This package includes a revised agenda and an additional item (9.C)

MEETINGS SCHEDULED FOR DECEMBER

Location:

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

THURSDAY, DECEMBER 22, 2016

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

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, December 22, 2016.

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

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

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400 Sibley Street | Suite 300 | Saint Paul, MN 55101-1998 | 651.296.7608
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Equal Opportunity Housing and Equal Opportunity Employment

REVISED AGENDA
Minnesota Housing Board Meeting
Thursday, December 22, 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 November 17, 2016
5. **Reports**
   A. Chair
   B. Commissioner
   C. Finance and Audit Committee of November 17, 2016
6. **Consent Agenda**
   A. (page 11) Selection/Commitment, Bridges Rental Assistance
   – Rice County HRA, D1248
   B. (page 15) 2017 Meeting Schedule
7. **Action Items**
   None.
8. **Discussion Items**
   A. (page 17) Overview of Marketing Efforts
   B. (page 19) Future Use of Tax-Exempt Private Activity Bond Volume Cap for Multifamily Housing Projects
   C. (page 21) Agency Risk Profile
9. **Information Items**
   A. (page 67) Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)
   B. (page 69) Report of Complaints Received by Agency or Chief Risk Officer
   C. **NEW ITEM:** 2017 Housing Tax Credit Program (HTC) Round 2
10. **Other Business**
    None.
11. **Adjournment**

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DRAFT MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, November 17, 2016
1:00 p.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 1:02 p.m.
2. **Roll Call.**
Members present: John DeCramer, Joe Johnson, Craig Klausing, Rebecca Otto, Stephanie Klinzing, and Terri Thao.
Minnesota Housing staff present: Gene Aho, Tal Anderson, Ryan Baumtrog, Nick Boettcher, Dan Boomhower, Sara Bunn, Kevin Carpenter, Adam Connell, Erin Coons, Jessica Deegan, Renee Dickinson, Diane Elias, Rachel Franco, Shannon Gerving, Lori Gooden, Anne Heitlinger, Summer Jefferson, Karen Johnson, Melody Johnson, Margaret Kaplan, Tresa Larkin, Debbi Larson, Diana Lund, Nira Ly, Eric Mattson, Shannon Myers, Tom O'Hern, Ashley Oliver, Paula Rindels, Ester Robards, Megan Ryan, Joel Salzer, Becky Schack, Kayla Schuchman, Terry Schwartz, Nancy Slattsveen, Susan Thompson, Will Thompson, Mary Tingerthal, Katie Topinka, Ted Tulashie, Darlene Zangara.
Others present: Chip Halbach, Minnesota Housing Partnership; Cory Hoeppner, RBC Capital Markets; Charlie Vander Aarde, Metro Cities; Ramona Advani, Office of the State Auditor; Owen Metz; Gene Slater, CSG Advisors (by phone); Michelle Adams, Kutak Rock (by phone).
3. **Agenda Review**
Chair DeCramer announced the following items had been distributed prior to the start of the meeting: a summary of the public hearing for the proposed QAP amendments, hard copies of comments received regarding the proposed QAP amendments, a copy of Architecture MN magazine that includes an article on the Higher Ground development the board toured earlier that morning . Chair DeCramer also announced that Chip Halbach of Minnesota Housing Partnership had requested to address the Board regarding item 7.B and that request would be voted on at that point of the agenda.
4. **Approval of the Minutes.**
A. Regular Meeting of October 19, 2016
Joe Johnson moved approval of the minutes as written. Terri Thao seconded the motion. Motion carries 6-0.
5. **Reports**
A. Chair
There was no report from the Chair.
B. Commissioner
Commissioner Tingerthal stated Multifamily staff are busy with project launch meetings for the projects selected by the Board in October, adding the process is getting off to a great start. Commissioner Tingerthal added that, for the 2014 RFP selections – which was one of the Agency's largest funding rounds ever – staff was able to initially close 100% of the projects within the 20-month allowable period for the commitments. Commissioner Tingerthal commented that this is a remarkable accomplishment and she wanted the Board to know that, even with the increased activity, staff has stepped up to get things done more quickly, which means projects can be available more quickly for people to live there. Commissioner Tingerthal stated she was very proud that staff had hit that milestone.

Next, Commissioner Tingerthal updated the board on the status of the vacant seat, stating there had been a mix up with the paperwork, but hopes to have the seat filled in time for the December meeting.

