043 Approving Selection and Commitment of Projects for Deferred Financing and Authorizing the Closing of Loans Related to the Following Programs: Economic Development and Housing Challenge (EDHC), Preservation Affordable Rental Investment Fund (PARIF), HOME Investment Partnerships (HOME), National Housing Trust Fund (NHTF). Craig Klausing seconded the motion. Motion carries 6-0. **MOTION:** Joe Johnson moved adoption of Resolution No. MHFA 16-044 Approving Allocation of and Granting Waivers Related to Federal Low Income Housing Tax Credits for Calendar Year 2017 to Certain Qualified Low Income Housing Buildings. Stephanie Klinzing seconded the motion. Motion carries 6-0. **MOTION:** Terri Thao moved adoption of Resolution No. MHFA 16-045 Approving Selection and Commitment - Section 811 Project-Based Rental Assistance Grants. Joe Johnson seconded the motion. Motion carries 6-0. **MOTION:** Stephanie Klinzing moved adoption of Resolution No. MHFA 16-046 Approving Selections Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs. Terri Thao seconded the motion. Motion carries 6-0. **MOTION:** Joe Johnson moved adoption of Resolution No. MHFA 16-047 Approving Selection and Commitment of Deferred Financing Authorizing the Closing of Mortgage Loan Commitments under the Senior Rental Housing Pilot. Craig Klausing seconded the motion. Motion carries 6-0. **MOTION:** Joe Johnson moved adoption of Resolution No. MHFA 16-048 Approving Reservation of Tax-Exempt Bond Volume Cap. Terri Thao seconded the motion. Motion carries 6-0.

**8. Discussion Items**

None.

**9. Informational Items**

**A. Post-Sale Report, Homeownership Finance Bonds 2016 Series EF**

Informational item. No action needed.

**10. Other Business**

None.

**11. Adjournment.**

The meeting was adjourned at 12:05 p.m.

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**Item:** Approval, Extension, Family Housing Fund Foreclosure Remediation Loan

**Staff Contact(s):**

Tal Anderson, 651.296.2198, tal.anderson@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

Staff requests adoption of a Resolution to extend a \$5 million Foreclosure Remediation loan to the Family Housing Fund (FHF) that matures on November 23, 2016. The \$5 million loan was used by the FHF to fund a loan to the Greater Metropolitan Housing Corporation (GMHC) to facilitate foreclosure remediation activities in north Minneapolis.

**Fiscal Impact:**

The loan is funded using existing Pool 3 resources and complies with the Economic Development and Housing Challenge Fund rules.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Resolution

**Background:**

In April 2007, Minnesota Housing provided a \$10 million interim Foreclosure Remediation loan to the Family Housing Fund (FHF) using \$5 million funded from Pool 2 and \$5 million funded from Pool 3 for a blended annual interest rate of 3% for foreclosure remediation efforts in north Minneapolis.

The loan proceeds were intended to be used by the FHF to fund nonprofit housing development organizations to facilitate foreclosure remediation activities through the acquisition, demolition, renovation and/or construction of housing units in north Minneapolis for sale to and occupancy by low- and moderate-income households (up to 115% area median income). The FHF selected the Greater Metropolitan Housing Corporation (GMHC) to initiate these activities and funded a \$10 million loan to GMHC at a blended rate of 3% annually maturing on July 19, 2010.

In 2015, the Pool 2 loan was fully paid off. In addition, the Pool 3 loan was modified to reduce the interest rate from 3% to a zero interest loan, and to require the FHF to make quarterly principal payments of \$37,500, which is equal to the 3% interest payment currently in place. FHF is current with all payment obligations under the existing loan.

Minnesota Housing and FHF are currently working with GMHC to explore options for funding in the future. While these discussions continue, staff requests a six-month extension of this loan, with a new maturity date of May 23, 2017.

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

**RESOLUTION NO. MHFA 15-  
MODIFYING RESOLUTION NO. MHFA 15-047**

**RESOLUTION APPROVING AN EXTENSION OF THE FORECLOSURE REMEDIATION LOANS TO THE FAMILY  
HOUSING FUND**

WHEREAS, the Board adopted Resolution No. MHFA 07-23 related to the financing of two concurrent \$5 million Foreclosure Remediation loans funded from Pool 2 and Pool 3 to the Family Housing Fund (FHF) on April 26, 2007;

WHEREAS, by motion the Board approved a modification of terms to extend the loan maturity to July 19, 2015 and to require semi-annual interest payments on the existing financing to the FHF on October 23, 2008;

WHEREAS, the Board adopted Resolution No. MHFA 15-025 modifying the term extending the loan maturity to October 13, 2015;

Whereas, the Board adopted Resolution No. MHFA 15-044 extended the loan maturity to November 19, 2015 and authorized the Commissioner to approve no more than two additional 30-day extensions on the existing \$5 million Foreclosure Remediation Loans to the FHF;

Whereas, the Board adopted Resolution NO. MHFA 15-047 extending the loan maturity for 12-months from the date of loan closing; reducing the interest rate of the loan, and requiring quarterly principal payments; and

WHEREAS, the Agency Commissioner has subsequently approved two 30-day extensions of the maturity date; and

WHEREAS, the current maturity date of the loan is November 23, 2016; and

WHEREAS, Agency staff has determined that an additional extension of the maturity of the credit facility will assist in fulfilling the purposes of Minnesota Statutes Chapter 462A.

NOW THEREFORE, BE IT RESOLVED THAT the Board hereby extends the maturity date of the existing \$5 million, Pool 3, Foreclosure Remediation loan to the FHF to May 23, 2017; and

NOW THEREFORE, BE IT FURTHER RESOLVED THAT all other provisions in Resolutions No. MHFA 07-23, MHFA 15-025, MHFA 15-044, MHFA 15-047, and of the motion adopted on October 23, 2008, remain in force and effect.

Adopted this 17<sup>th</sup> day of November 2016.

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CHAIRMAN

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**Board Agenda Item: 6.B**  
**Date: 11/17/2016**

**Item:** Oxford Village, Hopkins, D7661

**Staff Contact(s):**

Ester Robards, 651.297.5141, ester.robards@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

At its October 2016 meeting, the Agency board approved this development for further processing. Due to a clerical error, the date by which the loan commitments must be entered was mistakenly listed as October 19, 2016, rather than the intended date of April 30, 2017. Staff requests the board adopt the attached resolution rescinding the previous resolution and reflecting the correct date in item number 6 of the terms and conditions listed in the resolution.

**Fiscal Impact:**

None; this development was previously approved by the board and no conditions have changed.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Resolution

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

**RESOLUTION NO. MHFA 16**

**RESOLUTION RESCINDING RESOLUTION NO. MHFA 16-041 AND  
APPROVING MORTGAGE LOAN COMMITMENT  
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM  
AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM**

WHEREAS, on October 19, 2016 the Minnesota Housing Finance Agency (Agency) adopted Resolution No. MHFA 16-041 to provide construction and permanent financing for a multiple unit housing development to be occupied by persons and families of low and moderate income, as described herein;

Name of Development:	Oxford Village
Sponsors:	Project for Pride in Living, Inc.
Guarantors:	Project for Pride in Living, Inc.
Location of Development:	Hopkins
Number of Units:	51
General Contractor:	Weis Builders, Inc., Minneapolis
Architect:	Cermak Rhodes Architects, St. Paul
Amount of Development Cost:	\$15,400,053
Amount of LMIR Mortgage:	\$885,000
Amount of FFCC Loan:	\$358,507

WHEREAS, the date by which the loan commitments must be entered was incorrectly entered in Resolution No. MHFA 16-41;

WHEREAS, the Agency 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, the Agency 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 rescinds Resolution No. MHFA 16-041, and;

THAT, the board hereby authorizes Agency staff to issue a commitment to a permanent mortgage loan to said applicant from Housing Investment Fund (Pool 2 under the LMIR Program) and from the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed \$885,000; and
2. The interest rate on the permanent LMIR amortizing loan shall be 4.75 percent per annum plus 0.125 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and
3. The term of the permanent LMIR amortizing loan shall be 30 years; and
4. The amount of the FFCC loan shall be \$358,507; and
5. Repayment of the FFCC loan shall be deferred, with interest up to one percent, and the loan term shall be coterminous with the LMIR amortizing loan; and
6. The Combined LMIR and FFCC Loan Commitment shall be entered into on or before April 30, 2017 and shall have an 18 month term (which shall also be the LMIR and FFCC Commitment Expiration Date); 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. Project for Pride in Living, Inc. shall guarantee the mortgagor's construction completion and payment obligations 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. Project for Pride in Living, Inc. shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and the 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 17th day of November 2016.

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CHAIRMAN

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**Item:** Indian Knoll Manor, Mound, D7878

**Staff Contact(s):**

Ted Tulashie, 651.297.3119, ted.tulashie@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

Agency staff 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 up to \$721,000 and a deferred commitment in the amount of \$115,000 under the Flexible Financing for Capital Costs (FFCC) program, subject to the terms and conditions of the Agency mortgage loan commitment.

**Fiscal Impact:**

In the 2016 Affordable Housing Plan (AHP), the Minnesota Housing board allocated \$70 million in new activity for the LMIR program, which includes \$30 million from the Housing Investment Fund (Pool 2) and \$40 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated \$3.5 million in new activity under the FFCC Program (funded through the Housing Affordability Fund – Pool 3). Funding for this loan falls within the approved budget, and the loan will be made at an interest rate and with terms consistent with what is described in the AHP. Additionally, the LMIR loan should generate approximately \$100,000 in fee income (origination fee and construction oversight fee) as well as interest earnings that will help offset Agency operating costs.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Development Summary (Multifamily)
- Resolution

At its October 22, 2015 meeting, the Minnesota Housing board approved this development for processing under the Low and Moderate Income Rental (LMIR) and the Flexible Financing for Capital Costs (FFCC) programs and approved a commitment for financing under the Preservation Affordable Rental Investment Fund (PARIF) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION	COMMITMENT	VARIANCE			
<b>Total Development Cost</b>	\$ 11,274,844	\$13,257,313	\$ 1,982,469			
Gross Construction Cost	\$ 6,090,000	\$ 8,104,058	\$ 2,014,058			
<b>Agency Sources:</b>						
<b>LMIR</b>	\$ 704,000	\$ 721,000	\$ 17,000			
<b>FFCC</b>	\$ 115,000	\$ 115,000	\$ 0			
<b>PARIF</b>	\$ 885,000	\$ 885,000	\$ 0			
<b>Total Agency Sources</b>	\$ 1,704,000	\$ 1,721,000	\$ 17,000			
<b>Other Non-Agency Sources:</b>						
Tax Credit Equity	\$ 6,099,520	\$ 7,716,116	\$ 1,616,596			
Hennepin County HOME	\$ 0	\$ 500,000	\$ 500,000			
Met Council LHIA	\$ 400,000	\$ 400,000	\$ 0			
Hennepin County ERF	\$ 300,000	\$ 390,982	\$ 90,982			
City of Mound Seller Loan	\$ 2,535,000	\$ 2,120,000	\$ (415,000)			
Sales Tax Rebate	\$ 116,000	\$ 141,207	\$ 25,207			
GP Equity	\$ 100	\$ 100	\$ 0			
Existing Reserves	\$ 65,000	\$ 200,000	\$ 135,000			
Deferred Developer Fee	\$ 55,224	\$ 67,908	\$ 12,684			
<b>Gross Rents:</b>						
<b>Unit Type</b>	<b># of DU</b>	<b>Rent</b>	<b># of DU</b>	<b>Rent</b>	<b># of DU</b>	<b>Rent</b>
0 BR – RAD PBRA	7	\$ 430	16	\$ 443	9	\$ 13
1 BR – RAD PBRA	7	\$ 430	0	\$ 0	(7)	
2 BR – RAD PBRA	26	\$ 535	28	\$ 551	2	\$ 16
2 BR – RAD PBRA	1	\$ 670	1	\$ 690	0	\$ 20
<b>Sub-Total RAD PBRA</b>	<b>41</b>		<b>45</b>			
0 BR – Sect 811	2	\$ 641	0	\$ 0	(2)	
1 BR – Sect 811	7	\$ 796	5	\$ 805	(2)	\$ 9
<b>Sub-Total Section 811</b>	<b>9</b>		<b>5</b>			
1 BR – Apt -Sect 8 PBV	2	\$ 830	2	\$ 813	0	\$ (17)
2 BR – Apt - Sect 8 PBV	4	\$ 1,000	4	\$ 1,027	0	\$ 27
3 BR – Apt - Sect 8 PBV LTH	6	\$ 1,351	0	\$ 0	(6)	
3 BR – TH - Sect 8 PBV LTH	1	\$ 1,351	7	\$ 1,444	6	\$ 93
3 BR – TH - Sect 8 PBV	3	\$ 1,351	3	\$ 1,444	0	\$ 93
<b>Sub-Total Sect 8 PBV</b>	<b>16</b>		<b>16</b>			
<b>Total Number of Units</b>	<b>66</b>		<b>66</b>		0	
<b>LTH Units</b>	<b>7</b>		<b>7</b>		<b>0</b>	

### **Factors Contributing to Variances:**

As originally selected, the original scope of work proposed 62 apartment units (50 existing, plus 12 new units on top of the existing building) and four new townhomes. After the project was selected for financing, it was determined by the structural engineer that the soil and the existing footings were not suitable for stacking the additional units on top of the existing building. The additional shoring required to make the 62 apartment unit model structurally sound was not cost effective and thus the development was reconfigured to 10 new townhomes and 56 apartment units (50 existing and six new). In order to accomplish the additional townhomes, an adjacent parcel of land was acquired.