Commissioner Tingerthal acknowledged that board members had received copies of comments received regarding the proposed amendments to the Qualified Allocation Plans. In response to those comments, staff has an item on the agenda today to stop pursuing any amendments to the 2017 Qualified Allocation Plan. This decision was made in part due to the feeling that anger about the proposed changes was preventing any reasonable conversations about the underlying policies. The decision to request that the amendments to the 2017 Qualified Allocation Plan be withdrawn have been well received and some people have shared they are thankful this action is being requested. There continues to be robust discussion about the proposed amendments to the 2018 Qualified Allocation Plan, including technical and programmatic arguments. Staff will continue to take comments on those proposed amendments.

Commissioner Tingerthal shared that the meeting schedule for 2017 would be included in the December board package and asked that members check that proposed schedule against their calendars and notify Becky Schack of any conflicts so adjustments can be made where warranted.

The following employee introductions were made:

- Shannon Myers introduced Ellen Thomas. Ms. Thomas has joined the Multifamily Division as an administrative assistant. Ms. Thomas has more than 15 years of experience and was most recently employed at the DNR.
- Rose Marsh introduced Matissa Burnip, who has joined the Agency as a housing technician supporting the Project Based Section 8 area. Ms. Burnip has a degree in realty management and was previously employed with CoreLogic.
- Darlene Zangara introduced Melody Johnson. Ms. Johnson has joined the Olmstead Implementation Office as its Community Engagement and Communications staff person. Ms. Johnson was previously a North Star Fellow with the State of Minnesota, has a Masters in Community Engagement, and 12 years of community engagement experience in the public and private sector. Commissioner Tingerthal reminded the Board that the Olmstead Implementation Office is an entity separate from Minnesota Housing, but Melody Johnson and Darlene Zangara are both Minnesota Housing employees.

C. Committee

There were no committee reports.

6. Consent Agenda

A. Approval, Extension, Family Housing Fund Foreclosure Remediation Loan

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

C. Commitment, Low and Moderate Income Rental (LMIR) Program, Flexible Financing for Capital Costs (FFCC) - Indian Knoll Manor, Mound, D7878

D. Approval, Family Homeless Prevention and Assistance Program (FHPAP) Administrative Capacity Initiative Awards

E. New Initiative, Community Fix Up Loan (CFUL) Program, Hutchinson Housing and Redevelopment Authority (HRA)

F. Approval, Modification, Section 236 Loan - Mesaba Villas South, Duluth, D0445

Item 6D was pulled for separate consideration. **MOTION:** Stephanie Klinzing moved approval of consent agenda items 6A, 6B, 6C, 6E, and 6F and the adoption of Resolutions No. MHFA 16-050, MHFA 16-051, and MHFA 16-052. Terri Thao seconded the motion. Motion carries 6-0. **MOTION:**

Rebecca Otto moved approval of consent agenda item 6D and the adoption of Resolution No. MHFA 16-053. Joe Johnson seconded the motion. Motion carries 5-0, with John DeCramer abstaining.

7. Action Items

A. 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

Kevin Carpenter requested approval of a new series within the Residential Housing Finance Bonds indenture. Mr. Carpenter stated the authorization would be for a new series of variable rate bonds, to be combined with fixed rate bonds authorized by the Board in April. Staff plans to issue approximately $140 million in mortgage revenue bonds in December, with $50 million of that being variable rate for which there is not currently authorization. The action today will authorize that variable rate debt intended to be sold in December.

Mr. Carpenter stated that, as part of the transaction, the resolution being recommended for approval also selects a liquidity provider. Through a competitive process the Federal Home Loan Bank of Des Moines was selected as the provider. The provider had the best combination of ratings, term, and pricing. With this selection, the provider will provide just more than 50% of the total liquidity coverage for the Agency's overall portfolio of variable rate debt, with the remaining coverage provided by Wells Fargo and RBC Capital Markets. Mr. Carpenter stated staff felt this was an appropriate risk, especially given the provider's ratings. Staff is also recommending RBC Capital Markets as the swap provider and RBC will pair the variable rate debt with a fixed rate swap on a seven-year basis. Staff does receive price comparisons for this service and the fees charged, as well as the rates received, are competitive. Following this selection, RBC will have 75% of the Agency's swap exposure. Mr. Carpenter stated that staff reports annually to the board regarding swap activity and variable rate debt, and monitors termination and liquidity risk on an ongoing basis. Mr. Carpenter then stated that RBC would also be appointed remarketing agent for the variable rate debt, adding that the generally established practice for the Agency is to allow the top manager to be the remarketing agent. Regarding the remarketing, Mr. Carpenter added that a mechanism will be put in place with the Agency's financial advisor to ensure that the remarketing activities are in line for both pricing and performance.