Overall, the change resulted in the following increases to the TDC:

- Despite the need to acquire the adjacent parcel of land, the acquisition costs have decreased by \$267,701 (10%). The current purchase price is based on the final appraisal value.
- Construction costs increased 33% due to increased scope of work, Watershed District stormwater management requirements and major amount of soil correction not originally anticipated.
- Professional fees increased 41% as a result of the change in the building design. The unique nature of the scope of work identified several complex items that required intensive design justifying the increased design fee.

These increased costs are offset by:

- The project was awarded an additional \$68,900 in tax credits coupled with an increase in tax credit price of \$0.14 per credit for an overall price of \$1.075 per credit.
- The developer secured a \$500,000 HOME loan for the project as well as a Hennepin County ERF grant that was \$90,982 higher than originally projected.
- Decreased property taxes per the Hennepin County assessor's office allowed the mortgage to increase by \$17,000.
- Increases to the sales tax rebate, existing reserves and deferred developer fee closed the final portion of the gap created by the cost increase.

The city of Mound seller loan decreased by \$415,000; however, this was tied to the decreased purchase agreement amount.

### **Other Significant Events Since Board Selection:**

1. The original service provider, People Inc., lost its proposed funding for the development. Community Action Partnership of Suburban Hennepin (CAPSH) will replace People Inc. as the service provider for the development, and they will now provide case management services.
2. All 16 of the existing studio apartments will remain studios rather than converting seven studios into one-bedroom apartments as originally proposed.

**DEVELOPMENT:**

Name:	Indian Knoll Manor	App#:	D7878
Address:	2020 Commerce Blvd	App#:	M17202
City:	Mound	County:	Hennepin
		Region:	Metro

**MORTGAGOR:**

Ownership Entity:	IKM Limited Partnership
General Partner/Principals:	Aeon/Aeon

**DEVELOPMENT TEAM:**

General Contractor:	Frerichs Construction, St. Paul
Architect:	Cermak Rhoades Architects, St. Paul
Attorney:	Faegre Baker Daniels LLP, Minneapolis
Management Company:	Aeon Management LLC, Minneapolis
Service Provider:	Community Action Partnership of Suburban Hennepin (CAPSH), St. Louis Park

**CURRENT FUNDING REQUEST/PROGRAM and TERMS:**

\$ 721,000	LMIR First Mortgage
	Funding Source: Hsg Investment Fund (Pool 2)
	Interest Rate: 4.75%
	MIP Rate: 0.125%
	Term (Years): 30
	Amortization (Years): 30
\$ 115,000	Flexible Financing Cap Cost
	Funding Source: Hsg Investment Fund (Pool 3)
	Interest Rate: 0.00%
	Term (Years): 30

**RENT GRID:**

UNIT TYPE	NUMBER	UNIT SIZE (SQ FT)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
OBR - RAD PBRA	16	370	\$ 443	\$656	\$ 26,240
1BR - RAD PBRA	28	480	\$ 551	\$813	\$ 32,520
2BR - RAD PBRA	1	950	\$ 690	\$1,129	\$ 41,080
1BR - Sect 811	5	480	\$ 805	\$805	\$ 32,200
1BR - PBV	2	920	\$ 813	\$1,138	\$ 45,520
2BR - PBV	4	950	\$ 1,027	\$1,129	\$ 41,080
3BR - PBV TH (LTH)	7	1,220	\$ 1,444	\$1,588	\$ 57,760
3BR - PBV TH	3	1,220	\$ 1,444	\$1,588	\$ 57,760
<b>TOTAL</b>	<b>66</b>				

**NOTE:** Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 50% MTSP with incomes up to 60% MTSP. Various forms of rental assistance will ensure none of the households will pay more than 30% of income towards rent.

**Purpose:**

Indian Knoll Manor is an acquisition, substantial rehab and new construction development located in the city of Mound. The Indian Knoll Manor project will be a combination of one (1) four-story, elevator building with 56 garden-style units and two (2) two-story buildings with 10 townhome units. The development meets the Preservation and Supportive Housing/Homelessness strategic priorities and addresses Critical Rental Housing strategic priorities. The development also serves an important policy goal of addressing Preservation of Federally Assisted Rental Assistance.

**Population Served:**

The development will provide housing for families, singles and seniors. Twelve units will provide supportive housing, including seven units for households that have experienced long-term homelessness. The households will have incomes at or below 30% and 60% MTSP. All units will have rental assistance to ensure tenants do not pay more than 30 percent of their incomes towards rent: 45 units through HUD’s RAD PBRA program, 16 project-based vouchers and five units will have a Section 811 contract.

**Project Feasibility:**

The development is feasible as proposed. Minnesota Housing will provide an amortizing first mortgage and deferred loans through the Flexible Financing Capital Cost (FFCC) and the Preservation Affordable Rental Investment Fund (PARIF) programs. All Minnesota Housing loans will be funded at completion of construction. Wells Fargo, the syndicator, will contribute over \$7,700,000 of tax credit equity based on a \$1.075/credit price. Other sources include deferred loans from Hennepin County, grants from the Environmental Remediation Fund and the Met Council. A seller loan from the city of Mound, existing reserves, sales tax rebate and a deferred developer fee will fully fund the proposal.

**Development Team Capacity:**

Aeon has completed 2,130 units of affordable housing that are of similar size and scope of the proposed development. Previous experience with Minnesota Housing and internal staff experience has rated this developer as acceptable.

Aeon Management LLC will be the management company. Aeon Management LLC was established in 2008 and currently has 38 developments. Their portfolio consists of HTC, Section 8, HOME and Supportive Housing units. The property management company has the capacity to manage this development.

**Physical and Technical Review:**

This is a three-building (66-unit) combination of rehabilitation and new construction development. Minnesota Housing's architect has reviewed and approved the plans and specifications. The development team of Frerichs Construction (contractor) and Cermak Rhodes Architects, has demonstrated the capacity to complete similar projects successfully.

The budgeted TDC per unit of \$200,868 is 1.49 percent below the \$203,907 predictive model estimate.

**Market Feasibility:**

The market study prepared by Bowen National Research states that properties in the Mound-Minneapolis area maintain extremely low vacancy rates, with projected growth of both population and households. The proposed rents are affordable to the local workforce. The project is located in close proximity to downtown Mound near services and jobs.

**Supportive Housing:**

Community Action Partnership of Suburban Hennepin (CAPSH) will be the service provider for the development; they will provide case management services.

**DEVELOPMENT COST SUMMARY (estimated):**

	<b>Total</b>	<b>Per Unit</b>
<b>Total Development Cost</b>	\$13,257,313	\$200,868
<b>Acquisition or Refinance Cost</b>	\$2,312,299	\$35,035
<b>Gross Construction Cost</b>	\$8,104,058	\$122,789
<b>Soft Costs (excluding Reserves)</b>	\$2,560,956	\$38,802
<b>Non-Mortgageable Costs</b>	\$0	\$0
<b>Reserves</b>	\$280,000	\$4,242
<b>Total LMIR Mortgage</b>	<b>\$721,000</b>	<b>\$10,924</b>
First Mortgage Loan-to-Cost Ratio		5.44%
<b>Agency Deferred Loan Sources</b>		
Flexible Financing Cap Costs	\$115,000	\$1,742
PARIF	\$885,000	\$13,409
<b>Total Agency Sources</b>	<b>\$1,721,000</b>	<b>\$26,076</b>
Total Loan-to-Cost Ratio		12.98%
<b>Other Non-Agency Sources</b>		
Syndication Proceeds	\$7,716,116	\$116,911
Hennepin County HOME	\$500,000	\$7,576
Met Council LHIA	\$400,000	\$6,061
Hennepin County ERF	\$390,982	\$5,924
City of Mound Seller Loan	\$2,120,000	\$32,121
Sales Tax Rebate	\$141,207	\$2,140
GP Equity	\$100	\$2
Existing Reserves	\$200,000	\$3,030
Deferred Developer Fee	\$67,908	\$1,029
<b>Total Non-Agency Sources</b>	<b>\$11,536,313</b>	<b>\$174,793</b>

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

**RESOLUTION NO. MHFA 16-**

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT  
LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM AND  
FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) 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:	Indian Knoll Manor
Sponsors:	Aeon
Guarantors:	Aeon
Location of Development:	Mound
Number of Units:	66
General Contractor:	Frerichs Construction, St. Paul
Architect:	Cermak Rhoades Architects, St. Paul
Amount of Development Cost:	\$13,257,313
Amount of LMIR Mortgage:	\$721,000
Amount of FFCC Loan:	\$115,000

WHEREAS, the Agency 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/rehabilitation of the development will assist in fulfilling the purpose of Minn. Stat. ch. 462A; and

WHEREAS, the Agency 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 permanent mortgage loans to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) and the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed \$721,000; and

2. The interest rate on the permanent LMIR loan shall be 4.75 percent per annum plus 0.125 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and
3. The term of the permanent LMIR loan shall be 30 years; and
4. The amount of the FFCC deferred loan shall be \$115,000; and
5. Repayment of the FFCC loan shall be deferred, with interest up to one percent, and the loan- term shall be co-terminus with the LMIR loan; and
6. The Combined LMIR and FFCC End Loan Commitment shall be entered into on or before May 31, 2017 and shall have an 18 month term (which shall also be the LMIR and FFCC Commitment Expiration Date); and
7. The Mortgagor shall agree with the terms set forth in the Agency Term Letter; and
8. The Mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
9. Aeon 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. Aeon 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 17th day of November 2016.

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CHAIRMAN

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**Item:** Family Homeless Prevention and Assistance Program (FHPAP) Administrative Capacity Initiative

**Staff Contact(s):**

Diane Elias, 651.284.3176, diane.elias@state.mn.us

Kim Bailey, 651.296.9833, kim.bailey@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

At its May 28, 2015 meeting, the Agency board approved a resolution to commit \$149,500 for the FHPAP Administrative Capacity Initiative. At its May 26, 2016 meeting, the Agency board approved a resolution reallocating funding from Leverage Incentive Initiative to the Administrative Capacity Initiative, making available a revised total of \$212,614 in Administrative Capacity Initiative funding. Staff has completed the request for proposals and the review and selection process and is now requesting approval of the funding recommendations for this initiative.

**Fiscal Impact:**

The FHPAP funding is a state appropriated resource and does not have an adverse financial impact on the Agency's financial position.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Resolution

The FHPAP Administrative Capacity Initiative creates a one-time resource for the current biennium to assist grantees in improving their overall FHPAP program and increase housing stability outcomes. Funds would allow grantees, sub-grantees and advisory committees to use their local knowledge and creativity to develop strategies that work for them. Some of the eligible activities include:

- Technology (equipment, software, etc.)
- Partnership development
- Staff development and training
- Consulting and technical assistance

The priorities for the FHPAP Administrative Capacity Initiative are:

- Build organizational capacity to better serve FHPAP households
- Build knowledge base of staff administering and providing FHPAP services
- Increase capacity to underserved communities within geographic service area
- Increase attendance and participation of FHPAP advisory committee members

Eligible applicants were existing FHPAP grantees. Of the 20 grantees statewide, 15 applied for funding. Staff, in consultation with other state agency staff, reviewed and scored the applications. Most applicants submitted a request to fund several types of activities. Because the requests exceeded the amount of funding available, reviewers prioritized the activities for which funding was requested. While all applicants are recommended to receive some funding, some received a greater proportion of their request than others. Proposals that were not fully funded included activities that did not meet the established initiative priorities or did not have a direct link to the FHPAP program. Other awards were re-sized by staff to remove or reduce funding for low priority activities.

In addition to the current applications, staff requests that the board approve an administrative capacity initiative fund award of \$7,500 to Lutheran Social Services, who took over administration of the Catholic Charities FHPAP grant in Central Minnesota in August, 2015. That transition was approved by the Board on August 27, 2015. On September 3, 2015, Minnesota Housing's Clearinghouse Committee approved \$7,500 in administrative capacity funds to Lutheran Social Services, but staff inadvertently failed to receive board approval. Board approval of this award is included in this request.

Staff recommends the following awards:

<b>Applicants</b>	<b>Requested</b>	<b>Funding</b>
Anoka County	\$ 20,000	\$ 3,500
Bi-County Community Action Programs, Inc.	\$ 20,000	\$ 18,000
Blue Earth County (Region 9)	\$ 20,000	\$ 16,400
Carver and Scott Counties	\$ 20,000	\$ 18,500
Dakota County	\$ 20,000	\$ 18,390
Hennepin County	\$ 15,500	\$ 15,000
Kootasca Community Action, Inc.	\$ 19,771	\$ 17,274
Lakes & Prairies Community Action Council, Inc.	\$ 20,000	\$ 16,900
Lutheran Social Services	\$ 7,500	\$ 7,500

<b>Applicants</b>	<b>Requested</b>	<b>Funding</b>
Mahube-Otwa Community Action Partnership, Inc.	\$ 20,000	\$ 13,550
Ramsey County	\$ 20,000	\$ 9,500
St. Louis County	\$ 20,000	\$ 14,000
Three Rivers Community Action (Southeast MN)	\$ 20,000	\$ 11,500
United Community Action Partnership*	\$ 20,000	\$ 13,300
Washington County	\$ 9,485	\$ 3,500
West Central Minnesota Community Action	\$ 20,000	\$ 15,800
<b>TOTAL</b>	\$ 292,256	\$ 212,614

\* Heartland Community Action Agency and Western Community Action each received funding as FHPAP administrators. They have merged operations and now operate as United Community Action Partnership.

Approximately 33 percent of funding will be awarded to applicants in the metro area while 67 percent of the funding will be awarded to applicants in the greater Minnesota area.

Grantees awarded funding through this initiative will be required to submit a short narrative and expenditure report at the end of the biennium, which is June 30, 2017. They may also be asked to participate in a debrief meeting and present at an annual FHPAP grantee meeting.

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

**RESOLUTION NO. MHFA 16-**

**RESOLUTION TO APPROVE FHPAP AWARDS FOR THE FHPAP ADMINISTRATIVE CAPACITY INITIATIVE**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has heretofore adopted Resolutions No. MHFA 15-017, MHFA 16-005 and MHFA 16-024 authorizing and modifying commitments for administrative capacity initiative funding as part of the funding awards under the Family Homeless Prevention and Assistance Program (FHPAP); and

WHEREAS, the following selections are recommended for FHPAP Administrative Capacity Initiative funds:

<b>Applicants</b>	<b>Funding</b>
Anoka County	\$ 3,500
Bi-County Community Action Programs, Inc.	\$ 18,000
Blue Earth County (Region 9)	\$ 16,400
Carver and Scott Counties	\$ 18,500
Dakota County	\$ 18,390
Hennepin County	\$ 15,000
Kootasca Community Action, Inc.	\$ 17,274
Lakes & Prairies Community Action Council, Inc.	\$ 16,900
Lutheran Social Services	\$ 7,500
Mahube-Otwa Community Action Partnership, Inc.	\$ 13,550
Ramsey County	\$ 9,500
St. Louis County	\$ 14,000
Three Rivers Community Action (Southeast MN)	\$ 11,500
United Community Action Program	\$ 13,300
Washington County	\$ 3,500
West Central Minnesota Community Action	\$ 15,800
<b>TOTAL</b>	<b>\$ 212,614</b>

**NOW THEREFORE, BE IT RESOLVED:**

That the board authorizes approval of the FHPAP Administrative Capacity Initiative awards for the grant period of November 17, 2016 to June 30, 2017.

Adopted this 17th day of November 2016.

\_\_\_\_\_  
CHAIRMAN

**Item:** New Initiative, Community Fix Up Loan (CFUL) Program, Hutchinson Housing and Redevelopment Authority (HRA)

**Staff Contact(s):**

Shannon Gerving, 651.296.3724, shannon.gerving@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion   | <input type="checkbox"/> Discussion       |
| <input type="checkbox"/> Resolution          | <input type="checkbox"/> Information      |

**Summary of Request:**

Staff requests board approval for the CFUL program recommendations described in the attached Initiative Detail. The CFUL program accepts initiative proposals from participating Fix Up loan lenders and their community partners on an ongoing basis. The activities must address home improvement needs with a resulting community impact.

**Fiscal Impact:**

The program uses Pool 2 funds budgeted in the current 2017 Affordable Housing Plan. Action requested in this report is consistent with the program terms described in the plan.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Initiative Detail

**Background:**

The following recommendation for a Community Fix Up initiative meets the guidelines for participation contained within the Program Concept. Staff applies threshold indicators and considers compensating factors when determining whether to recommend a specific proposal to access funds under the CFUL program. The threshold indicators include:

- Confirmation that the initiative fits within the Program Concept;
- The strength of partnership;
- Leverage and/or value-added features;
- A focused marketing plan; and
- Budget counseling, if required.

**Initiative Detail:**

Using the \$13,878 Impact Fund awarded by the board in 2016, Hutchinson HRA proposes a Community Fix Up initiative in the City of Hutchinson. Currently, Hutchinson HRA offers a Home Improvement Loan Program (0% deferred loan, forgiven after five years, up to \$10,000 per project) that requires a 50% owner match. The Community Fix Up loan will be used as the owner match to finance additional home improvements. The Initiative proposes to discount the Community Fix Up loan rate to 3% for households with incomes at or below 60% AMI, and 4% for households with incomes from 61-80% AMI.

Region	Estimated Demand	
	# Loans	Loan Volume
Southwest	4	\$ 80,000

**Item:** Section 236 Loan, Mesaba Villas South, Duluth, D0445

**Staff Contact(s):**

Erin Coons, 651.296.9836, erin.coons@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

Agency staff recommends the adoption of a resolution authorizing the extension of an existing Section 236 loan subject to the terms and conditions of the Agency loan commitment.

**Fiscal Impact:**

The extension of the term of the Section 236 loan will preserve the federal rental subsidy for at least 14 households.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Resolution

**Background:**

This development was financed with a Section 236 first mortgage in the amount of \$557,700 which will mature in December 2016. The loan has a 40-year term with a 40-year amortization. As part of the Section 236 program, the development is also receiving Interest Reduction Payments (IRP) from HUD. These payments offset the interest on the loan by providing rebates to the owner in exchange for accepting rental assistance on 14 of the units.

The owner has requested that the Section 236 loan be modified by extending the term for one year and amortizing the remaining balance of the loan over that extended term; the new maturity date will be December 1, 2017. By extending the term of the loan the owner will be able to complete the HUD Rental Assistance Demonstration (RAD) conversion process.

Authorized by Congress under the FY12 HUD Appropriations Act, RAD allows public housing agencies (PHAs) and owners of other HUD-assisted properties to convert units from their original sources of HUD rental assistance to project-based Section 8 contracts. If the mortgage matures, the ability to undertake the RAD conversion will be lost and the income restrictions, rent limitations, and tenant protections will not be protected by a Section 8 contract.

The Section 236 loan was provided to the development on September 23, 1974. The loan was amended in January of 1976 following completion of construction. Currently, the final maturity date of the loan and the date on which Interest Reduction Payments (IRP) would stop is December 1, 2016.

Under the IRP, 14 tenants are receiving rental assistance under a Rental Assistance Payment (RAP) contract. As part of the RAD process an additional 3 units could be added to the new Section 8 contract based on current tenant incomes, resulting in potential for 17 units that will have on-going rental subsidies. Final determination of the number of units with rental assistance will be a function of the RAD application process.

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

**RESOLUTION NO. MHFA -**

**RESOLUTION APPROVING MORTGAGE LOAN MODIFICATION  
SECTION 236 LOAN PROGRAM**

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

Name of Development:	Mesaba Villas South
Sponsors:	Mesaba Villas South, LLLP
Guarantors:	Thies and Talle Enterprises, Inc; Ken Talle and David Thies
Location of Development:	Duluth
Number of Units:	27
Amount of Original 236 Mortgage:	\$557,700

WHEREAS, the Section 236 loan on the above property has a maturity date of December 01, 2016.

WHEREAS, Agency staff has determined that an extension of the maturity of the loan and the re-amortization of the remaining balance will assist in fulfilling the purposes of Minnesota Statutes Chapter 462A.

NOW THEREFORE, BE IT RESOLVED THAT the Board hereby extends the maturity date of the existing Section 236 loan to December 1, 2017; and

THAT, the remaining balance of the loan shall be re-amortized for repayment in full based on the new maturity date; and,

NOW THEREFORE, BE IT FURTHER RESOLVED THAT all other provisions of the loan agreement currently in place remain in force and effect.

Adopted this 17<sup>th</sup> day of November 2016.

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CHAIRMAN

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**Item:** Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2016 Series F, and Authorizing Execution of Certain Documents Related Thereto.

**Staff Contact(s):**

Kevin Carpenter, 651.297.4009, kevin.carptener@state.mn.us

Terry Schwartz, 651.296.2404, terry.schwartz@state.mn.us

Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval   | <input type="checkbox"/> No Action Needed |
| <input checked="" type="checkbox"/> Motion     | <input type="checkbox"/> Discussion       |
| <input checked="" type="checkbox"/> Resolution | <input type="checkbox"/> Information      |

**Summary of Request:**

Agency staff is preparing to issue bonds, under the Residential Housing Finance Bond (RHFB) resolution, to provide funds for the acquisition of newly originated mortgage-backed securities that funded the origination of single family mortgages. In addition, the new bond issue will refund outstanding RHFB bonds, 2007 Series L. The 2016 Series F bonds, to be issued under the resolution provided under separate cover, will be variable rate bonds, with the Federal Home Loan Bank of Des Moines as the liquidity provider. The Agency will enter into an interest rate swap agreement to convert the variable rate payments into a fixed rate obligation. The upcoming RHFB bond issue will also include fixed rate bonds, 2016 Series DE, to be issued under Series bond resolution for RHFB which was adopted by the board at its April 28, 2016 meeting. The Preliminary Official Statement describes the entire transaction. Staff anticipates pricing the transaction in mid-December, with closing scheduled for late in December.

**Fiscal Impact:**

The upcoming transaction will enable the Agency to capture interest rate savings by refunding outstanding debt as well as putting assets on the balance sheet at a profitable spread such that the Agency builds the earnings power of the balance sheet into the future.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Resolution (provided under separate cover)
- Preliminary Official Statement (provided under separate cover)

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**Item:** Adjustment to Draft Amendment, Qualified Application Plan (QAP), Procedural Manual, and Self-Scoring Worksheet, 2017 Housing Tax Credit (HTC) Program

**Staff Contact(s):**

Kayla Schuchman, 651.296.3705, kayla.schuchman@state.mn.us

Mary Tingerthal, 651.296.5738, mary.tingerthal@state.mn.us

**Request Type:**

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Approval | <input type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion              | <input type="checkbox"/> Discussion       |
| <input type="checkbox"/> Resolution          | <input type="checkbox"/> Information      |

**Summary of Request:**

Staff recommends the proposed changes to the 2017 Qualified Allocation Plan, procedural manual, and self-scoring worksheet be withdrawn.

**Fiscal Impact:**

Housing Tax Credits are a federally sponsored program and will not have any direct fiscal impact on the Agency's financial condition.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background

**Background:**

At its October 19, 2016 meeting, the Board authorized staff to release draft amendments to the 2017 and 2018 Housing Tax Credit programs for public comment. Although the public comment period remains open until November 16, 2016, we have received a significant number of written and verbal comments expressing concern about the impact of making changes to the 2017 QAP at a point so close to when the QAP would become effective for 4% tax credits. We will provide a summary of the comments that we receive at the Board meeting.