Mr. Carpenter stated it is anticipated that variable rate debt will be less than 10% of the Agency's total debt following this transaction, adding that is a little higher than the Agency's recent amount of seven to nine percent, but lower than most other Housing Finance Agencies. Mr. Carpenter stated that using variable rate in this transaction will ensure a lower bond yield and will create zeros that will help to manage spread in the future.

Michelle Adams described the resolution, stating it had been about a year since the Agency approved a variable rate resolution. Ms. Adams stated the series would provide funding for the program and the bonds are refunding bonds but may also contain new money if approved by the Agency's authorized officers. Ms. Adams stated the principal amount of the bonds were not-to-exceed $50 million, with a maturity date of not-to-exceed 32 years, and the underwriter's fee is not-to-exceed 1% of the principal amount of the bonds. Ms. Adams stated the board was being asked to approve the parameters of the resolution, the form of the official statement and the continuing disclosure undertakings.

Ms. Adams described other characteristics of the resolution, including information about agreements pertaining to the liquidity facility and the swap agreement, adding that the bonds are intended to be tax-exempt and requirements outlined in the resolution must be met in order for

them to remain tax exempt. Ms. Adams added that changes to the resolution may be approved by counsel and authorized officers of the Agency. Ms. Adams referred members to the page of the resolution detailing the rates authorized by the resolution, stating that finance officers of the Agency will make the determination regarding the mode period for the variable rate based on the best interest of the Agency. Ms. Adams stated the variable rate debt may be converted to fixed rate if authorized officers deem the action to be in the best interest of the agency. Ms. Adams referred members to the terms for the tender agent and remarketing agent, stating that these are specific to variable rate bonds. Finally, Ms. Adams stated that authorized officers of the Agency have discretion to not issue the bonds if the issuance is determined to not be in the best interest of the Agency.
MOTION: Joe Johnson moved approval of this item and the adoption of Resolution No. MHFA 16-049. Craig Klausing seconded the motion. Motion carries 6-0.

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

Chair DeCramer announced the board would vote on allowing public comments from Chip Halbach after Kayla Schuchman and Mary Tingerthal presented this request to the board.
Kayla requested approval to withdraw the proposed amendments to the 2017 Qualified Allocation Plan that were approved for public comment at the October meeting. Ms. Schuchman stated the amendments were intended to respond to increasing scarcity of tax exempt bonding authority and included the following: a predictive cost model review for all applications with waivers required for those that had costs more than predicted; a minimum score increase to 50 points; requirement that at least one Agency policy threshold be met; a requirement that projects agree to 30-year affordability restrictions; and, a moratorium of review and acceptance of applications in conjunction with a pre-application process.

Ms. Schuchman stated robust comments had been received with concern about the amendments, particularly those related to the 2017 Qualified Allocation Plan. Seven people attended the public hearing that had been held the previous day. Major themes expressed included: concern about timing; lack of external communication and dialogue; the thought that the changes erode local control and the ability of local governments to prioritize for their local conditions; additional subsidy required to meet the new conditions; a negative impact on the number of construction jobs; fewer units being constructed; and, an effective moratorium on senior housing proposals.

The comments referenced projects that are in process that have resources invested and described the difficulty and expense involved in putting together 4% tax credit projects. In response to these comments, staff is recommending removing the proposed amendments to the 2017 Qualified Allocation Plan and allowing additional time and dialogue for the proposed amendments to the 2018 Qualified Allocation Plan.

Commissioner Tingerthal stated that staff is requesting the amendments to the 2017 Qualified Allocation Plan be withdrawn, but that the Agency continue to move ahead with a dialogue with the industry and with communities about the proposed amendments to the 2018 Qualified Allocation Plan. Commissioner Tingerthal stated that, in the last couple of days in particular, the Agency had been increasingly receiving good technical comments that point out some unintended consequences of the proposed amendments. Those comments are very helpful and will allow more analysis of the recommendations and if those recommendations should be changed. Commissioner Tingerthal added that 4% tax credits are very complicated due to their interactions with other funding sources, so the unintended consequences aspect will take some deep analysis by staff.