**Recommendation:**

Based on a review and consideration of comments received, we recommend that the recommended changes to the 2017 QAP, procedural manual and self scoring worksheet be withdrawn. We further recommend that the proposed amendments to the 2018 QAP continue to be considered by the Board and that formal consideration of whether to move forward with the amendments be delayed until the January, 2017 Board meeting.

**Item:** Workforce and Affordable Homeownership Development Program

**Staff Contact(s):**

Nira Ly, 651.296.6345, nira.ly@state.mn.us

**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input type="checkbox"/> Discussion                  |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information      |

**Summary of Request:**

The 2016 Legislature created the Workforce and Affordable Homeownership Development program with the purpose of increasing the supply of affordable, owner-occupied housing throughout the state. This document provides background and a summary of the program's implementation.

**Fiscal Impact:**

The Legislature provided a one-time appropriation of \$750,000 for the program.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Exhibit A: Workforce and Affordable Homeownership Development Program Summary

**Background:**

The Workforce and Affordable Homeownership Development Program received a one-time \$750,000 appropriation by the Minnesota legislature in the 2016 supplemental budget (Minnesota Statutes § 462A.38). The purpose of the program is to increase the supply of affordable, owner-occupied housing throughout the state.

In July 2016, Minnesota Housing staff met with key stakeholders representing nonprofit organizations, community land trusts, and manufactured home park cooperatives and their feedback was taken into consideration in the program design.

The housing development activities that will be funded under the Workforce and Affordable Homeownership Development Program are similar to the allowable activities under the Community Homeownership Impact Fund (Impact Fund). It also includes an activity that will allow funding for infrastructure in manufactured home parks which is not currently permitted under the Impact Fund. Due to the similarities with the Impact Fund, the timeline strategically aligns with the close of the 2016 Single Family Consolidated Request for Proposals (Single Family RFP) and the launch of the 2017 Single Family RFP. The timeline for implementation will allow any applicants that did not receive funding under the 2016 Single Family RFP to submit a letter of interest for the Workforce and Affordable Homeownership Development Program. It will also allow any applicants that are not selected to receive Workforce and Affordable Homeownership Development Program funding time to prepare and apply for the 2017 Single Family RFP.

Exhibit A provides a summary of this program.

## Exhibit A: Workforce and Affordable Homeownership Development Program Summary

**Exhibit A: Workforce and Affordable Homeownership Development Program Summary****Program Objective**

The Workforce and Affordable Homeownership Development Program will provide grants to administrators for the development of workforce and affordable homeownership projects. The funds may be used for development costs, rehabilitation, land development, and residential housing. Funds may also be used for infrastructure for manufactured home parks. The funds will serve households up to 115% area median income except in the case where a project directly benefits a neighborhood or development that includes individuals with a wide range of incomes. The funds will be distributed in approximately equal amounts to applicants in Greater Minnesota and the Twin Cities Metropolitan Area.

**Eligible Program Applicants**

The statute limits eligible program applicants to nonprofit organizations, cooperatives, and community land trusts.

**Process for Selection of Recipients**

Recipients will be selected following a two-step process. First, a request for letters of interest will be issued in November 2016. Interested parties will be invited to apply based on applicant eligibility, target area, partners and leverage committed, and project design.

Second, based on the letters of interest, staff will invite a select number of organizations to apply for the funding. Applications will be due in January 2017. Recipients will be selected based on the extent to which their proposal is an innovative workforce housing project or is a project that may not typically be funded under the Impact Fund. This includes, but is not limited to, projects that address manufactured home infrastructure, meet local workforce housing needs, promote long-term affordability, and small rural housing projects.

Funding recommendations will be presented to the Board for approval in April 2017. Any remaining funds will be available through a request for proposals that will run simultaneously with the 2017 Single Family Consolidated Request for Proposals (Single Family RFP).

**Program Guidance**

The Workforce and Affordable Homeownership Development Program will be guided by the program's statute, the Impact Fund Procedural Manual, the Economic Development and Housing Challenge Program statute and its rules (Minn. Stat. § 462A.33 and Minn. Rule. Pts. 4900.3600-4900.3652) and by Minnesota Statutes 462A.38.

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**Item:** Conflict of Interest Disclosure Reporting

**Staff Contact(s):**

Will Thompson, 651.296.9813, will.thompson@state.mn.us

Tom O'Hern, 651.296.9796, tom.o'hern@state.mn.us

**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input type="checkbox"/> Discussion                  |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information      |

**Summary of Request:**

The Agency has implemented a process for employees to report actual, potential, or perceived conflicts of interest. This agenda item is intended to highlight the process for annual conflict of interest disclosure reporting and inform the Board of outcomes.

**Fiscal Impact:**

None.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Background
- Results of 2016 conflict of interest disclosure reporting:
- Conflict of Interest Annual Disclosure Form

**BACKGROUND:**

It is the policy of the Agency to be aware of actual, potential and perceived conflicts of interest involving employees of the Agency. Agency staff and the Chief Risk Officer have standardized a procedure for annual conflict of interest disclosure reporting, which has been incorporated into the Agency’s Code of Ethics.

Each August, Agency employees are required to complete a Conflict of Interest Annual Disclosure Form (copy attached). Forms where questions are checked “Yes” are reviewed to determine if remedial actions are required. If remedial actions are required, the employee and his or her manager receive a memo from Human Resources which, depending on the scenario, communicates specific remedial actions as listed below:

**Conflict of Interest Remedial Actions**

<b>Scenario</b>	<b>Remedial Actions as a member of a board / or other entity:</b>	<b>Remedial Actions as a Minnesota Housing Employee:</b>
<p>1. Agency employee is a member of a board and/or employee of an entity that conducts business dealings with the Agency:</p>	<p>1. Refrain from discussing non-public Agency business</p> <p>2. Excuse oneself from voting on business dealings related to the application, funding or the monitoring of Agency programs</p>	<p>1. Excuse oneself as a decision maker from business dealings of the identified board or other entity related to application, funding or monitoring of Agency programs</p> <p>2. Have your manager identify an Agency employee to delegate business dealings related to application, funding and monitoring of Agency programs</p>
	<p>3. Refrain from dealing with properties that are financed, or which may reasonably be expected to be financed, by Minnesota Housing within the coming year.</p>	<p>3. Excuse oneself as a presenter to the Agency Board when an agenda item is solely related to the identified board or other entity</p>
	<p>2. Agency employee has a family member who is a member of a board or other entity that conducts business dealing with the Agency:</p>	<p>Not Applicable</p>

**RESULTS OF 2016 CONFLICT OF INTEREST DISCLOSURE REPORTING:**

- 249 Agency employees and contractors completed Conflict of Interest Annual Disclosure Form
- 26 employees were directed to comply with specific remedial actions for the 2016 Annual Disclosure Agency staff who were directed to comply with specific remedial actions reported housing related employment, housing related employment of an immediate family member, and/or membership on the boards of the following 25 entities:
  - Antonson Construction, Inc.
  - Boise Fort Band of Chippewa
  - Canvas Health
  - City of Cleveland City Council
  - City of Cottage Grove Economic Development Authority
  - City of Lakes Community Land Trust
  - Dougherty Mortgage LLC
  - Framework Homeownership LLC
  - Greater Metropolitan Housing Corporation
  - Hennepin County HRA
  - HOME Line
  - HousingLink
  - Local Initiatives Support Corporation Duluth
  - Marshall Square Apartments
  - Minnesota Homeownership Center
  - National Housing Trust (NHT) - Enterprise
  - Neighborhood Development Alliance (NeDA)
  - Pacific Union Financial
  - Seward Redesign Board
  - Twin Cities Community Land Bank
  - Twin Cities Local Initiatives Support Corporation
  - Two Rivers Community Land Trust
  - Urban Land Institute-Minnesota Housing Advisory Council
  - US Bank
  - Women's Advocates, Inc.



400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608  
 800.657.3769 | fax: 651.296.8139 | tty: 651.297.2361 | www.mnhousing.gov  
*Equal Opportunity Housing and Equal Opportunity Employment*

**ANNUAL CONFLICT OF INTEREST DISCLOSURE FORM  
 MINNESOTA HOUSING FINANCE AGENCY EMPLOYEES**

In order to ensure that employees are in compliance with Minnesota Housing’s Code of Ethics, set forth in the Minnesota Housing Policy and Procedure Manual, Minnesota Housing is requiring all employees to complete the following questionnaire. The information you provide may be classified as private data under the Minnesota Government Data Practices Act. The information that you provide may be released to: (i) Persons authorized to have access to the information under state or federal law; (ii) Persons authorized by court order to have access to the information; (iii) Persons to whom you give written consent to have access to the information; or (iv) All individuals in Minnesota Housing who have a need and right to know the information. Failure to provide the requested information may result in disciplinary action.

Name	Division
Date	Position at Minnesota Housing

It is the policy of Minnesota Housing Finance Agency (Agency) to be aware of actual, potential or perceived conflicts of interest involving employees of the Agency. This form is designed to identify and disclose such conflicts.

1. Are you or a member of your immediate family an officer, director, trustee, board member, partner (general or limited) employee or consultant of any company, firm, board, or organization that presently has business dealings with the Agency or which might reasonably be expected to have business dealings with the Agency in the coming year? \_\_\_\_\_ Yes \_\_\_\_\_ No

If yes, please list the name of the company, firm, board, or organization, the position held, and the nature of the business which is currently being conducted with the Agency or which may reasonably be expected to be conducted with the Agency in the coming year.

2. Do you or does any member of your immediate family have a financial interest, direct or indirect, in a company, firm, board, or organization which currently has business dealings with the Agency or which may reasonably be expected to have such business dealings with the Agency in the coming year? \_\_\_\_\_ Yes \_\_\_\_\_ No

If yes, please list the name of the company, firm, board, or organization, the nature of the interest and the name of the person holding the interest, and the nature of the business which is currently being conducted with the Agency or which may reasonably be expected to be conducted with the Agency in the coming year.

3. Do you or does any member of your immediate family have a financial or personal interest in property in which the Agency has a financial or other vested interest? \_\_\_\_\_Yes \_\_\_\_\_No

If yes, please provide details below:

4. Do you have any other interest or role in a firm, board, or organization, where that interest or relationship might reasonably be expected to create an appearance of impropriety? \_\_\_\_\_Yes \_\_\_\_\_No

If yes, please provide details below:

**I have read the Minnesota Housing Employee Code of Ethics policy and understand that as an employee of Minnesota Housing it is my obligation to act in a manner that promotes the best interests of Minnesota Housing and to avoid conflicts of interest, and appearances of impropriety when making decisions and taking actions on behalf of Minnesota Housing.**

**My answers to the questions in this disclosure form are correctly stated to the best of my knowledge and belief. If a future possible conflict of interest arises with respect to my responsibilities to Minnesota Housing, I recognize that I have the obligation to submit a Request for External Employment or Board Membership Approval form to Human Resources, and to abstain from any participation in the matter until the Agency can determine whether a conflict exists and how that conflict shall be resolved.**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

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**Item:** 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Fourth Quarter Progress Report

**Staff Contact(s):**

John Patterson, 651.296.0763, john.patterson@state.mn.us

**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input type="checkbox"/> Discussion                  |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information      |

**Summary of Request:**

Staff has attached for your review the fourth quarter progress report for the 2016 Affordable Housing Plan and the 2016-19 Strategic Plan.

**Fiscal Impact:**

None.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- 2016 Affordable Housing Plan and 2016-19 Strategic Plan: Fourth Quarter Progress Report

# **2016 Affordable Housing Plan and 2016-19 Strategic Plan**

## **Fourth Quarter Progress Report**

**(October 1, 2015 – September 30, 2016)**

**November 10, 2016**

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### **Overview**

Overall, the Agency was very active in 2016. We committed nearly \$1 billion of program funds. Tables 1-3 summarize the activities. The notes after the tables provide a brief discussion of each line item. The overall story has not changed during the year and is consistent with previous quarterly reports.

1. Single family mortgage production was robust. Year-end commitments reached \$605 million, when we originally budgeted \$510 million.
2. We fell short of our forecasted production for multifamily new construction and rehabilitation. Minnesota Housing funding per unit for these developments was higher than expected. The line notes later in this document provide more details. Tables 4-5 provide historical data on total development costs and agency funding per unit.

Table 6 at the end of this document shows budget changes in the 2016 AHP since the Board originally approved it in September of 2015.