Commissioner Tingerthal stated that staff has thought about a timeline during which they can work with communities on the technical pieces and likely will bring revised draft amendments for the 2018 Qualified Allocation to the board for consideration in January. If approved, those proposed amendments will be put out for public comment, and a final proposed amendment will be presented to the board for action in February. Commissioner Tingerthal added that the current comment would be extended to the end of November.

Craig Klausing requested confirmation that the reason for the discussion and proposed amendments was to conserve a limited resource and to stretch them further, adding that the resource is still limited and there is still the potential consequence of it running out. Commissioner Tingerthal responded that she was surprised to see how many people interpreted the proposed amendments to mean fewer housing units would be built, adding that was never the intent of staff. The intent of the amendments is to target the resources to the areas of greatest need.

Auditor Otto stated she had read the 82 pages of comments provided and felt they were different than the communication she normally saw coming to the board. Auditor Otto stated the comments the board sees are normally well considered and these comments at times did not seem to make sense and people seemed to be misinformed. Auditor Otto added that there is clearly concern from our partners. Stephanie Klinzing agreed that there seemed to be some misunderstanding and misinformation, with what appeared to be some mass producing of responses. Ms. Klinzing added that, in the past, when comments have been received from the public, we respond to those comments. Ms. Schuchman responded that the Agency can publish the comments that have been received and that they are part of the public record.

At this time, Chair DeCramer asked the board to consider Chip Halbach's request to address them. **MOTION:** Joe Johnson moved to allow Mr. Halbach to address the board. Auditor Otto seconded the motion. Motion carries 6-0.

Chip Halbach thanked the board for allowing his comments and expressed his appreciation to the staff for the recommendation to withdraw the 2017 amendments. Mr. Halbach stated that Minnesota Housing Partnership (MHP) knew this is a challenging conversation for housing partners in the state where conflicting good values come in to play. From MHP's perspective, there is no one right answer, but there is a need to work through the disagreement to support shared values. MHP hosted two conference calls about the amendments, one that was open to the industry and persons on MHP's mailing list. The second call was with the MHP board of directors. The concerns expressed on those calls remain relevant to the proposed amendments to the 2018 Qualified Allocation Plan. These concerns include the following: the role of local government and their ability to control their own destiny; vacancy rates are so low in the metro area that all the non-luxury development that can happen is needed; the changes may make the use of 4% credits with senior housing projects untenable; a need to determine the correct split of tax exempt bonding authority used to support multifamily and single family production; potential tax reform under the new administration may impact the housing tax credit program so there is a need to take full advantage of it while it is still available; inadequate notice to organizations making long-term investments; antagonistic feelings towards Minnesota Housing due to the changes and how those feelings may make advocating at the state legislature more difficult; a need to help partners understand the complexity of the issue; particularly those who are speaking with very little information.

Mr. Halbach reiterated there is a not a difference in values between his organization and Minnesota Housing, but he felt more conversation is needed before anyone can know the best step moving forward.

Chair DeCramer responded that he appreciated all of the comments provided by everyone who submitted them and they all provided insight and have been listened to and the board would continue to listen to those who submit their comments.

Auditor Otto commented that quite a few of the early comments stated the Agency was changing state rules, which shows a misunderstanding about the matter. Auditor Otto added it was clear people felt passionately about the matter.

Terri Thao agreed, stating the communications piece is extremely critical and the Agency should go back and very clearly articulate the actions we are proposing and why they are being proposed. **MOTION:** Terri Thao moved to accept the recommendation to rescind the previous action regarding the proposed amendments to the 2017 Qualified Allocation Plan and to extend the public comment period on the proposed amendments to the 2018 Qualified Allocation Plan. Joe Johnson seconded the motion. Motion carries 6-0.

Commissioner Tingerthal shared that Kayla Schuchman would be leaving Minnesota Housing after nine years for a position with CommonBond Communities and this would be her last board meeting. Commissioner Tingerthal stated that Ms. Schuchman had very ably navigated a complex territory and thanked her.

8. Discussion Items

None.

9. Informational Items

A. Workforce and Affordable Homeownership Development Program

Informational item. No action needed.

B. Annual Conflict of Interest Disclosure Update

Terri Thao inquired if board members signed an annual conflict of interest form. Tom O'Hern responded that there is not currently an annual conflict of interest form for board members, but staff are working on one for them now.

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

Informational item. No action needed.

D. Post-Sale Report, Homeownership Finance Bonds 2016 Series GH

Informational item. No action needed.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 1:55 p.m.

Board Agenda Item: 6.A
Date: 12/22/2016

Item: Selection/Commitment, Bridges Rental Assistance

Staff Contact(s):
Carrie Marsh, 651.215.6236, carrie.marsh@state.mn.us
Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us

Request Type:

☒ Approval	☐ No Action Needed
☐ Motion	☐ Discussion
☒ Resolution	☐ Information

Summary of Request:
Staff recommends the adoption of the attached resolution authorizing an award of $136,000 in funding administered through the Bridges Rental Assistance program. This will create one new Bridges grant in an unserved area of the state, with a term from January 1, 2017 through June 30, 2019, and it will serve approximately 10 new households each month.

Fiscal Impact:
Bridges funding is a state appropriated resource, and committing these funds does not have an adverse impact on the Agency's financial position. The appropriation was approved by the Minnesota Legislature in June 2015 and included a $2.5 million increase to the base level of funding, of which some was not committed in order to later solicit applications from unserved areas of the state and tribal nations.

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
Bridges supports people with serious mental illnesses to live in integrated settings in their communities by ensuring that persons with a Bridges housing subsidy are also provided access to supportive mental health services. The program plays a key role in the Agency's contribution to Minnesota's Olmstead Implementation Plan goals and is cooperatively administered, monitored and evaluated by Minnesota Housing and the Department of Human Services Adult Mental Health (DHS-AMH). This collaboration is essential to the effective operation of the program, as is the collaboration of housing and mental health agencies at the regional and county level. Bridges grantees are required to work with their local Adult Mental Health Initiative (AMHI) or tribal mental health agency in order to implement the program.

Funds available under the Bridges program provide temporary rental subsidy payments, and, in some instances, security deposits for eligible adults with a serious mental illness. The program requires participants to register for a permanent rental subsidy, primarily Housing Choice Vouchers, formerly known as Section 8, when the waiting lists are open. The Bridges program is designed to provide a relatively seamless transition-in-place for participants when they receive a permanent rental subsidy.

- In June 2015 during its special session, the Minnesota Legislature appropriated $8.176 million for Bridges for the 2016-2017 biennium, which included an increase of $2.5 million from the 2014-2015 appropriation.
- In May, August and December of 2015, the Minnesota Housing board approved a total of $7,799,000 of Bridges state appropriations and $529,000 of Ending Long-Term Homelessness Initiative Fund (ELHIF) to existing and new administrators. In May 2016, $368,000 of the Bridges appropriation was committed to Bridges Regional Treatment Center (RTC) grantees.
- Approximately $250,000 of the Bridges appropriation was not previously committed so that additional applications could be solicited from unserved areas, particularly tribal nations. The application process opened July 2016, with the deadline for proposals ongoing until December 2016.

The Rice County HRA submitted the first application for funding under the ongoing request for proposals from unserved areas, for the amount of $194,490. The Rice County HRA will serve Rice County, which is located in south central Minnesota and includes the cities of Faribault and Northfield. As part of the application, the HRA identified eligible households who are experiencing homelessness, including families, single individuals, and unaccompanied youth over age 18. Rice County Social Services will provide outreach and referrals, assist individuals in applying for the program, assist participants to maintain housing, and, in some cases, case management services. The recommended funding award was reduced to $136,000 in order to account for the gradual admission of households to the program and to have a target number of households that is comparable to other similarly sized service areas.

Minnesota Housing staff, DHS-AMH staff and DHS Office of Indian Affairs staff reviewed the funding request and participated in the selection committee. The committee discussed housing and mental health collaborative partnerships and the access to mental health services. The proposal was also evaluated based on service area need, referral process and feasibility.

If this funding recommendation is approved, an uncommitted balance of approximately $114,000 will remain of the original $2.5 million base increase. Staff anticipates an application from the White Earth Nation in December 2016 for all or a portion of the balance of funds. Any remaining funds will be committed through the regular 2017 Bridges Request for Proposals, which will be open to existing administrators and applicants proposing to serve unserved areas.

Agenda Item: 6.A
Resolution

MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, MN 55101
Resolution No. MHFA 16-

RESOLUTION APPROVING SELECTION/COMMITMENT BRIDGES

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received an application to provide rental assistance for persons with serious mental illnesses.