**Table 1: Production (Units with Funding Commitments), Programmatic, and Financial Measures**  
**Quarter 4 of 2016 AHP (100% through AHP)**

	Original AHP Forecast	Actual For Year	Portion of AHP Forecast Completed
<b>Single Family Production – Homes</b>			
1. First Mortgages (Net Commitments)	3,543	3,900	110%
2. Other Opportunities*	231	219	95%
3. <u>Owner-Occupied Home Improvement/Rehabilitation</u>	<u>1,431</u>	<u>1,425</u>	<u>100%</u>
4. Total	5,205	5,544	107%
<b>Homebuyer Education, Counseling and Training - Households</b>			
5. Homebuyer Education*	13,540	14,534	107%
<b>Multifamily Production – Rental Units</b>			
6. New Rental Construction	791	569	72%
7. Rental Rehabilitation	2,799	1,296	46%
8. <u>Asset Management</u>	<u>138</u>	<u>0</u>	<u>0%</u>
9. Total	3,728	1,865	50%
<b>Rental Assistance and Operating Subsidies - Households</b>			
10. Agency Funded Rental Assistance and Operating Subsidies*	4,082	3,943	97%
11. <u>Section 8 and 236 Contracts</u>	<u>30,786</u>	<u>30,724</u>	<u>100%</u>
12. Total	34,868	34,667	99%
<b>Homeless Prevention</b>			
13. Family Homeless Prevention and Assistance Program (FHPAP)* & Housing Opportunities for Persons with AIDS (HOPWA)	7,621	7,500	98%
<b>Build Sustainable Housing</b>			
14. Percentage of New Construction or Rehabilitation Units that Meet Standard of Green Communities Certification or B3:			
a. Single Family	50%	53%	**
b. Multifamily	95%	86%	**
<b>Increase Homeownership for Households of Color</b>			
15. Percentage of First-Time Homebuyer Mortgages Going to Households of Color or Hispanic Ethnicity	27%	32%	**
<b>Earn Revenue to Sustain Agency and Fund Pool 3</b>			
16. Revenues in Excess of Expenses – State Fiscal Year 2016****	***	\$17.9 million	**
17. Return on Net Assets (%) – State Fiscal Year 2016****	***	2.6%	**

\* Funds for Habitat for Humanity, homebuyer education, multifamily rent assistance and operating subsidies, and FHPAP are committed by the Board in July-September, at the end of an AHP. Thus, funds committed under the 2015 AHP (in July-September 2015) fund program activity in 2016 (October 1, 2015 to September 30, 2016). To reflect 2016 program activity for these programs, this table shows the households supported in 2016 with 2015 AHP funds. For all other programs, the table shows the households and housing units supported by funds provided in the 2016 AHP.

\*\* Not Applicable.

\*\*\* Minnesota Housing does not forecast return on net assets.

\*\*\*\* Sustainable Core only

**Table 2: Distribution of Resources  
Quarter 4 of 2016 AHP (100% through AHP)**

	AHP Forecast	Actual for Year
18. Percentage of Originally Budgeted Funds that are Committed Under the AHP	>95% by end of the year	102%

**Table 3: Management of Loan Assets  
Quarter 4 of 2016 AHP (100% through AHP)**

	AHP Forecast/ Benchmark	Actual
19. Delinquency Rate for Combined Whole Loan & MBS Single-Family Mortgage Portfolio (9/30/16)	1.83%*	3.90%**
20. Foreclosure Rate for Combined Whole Loan & MBS Single-Family Portfolio (9/30/16)	0.47%*	1.00%**
21. Percentage of Multifamily Developments with Amortizing Loan on Watch List	Under 10%	6.7%
22. Percentage of Outstanding Multifamily Loan Balances on Watch List	Under 10%	4.0%

\* This is a benchmark, rather than a forecast, and it is based on a Minnesota Housing analysis of all mortgages in the state as reported by the Mortgage Bankers Association. The benchmark applies to March 2016.

\*\*The information presented is on an Agency-wide basis and includes both whole loan and MBS production as part of the loan portfolio. As such, the information is not directly relevant to the security of any bonds of the Agency and should not be relied upon for that purpose. The Agency publishes separate disclosure reports for each of its bond resolutions.

### Discussion of Items in the Table

- **Line 1:** Lending for single-family first mortgages was very strong, with the number of loans finishing 10% higher than the original forecast. We originally budgeted \$510 million for home mortgages, and the Board later increased the budget to \$590 million. After that, we increased it another \$15 million to \$605 million using authority delegated by the Board.
- **Line 2:** We came very close to reaching our production forecast. These housing opportunities include new construction and acquisition/rehabilitation funded through the Single Family Division's Impact Fund and the Habitat for Humanity Initiative.
- **Line 3:** Overall, production for owner-occupied home improvement and rehabilitation finished on track. Very strong production under the Rehabilitation Loan Program and the owner-occupied rehabilitation portion of the Impact Fund offset slower than forecasted activity under the Fix-Up program. Demand for the Fix-Up program continues to be lower than we would ideally want. In all likelihood, higher home values are allowing homeowners to use refinancing and home equity lines of credit to finance their home improvements.
- **Line 4:** Overall, production in the Single Family – Homes category was strong, particularly for first-mortgage lending, the Rehabilitation Loan Program, and the Impact Fund.
- **Line 5:** Production for Homebuyer Education finished just above the forecast.

- **Line 6:** We fell a little short of our forecasted production of 791 new rental units. We achieved this level of production by devoting 15% more funding than anticipated to new construction. Given the state's low vacancy rates, additional funding for new construction is appropriate.

As Table 4 shows, our funding per unit for new construction in 2016 is much higher than in previous years. The per-unit funding was \$172,000, when we forecasted \$108,000. There are several explanations for this outcome.

- As shown in Table 5, the average TDC per unit in 2016 was higher than expected - \$229,000 rather than the anticipated \$200,000 to \$210,000. Recently, construction costs have risen faster than the general rate of inflation, primarily because of labor costs. Developers may have added extra costs to their proposed construction budgets this year with the expectation that this trend would continue. In the draft 2018 Qualified Allocation Plan (QAP) for tax credits, we are increasing the cost containment priority from 4 to 6 points, which will increase the incentive for developers to pursue cost containment.

**Table 4: Average Minnesota Housing Funding per Unit, by AHP Year**

	2013	2014	2015	2016*	2013-2014 Combined**	2015-2016 Combined**
New Construction	123,000	94,000	87,000	172,000	\$109,000	\$112,000
Rehabilitation	47,000	36,000	36,000	100,000	\$40,000	\$48,000
*Partial year activity						
**Weighted average. With respect to 2015-16, more developments and units were funded in 2015 than 2016.						
SOURCE: Minnesota Housing, Results Management Reports - RFP Programs						

**Table 5: Average Total Development Costs (TDC) per Unit, by AHP Year**

	2013	2014	2015	2016	2013-2014 Combined	2015-2016 Combined
New Construction	\$208,000	\$210,000	189,000	229,000	\$209,000	\$200,000
Rehabilitation	\$106,000	\$115,000	98,000	128,000	\$109,000	\$103,000
SOURCE: Minnesota Housing, RFP Selection Reports for the Board						

- The projects funded under the 2016 AHP were less effective in leveraging other resources. For example, the projects (both new construction and rehabilitation) that we funded under the 2015 AHP will receive about \$84 million of syndication proceeds from 4% tax credits, while projects funded under the 2016 AHP are only expected to receive \$19 million. The 2015 AHP was unusual because it included \$80 million of Housing Infrastructure Bond proceeds, which is a great resource to pair with and leverage 4% tax credits. The 2016 AHP only had \$22 million of Housing Infrastructure Bond proceeds. Nevertheless, we had hoped that the 2016 projects would access a little over \$34 million in syndication proceeds from 4% credits, rather than the \$19 million that occurred.
- In some years, the stars align, and developers propose projects that use housing resources from the Agency very efficiently; in other years, they do not align as well. In 2015, we had a

great year. As shown in Tables 4 and 5, TDC and agency-funding per unit were substantially lower than other years. In 2016, we did not have a great year. However, if you combine the two years, the averages are similar to what we have seen in previous years, as shown in the last two columns of each table.

While the TDC and funding levels per unit for 2016 are a concern, outcomes from just one year do not make a trend. Nevertheless, we will continue to monitor and evaluate costs and funding levels and take action if needed.

- **Line 7:** We have only reached 46% of our forecasted production for rental rehabilitation. There are two primary explanations:
  - The factors leading to the higher costs and limited leveraging that applied to new construction also apply to rehabilitation. See the rehabilitation lines of Tables 4 and 5.
  - Finally, we only awarded 61% of the anticipated funding for rehabilitation. While the shift of funds to new construction accounted for part of the shortfall, unused funds accounted for the rest. At the end of the year, a sizable amount of funding was still available for the Low and Moderate Income Rental (LMIR), Preservation Affordable Rental Investment Fund (PARIF), and HOME.
- **Line 8:** There was no new production under Asset Management. We have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we are directing properties to the RFP funding process for longer-term and permanent needs. By targeting the program on shorter-term and immediate needs, forecasting the amount and timing of program demand is more uncertain.
- **Line 9:** Overall, as discussed in the previous discussion, rental production finished lower than forecasted.
- **Line 10:** Production for rental assistance and operating subsidies finished on track - serving 97% of the forecasted households.
- **Line 11:** The administration of Section 8 contracts performed as expected. This is a very stable program with consistent funding and households served.
- **Line 12:** Overall, rent assistance and operating subsidy production (federal and state) performed as expected.
- **Line 13:** FHPAP performed as expected, reaching 98% of the forecasted households at the end of the year.

- **Line 14:** The majority of Minnesota Housing's production meets sustainable design criteria.

On the single-family side, all of the homes receiving funds under the Community Homeownership Impact Fund for new construction or rehabilitation meet the standard. However, the Fix-Up home improvement program is market driven, and borrowers are not required to follow sustainable design criteria in their home improvement efforts. Thus, the single-family percentage is well below 100%.

Typically, the multifamily percentage is typically close to 100%. In a given year, a few projects have circumstances that make them exempt from the sustainable design criteria.

- **Line 15:** The Agency continues to meet its goal of serving communities of color or Hispanic ethnicity through homeownership. The Agency estimates that just over 25% of renter households that are income eligible for Minnesota Housing first mortgages are of color or Hispanic ethnicity. The achievement of 32% indicates that the Agency is effectively reaching these households.
- **Lines 16 and 17:** For the 2016 State Fiscal Year, we earned \$17.9 million in revenues from the Sustainable Core in excess of expenses, providing a 2.6% return on the net assets for the Sustainable Core (measured at the beginning of the State Fiscal Year).
- **Line 18:** We committed 102% of the funds originally budgeted in the 2016 AHP, which was driven by our strong home mortgage lending.
- **Lines 19-20:** The Agency's 60+ day delinquency rate (3.90%) for single family first mortgages (whole loan and MBS) is higher than the market-wide benchmark (1.83%) for Minnesota, which is based on data from the Mortgage Bankers Association. The delinquency rate includes loans in foreclosure but a sheriff sale has not occurred. Minnesota Housing often lends to borrowers who face barriers to homeownership.

The Agency also looks closely at delinquency rates for recently purchased loans that go into our Mortgage Backed Securities (MBS) to determine if our current policies and practices need to be adjusted. According to US Bank, which services our MBS loans, our 60+ delinquency rate for loans purchased in the last 24 months (including loans in foreclosure) was 1.55% in September 2016, which is below our "peer" benchmark of 2.00%, which is based on data from other housing finance agencies.

- **Line 22-23:** The Agency is meeting its goal for minimizing the number and share of loans on its multifamily watch list.

## Changes to 2016 AHP Funding Levels

Table 6 presents funding changes to the 2016 AHP over the last year.

<b>2016 AHP with Updates</b>					
	Original Budget	Delegated Change	Board Approved Amendment	Revised Budget	
<b>Homebuyer Financing and Home Refinancing</b>					
	\$553,700,000	\$17,179,207	\$87,929,550	\$658,808,757	
1	Home Mortgage Loans	\$510,000,000	\$15,210,108	\$80,000,000	\$605,210,108
2	Targeted Mortgage Opportunity Program	\$4,000,000	\$0	\$0	\$4,000,000
3	Mortgage Credit Certificates (MCC)	\$15,400,000	\$0	\$2,500,000	\$17,900,000
4	Deferred Payment Loans	\$11,000,000	\$1,681,999	\$1,429,550	\$14,111,549
5	Monthly Payment Loans	\$11,300,000	\$287,100	\$4,000,000	\$15,587,100
6	Habitat for Humanity Initiative	\$2,000,000	\$0	\$0	\$2,000,000
<b>Homebuyer/Owner Education and Counseling</b>					
	\$2,267,000	\$55,380	\$15,000	\$2,337,380	
7	Homebuyer Education, Counseling & Training (HECAT)	\$1,517,000	\$55,380	\$15,000	\$1,587,380
8	National Foreclosure Mitigation Counseling (NFMC)	\$0	\$0	\$0	\$0
9	Enhanced Homeownership Capacity Initiative	\$750,000	\$0	\$0	\$750,000
<b>Home Improvement Lending</b>					
	\$25,980,000	\$574,660	\$0	\$26,554,660	
10	Home Improvement Loan Program	\$17,380,000	\$0	\$0	\$17,380,000
11	Rehabilitation Loan Program (RLP)	\$8,600,000	\$574,660	\$0	\$9,174,660
<b>Rental Production- New Construction and Rehabilitation</b>					
	\$128,395,925	\$15,418,726	\$0	\$143,814,651	
12	Low and Moderate Income Rental (LMIR)	\$70,000,000	\$0	\$0	\$70,000,000
13	MAP Lending (Multifamily Accelerated Processing)	\$15,000,000	\$0	\$0	\$15,000,000
14	Flexible Financing for Capital Costs (FFCC)	\$3,500,000	\$0	\$0	\$3,500,000
15	Low-Income Housing Tax Credits (LIHTC)	\$9,308,770	\$1,272,432	\$0	\$10,581,202
16	Housing Trust Fund (Capital from Housing Infrastructure Bonds)	\$10,849,200	\$3,654,483	\$0	\$14,503,683
17	Preservation - Affordable Rental Investment Fund (PARIF)	\$9,492,171	\$3,200,336	\$0	\$12,692,507
18	Preservation - HOME	\$814,938	\$7,315,684	\$0	\$8,130,622
19	Preservation - Publicly Owned Housing Program (POHP)	\$1,300,378	\$42,648	\$0	\$1,343,026
20	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	\$8,130,468	-\$66,857	\$0	\$8,063,611
<b>Rental Assistance Contract Administration</b>					
	\$181,322,117	\$0	\$0	\$181,322,117	
21	Section 8 - Performance Based Contract Administration	\$129,000,000	\$0	\$0	\$129,000,000
22	Section 8 - Traditional Contract Administration	\$52,000,000	\$0	\$0	\$52,000,000
23	Section 236	\$322,117	\$0	\$0	\$322,117
<b>Resources to Prevent and End Homelessness</b>					
	\$30,325,667	\$5,780	\$0	\$30,331,447	
24	Housing Trust Fund (HTF)	\$13,948,678	\$0	\$0	\$13,948,678
25	Ending Long-Term Homelessness Initiative Fund (ELHIF)	\$1,722,601	\$0	\$0	\$1,722,601
26	Bridges	\$4,695,108	\$0	\$0	\$4,695,108
27	Section 811 Demonstration	\$1,217,100	\$0	\$0	\$1,217,100
28	Family Homeless Prevention and Assistance Program (FHPAP)	\$8,594,184	\$0	\$0	\$8,594,184
29	Housing Opportunities for Persons with AIDS (HOPWA)	\$147,997	\$5,780	\$0	\$153,777
<b>Rental Portfolio Management</b>					
	\$3,444,176	\$0	\$0	\$3,444,176	
30	Asset Management	\$0	\$0	\$0	\$0
31	Asset Management - Financing Adjustment Savings	\$3,444,176	\$0	\$0	\$3,444,176
<b>Multiple Use Resources</b>					
	\$36,995,322	-\$360,884	-\$1,444,550	\$35,189,888	
32	Economic Development and Housing/Challenge (EDHC) - Regular	\$19,575,000	\$1,063,141	\$0	\$20,638,141
33	EDHC - Housing Infrastructure Bonds (HIB)	\$9,480,800	-\$1,397,850	\$0	\$8,082,950
34	EDHC - Community-Owned Manufactured Home Parks	\$2,000,000	\$0	\$0	\$2,000,000
35	Single Family Interim Lending	\$1,562,000	\$0	-\$429,550	\$1,132,450
36	Technical Assistance and Operating Support	\$2,377,522	-\$26,175	\$0	\$2,351,347
37	Organizational Loans	\$0	\$0	\$0	\$0
38	Strategic Priority Contingency Fund	\$2,000,000	\$0	-\$1,015,000	\$985,000
<b>Other</b>					
	\$3,853,641	\$161,867	\$0	\$4,015,508	
39	Housing Infrastructure Bond Issuance and Other Costs	\$900,000	\$0	\$0	\$900,000
40	Manufactured Home Relocation Trust Fund	\$1,196,644	-\$26,363	\$0	\$1,170,281
41	Flood Disaster	\$0	\$0	\$0	\$0
42	Disaster Relief Contingency Fund	\$1,756,997	\$188,230	\$0	\$1,945,227
<b>Total</b>					
	\$966,283,848	\$33,034,736	\$86,500,000	\$1,085,818,584	

**Item:** Post-Sale Report, Homeownership Finance Bonds 2016 Series GH

**Staff Contact(s):**

Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

**Request Type:**

- |                                     |  |
|-------------------------------------|--|
| <input type="checkbox"/> Approval   | <input checked="" type="checkbox"/> No Action Needed |
| <input type="checkbox"/> Motion     | <input type="checkbox"/> Discussion                  |
| <input type="checkbox"/> Resolution | <input checked="" type="checkbox"/> Information      |

**Summary of Request:**

The agency sold \$51,112,791 of Homeownership Finance Bonds, 2016 Series GH on October 20, 2016 with a closing on October 31, 2016. In accordance with the Debt Management Policy the attached post-sale report is provided by the Agency's financial advisor, CSG Advisors.

**Fiscal Impact:**

None.

**Meeting Agency Priorities:**

- Address Specific and Critical Local Housing Needs
- Finance Housing Responsive to Minnesota's Changing Demographics
- Preserve Housing with Federal Project-Based Rent Assistance
- Prevent and End Homelessness
- Reduce Minnesota's Racial and Ethnicity Homeownership Disparity

**Attachment(s):**

- Post-Sale Report

**MEMORANDUM**

**Date:** Nov. 1, 2016

**To:** Minnesota Housing Finance Agency

**From:** Gene Slater, Tim Rittenhouse, David Jones, Eric Olson

**Re:** Post-Sale Report  
\$51,112,791 Homeownership Finance Bonds (HFB)  
2016 Series G (Non-AMT) and H (Taxable)

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***BOND CRITERIA***

The 2016 Series G & H Housing Finance Bonds were issued to finance single-family new production. The key criteria for issuing the debt were:

1. ***Avoid major interest rate risk*** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.
2. ***Maintain high ratings on all Minnesota Housing single-family bonds***, with Series G & H rated Aaa.
3. ***Enhance Minnesota Housing's long-term financial sustainability*** through a mix of bond financing and sales of MBS, so as to provide more balanced and financially sustainable results for Minnesota Housing.
4. ***Provide at least a comparable expected level of return to selling MBS***, at reasonably anticipated prepayment speeds.
5. ***Use new bond volume cap as efficiently and sparingly as possible***, so that the Agency can continue both its single-family and multi-family programs even though volume cap has become an increasingly scarce resource.

***KEY RESULTS FOR MINNESOTA HOUSING***

***Key Measurable Objectives.*** Minnesota Housing's objectives for the issue are to:

1. Achieve full spread utilizing the least amount of zero participations (or generating zero participations to finance future production).
2. Obtain a present value return for Minnesota Housing at least similar to selling MBS in the secondary market, assuming a reasonable prepayment speed.

Minimize the amount of new volume cap needed in financing such production.

**Accomplishments.** The results were exceptionally successful in meeting Minnesota Housing's objectives:

- **Leveraging Limited Volume Cap.** The issue was structured so that Minnesota Housing could finance \$51 million of new mortgages on balance sheet *with no new volume cap*. To achieve this result, Minnesota Housing used \$30.668 million of taxable bonds (on Series H) and recycled \$20.455 of past series through the drawdown facility. The Agency has been remarkably successful over the last 3 HFB issues in only using \$11 million of new volume cap to fund \$222 million of new production.

Doing this, however, has required using a significant amount of zeros, and the Agency is expected to use lower proportions of taxable debt and need more volume cap on future issues. Looking forward to 2017 and 2018, the long-term sustainable average percentage of taxable bonds on future HFB issues may be about 1/3, rather than the 60% on Series G & H.

- **Full Spread.** On the tax-exempt bonds, Series G, Minnesota Housing obtained approximately full spread of 1.11%, almost exactly equal to the maximum IRS limit of 1.125%. The spread for the taxable bonds was approximately 1.40%.
- **Attractive Bond Yield.** Bond yield was 2.30% on tax-exempt Series E, and 2.65% on taxable Series F. The overall yield was approximately 40 basis points lower than if Minnesota Housing had used traditionally structured fixed-rate issues.
- **Return to Minnesota Housing.** The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding, on average.
  - The break-even speed on 2016 G/H was approximately 156% compared to an MBS sale. Thus, the net present value to Minnesota Housing is greater from bonds than from having directly sold the MBS, so long as mortgages prepay no more quickly than 156% of the PSA standard.<sup>1</sup> The actual prepayment speed on recent Minnesota Housing loans with similarly low rates has been approximately the same or higher.
  - The net present value to Minnesota Housing (after all hedging costs and net service release premiums) is projected to be approximately \$1.575 million at the 156% break-even prepayment speed.
- **Zero Participations.** The issue used approximately \$4.5 million, of zero participations to help toward getting close to full spread. Going forward, Minnesota Housing has approximately \$40 million of zeros for future transactions.

If the entire transaction had been tax-exempt, Minnesota Housing would not have needed any zero participations. Effectively, by using \$4.5 million of zeros, the Agency was able to issue taxable bonds instead of more new money tax-exempt bonds. This saved \$30.668 million of new volume cap. As noted above, the percentage of taxable bonds may need to be somewhat lower in the future in order to stretch out the Agency's supply of zeros.

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<sup>1</sup> This break-even prepayment speed differs by issue, partly because the cost of hedge losses is different. The break-even figure has generally ranged between 120% and 160% on recent transactions. The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale.

- **Hedging.** The loan production pipeline remained fully hedged until bonds were sold. By taking hedge losses into account in bond yield, Minnesota Housing can earn the maximum allowable spread and recover these losses over time.
- **Continuing to Build Investor Demand.** With \$98 million of going away orders from 6 investors, RBC continued to expand the market and liquidity for future pass-through bond issues.

**Implications.** Key implications include:

- **Viability of Pass-Through Approach.** Minnesota Housing's pass-through issues since June 2014 demonstrate the renewed viability of this approach for financing production on-balance sheet. The Agency has been, by far, the national leader in such financings.
- **Size.** Given investor demand, the Agency and RBC have been quite successful in building up interest for tax-exempt pass-through series in the \$50 million to \$100 million range and taxable series in the \$50 million range. There is generally more interest among investors in the tax-exempt than taxable series at the yield levels Minnesota Housing is able to obtain.
- **Balance Sheet Management.** Minnesota Housing remains the national leader in finding ways to fully hedge its pipeline while financing *more than three-quarters* of that pipeline, and effectively all of its tax-exempt eligible pipeline (eg Start-Up Loans) on the Agency's balance sheet.
- **Volume Cap.** Minnesota Housing's single-family production together with demand for multi-family issuance in the State is now so great that *private activity volume cap is a major constraint* on tax-exempt issuance. To help address this:
  - The Agency is actively utilizing taxable bonds, and
  - Has established a major facility with RBC to recycle over \$300 million of past private activity volume cap when old bonds are redeemed (whether on a monthly or semi-annual basis).

This bond issue took advantage of both approaches.

## TIMING AND STRUCTURE

**Timing.** The issue was priced on Thursday, October 20<sup>th</sup>, for closing on Monday, October 31<sup>st</sup>.

**Sizing.** The sizing was based on specific hedged MBS in Minnesota Housing's pipeline.

**Major Design Decisions.** Key decisions by Minnesota Housing were to:

- Continue to include a 10-year par call at Minnesota Housing's option so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.
- Include Ginnie Mae, Fannie Mae and—for the first time—Freddie Mac MBS in the issue, with no percentage limit on either. This provides Minnesota Housing the ability to adjust to the actual mix of

loans in its pipeline. Ginnie Mae MBS were approximately 60% of this issue. This has increased due to the reduction in up-front FHA insurance premiums last year.