WHEREAS, the Agency staff has reviewed the application and determined that it is in compliance under the Agency's rules, regulations and policies; that such grants are not otherwise available, wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that the applications will assist in fulfilling the purpose of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT, the board hereby authorizes Agency staff to enter into a grant agreement using state resources as set forth below, subject to the availability of state appropriations and also subject to changes allowable under the Multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the grantee and the total award amount recommended as indicated:

Bridges Grantee	D Number	Award	Target Number of Households	Grant Term
Rice County HRA	D1248	$136,000	10	January 1, 2017 to June 30, 2019

2. The issuance of a grant agreement in form and substance acceptable to Agency staff, and the closing of the individual grant shall occur no later than six months from the adoption date of this Resolution; and

3. The sponsors and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 22nd day of December 2016

____
CHAIRMAN

Item: 2017 Meeting Schedule

Staff Contact(s):
Becky Schack, 651.296.2172, becky.schack@state.mn.us
Mary Tingerthal, 651.296.5738, mary.tingerthal@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☐ Discussion
☐ Resolution	☒ Information

Summary of Request:
Staff requests approval of the 2017 meeting schedule. Committee and special meetings will be scheduled as needed and in consultation with board members.

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):
- Meeting schedule

All meetings are on Thursdays and will begin at 1:00 p.m. unless otherwise noted.

2017 Schedule of Minnesota Housing Board Meetings

January 26

February 23

March 23

April 27

May 25

June 22

July 27

August 31 *(one week later to accommodate audit completion)*

September 28

October 19 (*morning meeting for RFP selections*)

November 16 *(one week early due to Thanksgiving Holiday)*

December 21 *(one week early due to Christmas Holiday)*

Board Agenda Item: 8.A
Date: 12/22/2016

Item: Overview of Marketing Efforts

Staff Contact(s):
Megan Ryan, 651.297.3566, megan.ryan@state.mn.us
Kasey Kier, 651.297.3137, kasey.kier@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
Agency staff will provide the board with an overview of marketing activities related to the Single Family home mortgage programs and introduce the members of the Single Family Business Development team.

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):
- Overview of programs

Minnesota Housing offers a number of programs to assist low- and moderate-income households to purchase, refinance, and improve homes. The Communications Division has made significant improvements in efforts to increase awareness about our resources and has created more effective tools to connect consumers with our lender partners. To supplement these efforts, the Communications Team works closely with the Single Family Business Development team throughout the year.

Programs available to **first-time homebuyers** are:

- Start Up
- Mortgage Credit Certificate Program
- Downpayment and Closing Cost Loans

Repeat homebuyers may access these programs:

- Step Up Purchase Loan
- Downpayment and Closing Cost Loans

Refinancing is available through the Step Up Refinance Loan

In 2015, Minnesota Housing programs were used by more than 17,000 families.

The Agency markets the availability of resources through a variety of channels, including participation at community events, social media, direct mail, advertising and co-branded efforts with partners. Staff will describe in detail these and other marketing efforts at the meeting and discuss plans for 2017.

Board Agenda Item: 8.B
Date: 12/22/2016

Item: Future use of tax-exempt private activity bond volume cap for multifamily housing projects

Staff Contact(s):
Mary Tingerthal, 651.296.5738, mary.tingerthal@state.mn.us
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

Request Type:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
As a follow-up to the November Finance and Audit Committee presentation regarding bond volume cap, staff will review the Board's current policy regarding the issuance of private activity tax-exempt bonds in support of multifamily housing developments and lead a discussion regarding potential considerations for such issuances in the future.

Fiscal Impact:
Use of private activity volume cap and the issuance of tax-exempt bonds is a critical aspect in providing the capital to finance certain of our affordable housing programs

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):
- None

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Board Agenda Item: 8.C
Date: 12/22/2016

Item: Agency Risk Profile

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:

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

Summary of Request:
The Agency faces a number of risks to achieving its objectives. The Agency Risk Profile is a component of the Enterprise Risk Management (ERM) framework and is produced annually to demonstrate and communicate critical risk information to the board.

Fiscal Impact:
None.

Meeting Agency Priorities:
☐ 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):
- Agency Risk Profile

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2016 Minnesota Housing Agency Risk Profile

Minnesota Housing Finance Agency

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Introduction

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

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

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

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

Risk source assessments are intended to focus on critical risks confronting the Agency that may impact the Agency's ability to achieve the goals of its 2016 – 2019 Strategic Plan and/or 2017 Affordable Housing Plan.