- Finance 60% of the issue as taxable bonds.
- Schedule the closing so as to allow losses on hedges to be included in the bond yield. (Only hedges which terminate not more than 14 days before closing can be included in bond yield.)

**Rating.** Bonds under the HFB indenture are rated Aaa by Moody's.

**Hedging.** Minnesota Housing has remained fully hedged on its pipeline until the bonds are sold or MBS are delivered to mortgage buyers. This protects the Agency from risk if interest rates rise between the time the loans are committed and they are packaged into MBS (for either bond or TBA sale). In this case long-term interest rates had dropped since loans were reserved. Minnesota Housing was able to sell the bonds at a lower yield, offsetting higher costs to terminate the hedges that had protected the Agency in case rates had risen. The result, and the purpose of this strategy, is to help make the Agency largely indifferent to changes in rates.

**BOND SALE RESULTS.** Key highlights are:

1. **Investor Interest for Series 2016 G and H.** There was strong institutional interest, especially on the tax-exempt series. A total of \$67.335 million of orders were received for tax-exempt Series G and \$30.667 million of orders (one times subscribed) for taxable Series H.
2. **Timing.** After the Brexit vote in late June, investors globally turned to Treasuries, with yields dropping to the lowest in the history of the United States. Municipal yields also dropped although spreads to MMD increased somewhat. Since then both Treasury and municipal yields have increased somewhat, although the levels are still far lower than the beginning of the year. There have been increasing amounts of new tax-exempt issuance in September and October, and this heavy supply has pushed up tax-exempt yields more than Treasury yields. What is especially important for pricing pass-through bonds such as G and H is that, during all these dramatic changes, MBS yields have moved hardly at all over the last several months.
3. **Successful Sale.** The sale was very well-priced. The Series G tax-exempt bonds were initially priced at 2.35%. They were 3.3 times oversubscribed and repriced down to 2.30% (despite the overall supply pressures in the municipal bond market). The taxable Series H bonds were subscribed for by one buyer and sold at 2.65%.
4. **Comparison to GNMA Yields.** Investors compare yields on pass-through issues to current-coupon GNMA's, as well as Treasuries and municipals. Compared to GNMA's, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption. On this transaction, Minnesota Housing was able to achieve bond yields well below equivalent GNMA yields. Like 2016 C/D and E/F, this is among the best performance of any of Minnesota Housing's pass-through sales. Such execution helped make this an extremely successful bond sale.

	2015 A	2015 B	2015 C	2015 D	2016 A	2016 B	2016 C/D	2016 E/F	2016 G/H
	January 2015	March 2015	May 2015	October 2015	January 2016	March 2016	July 2016	September 2016	October 28, 2016
<b>MN Housing bond yield</b>									
<b>Tax-Exempt</b>	2.80%	3.00%	3.05%	2.90%	2.95%	2.70%	2.33%	2.35%	2.30%
<b>Taxable</b>							2.73%	2.68%	2.65%
<b>Yield on GNMA 4.0 current coupon, at 150% prepay speed</b>	3.05%	3.08%	3.04%	3.12%	3.15%	3.12%	3.12%	3.04%	3.00%
<b>MN Housing v. GNMA Tax-exempt series</b>	- 25 bp	- 8 bp	+ 1 bp	- 22 bp	- 20 bp	- 42 bp	- 79 bp	- 69 bp	- 70 bp
<b>Taxable series</b>							- 39 bp	- 36 bp	- 36 bp

(For purposes of comparison, all MBS yields are computed at a standardized 150% prepayment speed; actual break-even speeds on individual transactions have ranged between somewhat lower and somewhat higher)

**5. Comparable Single-Family Pass-Through Bond Transactions:** Other than Minnesota's own prior pass-through issues, there have been few single-family new money tax-exempt pass-through bond issues this year.

#### **UNDERWRITING**

**Underwriters.** RBC was the senior manager; regular co-managers were Piper Jaffray and Wells Fargo. Monthly pass-through bonds are sold only to institutional investors, so there was no selling group or rotating co-manager.

**Underwriter Fees.** Management fees were appropriate, consistent with industry standards and in the same range as fees reported for other housing issues of similar size and structure.

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**ISSUE DETAILS**

<b>Key Dates:</b>	2016 G / H Bond Pricing	HFB Indenture
	Institutional Order Period:	Thursday, October 20, 2016
	Closing Date:	Monday, October 31, 2016

**Economic Calendar.** Economic news during the week of pricing had little impact on the market. Industrial Production and Capacity Utilization each came in slightly below market consensus and briefing forecasts. CPI came in at 0.3% in line with forecasts, while Core CPI was 0.1%, below the 0.2% forecast and the 0.3% for the prior month, further reducing the Fed's need to raise rates to prevent inflation. Housing Starts also come in below forecast, although Building Permits were slightly higher than forecast. On the day of pricing, Initial Unemployment Claims came in at 260,000, slightly above forecasts and recent figures, Existing Home Sales were slightly higher than expected and Leading Indicators came in at 0.2%, in line with the market consensus.

**Treasuries.** The 10-year Treasury bond yield has fluctuated significantly in 2016 based on overseas conditions, perceived strength of the domestic economy and how both of those are likely to impact Federal Reserve decisions as to whether and when to take the next step or steps in raising the short-term discount rate.

The 10-year Treasury yield started the year at 2.24% and was 1.68% when Minnesota priced its last single-family issue, HFB Series E/F on September 12<sup>th</sup>. Since then, the markets have been relatively stable with the 10 year closing at 1.76% on the date of pricing.

With continuing moderate domestic growth, the market expecting a postponed and then re-postponed Fed Rate hike in December, and waiting on the Presidential election, volatility has been modest compared to the summer after the Brexit vote.

**Municipals.** While municipal bond yields closely track the movements in Treasury yields, the relationship has been most distorted by high profile municipal credit events (such as Puerto Rico's problems) and international investment flows. Since last fall, positive funds flows into the municipal market have helped maintain strong demand and declining rates. In the immediate wake of "Brexit," fear of volatility heightened concern that spreads to the MMD Index would widen and that retail purchasers will shy from accepting lower yields.

- **Positive Demand.** Positive mutual fund flows have helped keep municipal yields attractive, though spreads relative to Treasuries continue to be compressed due to the absolute low level of rates and the flight to the safety of Treasuries.
- **Increased Supply.** New municipal issuance has jumped to an eight-year high. The greatest surge has been since Labor Day. *The Bond Buyer's* 30-day visible supply currently stands at \$18 billion, far above the average for the first three quarters of 2016. While supply has generally been matched by demand over the year, this recent increase in supply has strained the market.

- **Impact.** The ratios of MMD to Treasury bond yields have increased significantly over the last month, partly due to the increase in municipal supply. The 10 year Treasury only increased by 8 basis points in the 5 weeks since Series E/F, *but the 10 year MMD increased by 16 basis points.* This difference was even more pronounced at 30 years, with the 30 year Treasury increasing by 10 basis points *and the 30 year MMD increasing by 33 basis points, more than 3 times as much.*

Issue	Date	10-Year Treasury	10-Year MMD	MMD/Treasury Ratio	30-Year Treasury	30-Year MMD	MMD/Treasury Ratio
2015 HFB A	1/12/15	1.92%	1.84%	95.8%	2.49%	2.63%	105.6%
2015 HFB B	3/10/15	2.14%	2.18%	102.0%	2.73%	3.0%	110.0%
2015 HFB C	5/13/15	2.28%	2.24%	98.2%	3.02%	3.21%	106.3%
2015 RHFB ABCD	7/30/15	2.28%	2.23%	97.8%	2.96%	3.14%	106.1%
2015 HFB D	10/08/15	2.12%	2.04%	96.2%	2.96%	3.09%	104.4%
2015 RHFB EFG	11/24/15	2.24%	2.04%	91.1%	3.00%	2.98%	99.3%
2016 A	1/12/16	2.12%	1.78%	84.0%	2.89%	2.73%	94.5%
2016 B	3/10/16	1.93%	1.88%	97.4%	2.70%	2.86%	105.9%
2016 RHFB ABC	5/25/16	1.87%	1.66%	88.8%	2.67%	2.45%	91.8%
2016 C/D	7/14/16	1.53%	1.41%	92.2%	2.25%	2.05%	91.1%
2016 E/F	9/12/16	1.68%	1.52%	90.5%	2.40%	2.23%	92.9%
2016 G/H	10/20/16	1.76%	1.73%	98.3%	2.50%	2.56%	102.4%
<b>Change from 2016 E/F</b>		<b>+ 8 bp</b>	<b>+ 21 bp</b>	<b>+ 7.8%</b>	<b>+ 10 bp</b>	<b>+ 33 bp</b>	<b>+ 9.5%</b>

**Municipal Calendar.** Key features of the municipal calendar in terms of other transactions included:

**National.** Volume has increased substantially since Labor Day, with Visible Supply currently over \$18 billion, its high for the year. The market remained stable during the week of the sale, absorbing several large issues, including \$1.2 billion for New Jersey Healthcare, \$759 million for Commonwealth (PA) Financing Authority, \$569 million for Pennsylvania schools, an \$890 million Georgia competitively bid G.O. refunding, and an \$817 million Philadelphia school issue

**Other Minnesota.** The Minnesota competitive sale calendar included an \$11.8 million Minnesota Annual Appropriation issue on the day prior to the Agency's sale. The negotiated calendar includes a \$73.5 million refunding revenue bond issue for North Oaks.

**Other Single-Family.** No other similar single-family new money pass-through issues had been priced since the Agency's Series E/F in September. Earlier in October, Missouri priced a taxable pass-through refunding (where the maturity is about 10 years shorter than on Minnesota's issue).

Traditionally structured single-family issues during the week of the sale included a North Carolina issue, totaling \$191 million brought by RBC, and a Washington State refunding totaling \$37 million also brought by RBC.

**MBS Yields.** MBS yields are very relevant because investors can choose between purchasing MBS directly or purchasing Minnesota Housing's bonds backed by MBS. In effect, bond purchasers look as much to the spread between Minnesota Housing's bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries.

As can be seen, both GNMA and Fannie Mae yields have fluctuated very little over the last year and a half, even while Treasuries and municipal bond yields had bigger movements.

Type	Delivery	Coupon	Measure	Jan. 12, 2015	Mar. 10, 2015	May 13, 2015	Oct. 8, 2015	Jan. 12, 2016	Mar. 10, 2016	July 14, 2016	Sept. 12, 2016	Oct. 20, 2016
GNMA	Current	4.0	Price	107.27	106.97	107.20	106.59	106.48	106.48	107.09	107.30	107.59
			Yield*	3.05%	3.08%	3.05%	3.13%	3.15%	3.18%	3.07%	3.04%	3.00%
FNMA	Current	4.5	Price	108.38	108.59	108.53	108.47	108.20	108.48	108.94	109.33	109.33
			Yield*	3.38%	3.35%	3.36%	3.37%	3.40%	3.37%	3.31%	3.26%	3.26%
FGLMC	Current	4.5	Price	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	109.31
			Yield*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10-Year Treasury	n/a	n/a	Yield	1.92%	2.14%	2.27%	2.12%	2.12%	1.93%	1.53%	1.68%	1.76%
GNMA to 10-Year Treasury	n/a	n/a	Yield*	158.61%	144.13%	134.51%	147.82%	148.58%	163.13%	200.51%	181.02%	170.59%
GNMA to 10-Year MMD	n/a	n/a	Yield*	165.50%	141.48%	136.31%	153.62%	176.97%	167.47%	217.58%	200.08%	173.54%

\*all yields are computed based on an assumed 150% PSA

PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	10/20/16	10/20/16	10/20/16	10/5/16	9/12/16	9/12/16
Amount	\$20,445,117	\$30,667,674	\$31,503,102	\$35,494,509	\$65,918,377	
Issuer	Minnesota HFA	Minnesota HFA	Missouri HDC	Minnesota HFA	Minnesota HFA	
Series	2016 Series G	2016 Series H	2016 Series C	2016 Series E	2016 Series F	
Program	Single Family / Negotiated					
Rating(s)	Aaa / - / -	Aaa / - / -	- / AA+ / -	Aaa / - / -	Aaa / - / -	
Tax Status	Tax Exempt, Non-AMT	Taxable	Taxable	Tax Exempt, Non-AMT	Taxable	
Use of Funds	New Money	New Money	Refunding	New Money	New Money	
Maturity	2046	2046	2044	2046	2046	
Price	100.000	100.000	100.000	100.000	100.000	
Coupon/Yield	2.300	2.650	2.400	2.350	2.680	
Indicator	Indicative	Indicative	Indicative	Indicative	Indicative	Indicative
5-Year US Treasury	1.26	1.26	1.26	1.26	1.21	1.21
10-Year US Treasury	1.76	1.76	1.72	1.72	1.68	1.68
GNMA I @ 100% PSA	2.48	2.48	2.42	2.42	2.47	2.47
GNMA I @ Dir Forecast	2.18 (224%)	2.18 (224%)	2.07 (234%)	2.07 (234%)	2.16 (230%)	2.16 (230%)
10-Year MMD	1.72	1.72	1.60	1.60	1.52	1.52
MBS PREPAY HISTORY (%PSA)						
Past 3 months	-	-	165%	-	-	-
Past 6 months	-	-	170%	-	-	-
Past 12 months	-	-	169%	-	-	-
Since issuance	-	-	192%	-	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)						
At 100% PSA	10.5	10.5	9.0	10.6	10.6	10.6
At 150% PSA	8.5	8.6	7.3	8.6	8.7	8.7
At 200% PSA	7.1	7.2	6.0	7.2	7.3	7.3
At 300% PSA	5.3	5.4	4.3	5.4	5.5	5.5
WEIGHTED AVERAGE MORTGAGE RATE	3.67%	3.67%	4.83%	3.81%	3.81%	3.81%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	3.10%	3.10%	4.38%	3.22%	3.22%	3.22%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	357	357	299	358	358	358
Notes						
Sr Manager	RBC Capital Markets	RBC Capital Markets	Stifel	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets



PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	9/9/16	9/8/16	8/24/16	8/24/16	8/24/16
Amount	\$18,750,000	\$24,715,534	\$50,980,000	\$59,870,000	\$24,755,000
Issuer	Texas DHCA	Illinois HDA	Florida HFC	Florida HFC	Louisiana HC
Series	Series 2016 (Skyline)	2016 Series A (FHA RskShar)	2016 Series A	2016 Series B	Series 2016
Program	Multifamily / Negotiated	Multifamily / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -
Tax Status	Tax Exempt, Non-AMT	Taxable	Taxable	Taxable	Taxable
Use of Funds	New Money	Refunding	Refunding	Refunding	Refunding
Maturity	2032	2048	2043	2043	2038
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	2.600	2.625	2.450	2.550	2.100
Indicator	Indicative	Indicative	Indicative	Indicative	Indicative
5-Year US Treasury	Yield 9/9/16	Yield 9/8/16	Yield 8/24/16	Yield 8/24/16	Yield 8/24/16
10-Year US Treasury	1.23	1.19	1.13	1.13	1.13
GNMA I @ 100% PSA	+137	+144	+132	+142	+97
GNMA I @ Dir Forecast	+93	+102	+89	+99	+54
10-Year MMD	2.48	2.44	2.48	2.48	2.48
	2.18 (230%)	2.12 (230%)	2.18 (230%)	2.18 (230%)	2.18 (230%)
	1.49	1.45	1.40	1.40	1.40
	+111	+118	+105	+115	+70
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	176%	166%	213%
Past 6 months	-	-	203%	146%	271%
Past 12 months	-	-	195%	184%	253%
Since issuance	-	-	224%	199%	276%
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	-	see below	8.2	9.0	6.2
At 150% PSA	-	see below	6.6	7.2	4.9
At 200% PSA	-	see below	5.5	5.9	4.0
At 300% PSA	-	see below	4.0	4.3	2.9
WEIGHTED AVERAGE MORTGAGE RATE					
		5.37%	5.13%	4.56%	5.48%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE		-	4.63%	4.06%	4.98%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)		317	294	302	243
Notes	Fannie Mae	Projected weighted average life is 16.09 yrs at 0% CPR, 10.55 yrs at 5% CPR, 7.49 yrs at 10% CPR, 5.71 yrs at 15% CPR, and 4.61 yrs at 20% CPR			
Sr Manager	RBC Capital Markets	Jefferies	Citigroup	Citigroup	George K Baum



PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	8/11/16	8/2/16	7/15/16	7/14/16	7/14/16
Amount	\$8,600,000	\$24,595,000	\$89,260,000	\$35,389,598	\$35,389,601
Issuer	Illinois HDA	New Mexico MFA	Ohio HFA	Minnesota HFA	Minnesota HFA
Series	Series 2016 (Gates Manor)	2016 Series B	2016 Series 1	2016 Series C	2016 Series D
Program	Multifamily / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aaa / - / -	- / AA+ / -	Aaa / - / -	Aaa / - / -	Aaa / - / -
Tax Status	Tax Exempt, Non-AMT	Taxable	Taxable	Taxable	Taxable
Use of Funds	New Money	Refunding	Refunding	New Money	New Money
Maturity	2032	2040	2041	2046	2046
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	2.625	2.600	2.650	2.330	2.730
Indicator	Indicative	Indicative	Indicative	Indicative	Indicative
5-Year US Treasury	1.16	1.07	1.15	1.10	1.10
10-Year US Treasury	1.57	1.55	1.60	1.53	1.53
GNMA I @ 100% PSA	2.43	2.44	2.45	2.45	2.45
GNMA I @ Dir Forecast	2.09 (235%)	2.08 (252%)	2.09 (252%)	2.08 (252%)	2.08 (252%)
10-Year MMD	1.43	1.45	1.45	1.41	1.41
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	108%	195%	-	-
Past 6 months	-	105%	199%	-	-
Past 12 months	-	107%	230%	-	-
Since issuance	-	154%	233%	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	-	10.8	10.5	10.6	10.6
At 150% PSA	-	8.7	8.4	8.6	8.6
At 200% PSA	-	7.2	6.9	7.2	7.2
At 300% PSA	-	5.2	4.9	5.4	5.4
WEIGHTED AVERAGE MORTGAGE RATE	3.33%	4.92%	5.13%	3.85%	3.85%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	-	4.42%	4.63%	3.23%	3.23%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	192	285	282	357	357
Notes	Fannie Mae				
Sr Manager	RBC Capital Markets	JP Morgan	George K Baum	RBC Capital Markets	RBC Capital Markets

PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	6/21/16	6/9/16	5/24/16	4/8/16	3/22/16
Amount	\$19,500,000	\$7,400,000	\$150,111,134	\$16,861,686	\$59,460,000
Issuer	Illinois	Illinois	Virginia	Escambia Co., Florida HFA	Florida
Series	Series 2016 (E. Ravenswood)	Series 2016 (Woodland Twrs)	2016 Series A	Series 2016A	Series 2016-1
Program	Multifamily / Negotiated	Multifamily / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aaa / - / -	Aaa / - / -	Aaa / AAA / -	Aaa / - / -	Aaa / - / -
Tax Status	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT	Taxable	Taxable	Taxable
Use of Funds	New Money	New Money	Refunding	Refunding	Refunding
Maturity	2032	2032	2041	2038	2037
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	2.800	2.850	3.100	2.850	3.125
Indicator	Indicative	Indicative	Indicative	Indicative	Indicative
5-Year US Treasury	Yield 6/21/16	Yield 6/9/16	Yield 5/24/16	Yield 4/8/16	Yield 3/22/16
10-Year US Treasury	Spread +158	Spread +163	Spread +169	Spread +169	Spread +171
GNMA I @ 100% PSA	1.22	1.22	1.41	1.16	1.42
GNMA I @ Dir Forecast	1.71	1.68	1.86	1.72	1.94
10-Year MMD	2.56	2.55	2.62	2.56	2.69
	2.33 (221%)	2.34 (213%)	2.47 (193%)	2.36 (207%)	2.57 (191%)
	1.49	1.56	1.65	1.59	1.84
	+131	+129	+145	+126	+129
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	-	233%	43%
Past 6 months	-	-	-	163%	90%
Past 12 months	-	-	-	202%	86%
Since issuance	-	-	-	219%	214%
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	-	-	8.4	8.1	7.9
At 150% PSA	-	-	6.9	6.7	6.6
At 200% PSA	-	-	5.8	5.7	5.6
At 300% PSA	-	-	4.3	4.2	4.2
WEIGHTED AVERAGE MORTGAGE RATE	3.50%	3.55%	5.08%	5.28%	5.65%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	-	-	-	4.78%	5.15%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	192	192	260	247	238
Notes	Fannie Mae	Fannie Mae			
Sr Manager	RBC Capital Markets	RBC Capital Markets	BofA Merrill	RBC Capital Markets	RBC Capital Markets



PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	2/16/16	2/16/16	2/16/16	2/16/16	1/14/16
Amount	\$15,551,395	\$14,762,483	\$59,223,504	\$31,510,000	
Issuer	Ohio HFA	Ohio HFA	Ohio HFA	Texas DHCA	
Series	2016 Series A	2016 Series B	2016 Series C	2016 Series A	
Program	Single Family / Negotiated				
Rating(s)	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aa1 / AA+ / -	
Tax Status	Tax Exempt, Non-AMT	Taxable	Taxable	Tax Exempt, Non-AMT	
Use of Funds	New Money	New Money	Refunding	New Money	
Maturity	2046	2046	2037	2046	
Price	100.000	100.000	100.000	100.000	
Coupon/Yield	2.800	3.250	2.900	3.000	
Indicator	Indicative	Indicative	Indicative	Indicative	Indicative
5-Year US Treasury	Yield 1/14/16	Yield 2/16/16	Yield 2/16/16	Yield 1/14/16	Yield 1/14/16
10-Year US Treasury	Spread +125	Spread +202	Spread +167	Spread +148	Spread +148
GNMA I @ 100% PSA	1.45	1.78	1.78	1.52	1.52
GNMA I @ Dir Forecast	1.93	2.62	2.62	2.10	2.10
10-Year MMD	2.67	2.43 (214%)	2.43 (214%)	2.75	2.75
	2.55 (189%)	1.62	1.62	2.67 (175%)	2.67 (175%)
	1.88	+82	+163	1.79	1.79
	+82	+118	+163	+121	+121
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	186%	-	-
Past 6 months	-	-	211%	-	-
Past 12 months	-	-	244%	-	-
Since issuance	-	-	281%	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	10.5	10.7	7.8	10.8	10.8
At 150% PSA	8.5	8.7	6.5	8.8	8.8
At 200% PSA	7.1	7.2	5.5	7.3	7.3
At 300% PSA	5.3	5.4	4.1	5.5	5.5
WEIGHTED AVERAGE MORTGAGE RATE	4.01%	4.35%	5.89%	4.60%	4.60%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	3.53%	3.86%	5.39%	4.10%	4.10%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	354	356	232	358	358
Notes					
Sr Manager	RBC Capital Markets	George K Baum	George K Baum	George K Baum	JP Morgan





PASS-THROUGH BOND PRICING COMPARABLES, 2016 TO DATE

Pricing Date	1/14/16	1/12/16
Amount	\$59,735,000	\$97,273,565
Issuer	Texas DHCA	Minnesota HFA
Series	2016 Series B	2016 Series A
Program	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aa1 / AA+ / -	Aaa / - / -
Tax Status	Taxable	Tax Exempt, Non-AMT
Use of Funds	Refunding	New Money
Maturity	2039	2046
Price	100.000	100.000
Coupon/Yield	3.180	2.950
Indicator	Indicative	Indicative
5-Year US Treasury	1/14/16	1/12/16
10-Year US Treasury	Yield	Yield
GNMA1 @ 100% PSA	Spread	Spread
GNMA1 @ Dir Forecast	1.52	1.55
10-Year MMD	2.10	2.12
	2.75	2.75
	2.67 (175%)	2.67 (175%)
	1.79	1.78
	+166	+140
	+108	+83
	+43	+20
	+51	+28
	+139	+117
MBS PREPAY HISTORY (%PSA)		
Past 3 months	-	-
Past 6 months	193%	-
Past 12 months	212%	-
Since issuance	221%	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)		
At 100% PSA	7.6	10.6
At 150% PSA	6.4	8.6
At 200% PSA	5.4	7.2
At 300% PSA	4.1	5.3
WEIGHTED AVERAGE MORTGAGE RATE	5.92%	3.96%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	5.42%	3.49%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	228	357
Notes		
Sr Manager	JP Morgan	RBC Capital Markets