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

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

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Executive Summary

The economy and housing markets continue to improve nationally and in Minnesota. However, the results of the recent election have caused uncertainty in many markets including housing. As the Agency embarks on a $1.06 billion annual program plan, the Agency is well positioned to address the growing need for more affordable housing for low- and moderate-income Minnesotans. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. There is widespread recognition that the Agency has continued to evolve as an organization to better meet the growing demand for affordable housing. Past changes to programs, financing strategies, and supporting technology were considered during the development of this Risk Profile, as well as initiatives and tasks that have been identified in the 2016 – 2019 Strategic Plan and the 2017 Affordable Housing Plan. Eleven risk sources were assessed, and none received a Very High risk level ranking. Five risk sources received a High risk level ranking, which is unchanged from the previous year. Overall, the Agency is well aware of these critical sources of risk and has executed, or is contemplating, mitigation strategies to address them.

Aggregate Results Heat Map

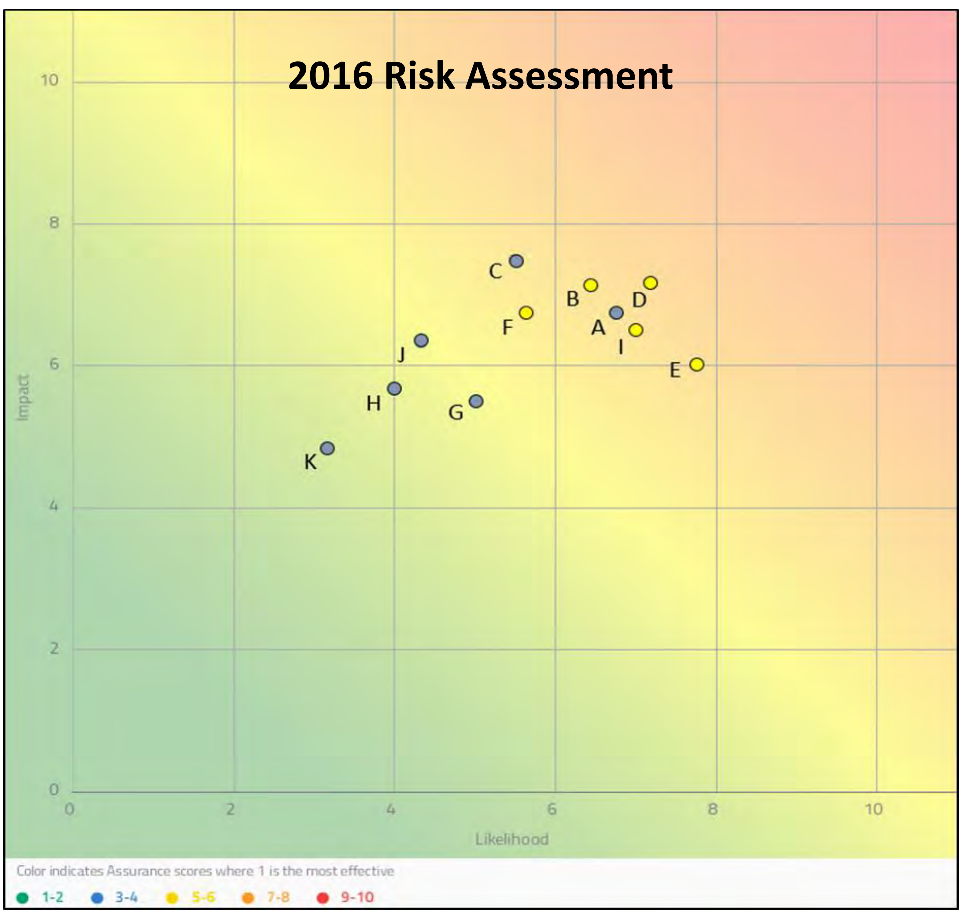
The aggregate results of critical risk source assessments for the current year have been plotted to a heat map graph, shown on the next page.

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

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

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

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



A. Interest Rates

B. Information Technology

C. Bond Markets

D. Counterparties

E. Federal Resources

F. Operational Capacity

G. Compliance

H. Loan Performance

I. State Appropriations

J. Business Continuity

K. Planning and Execution

Risk Profile Matrix

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

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

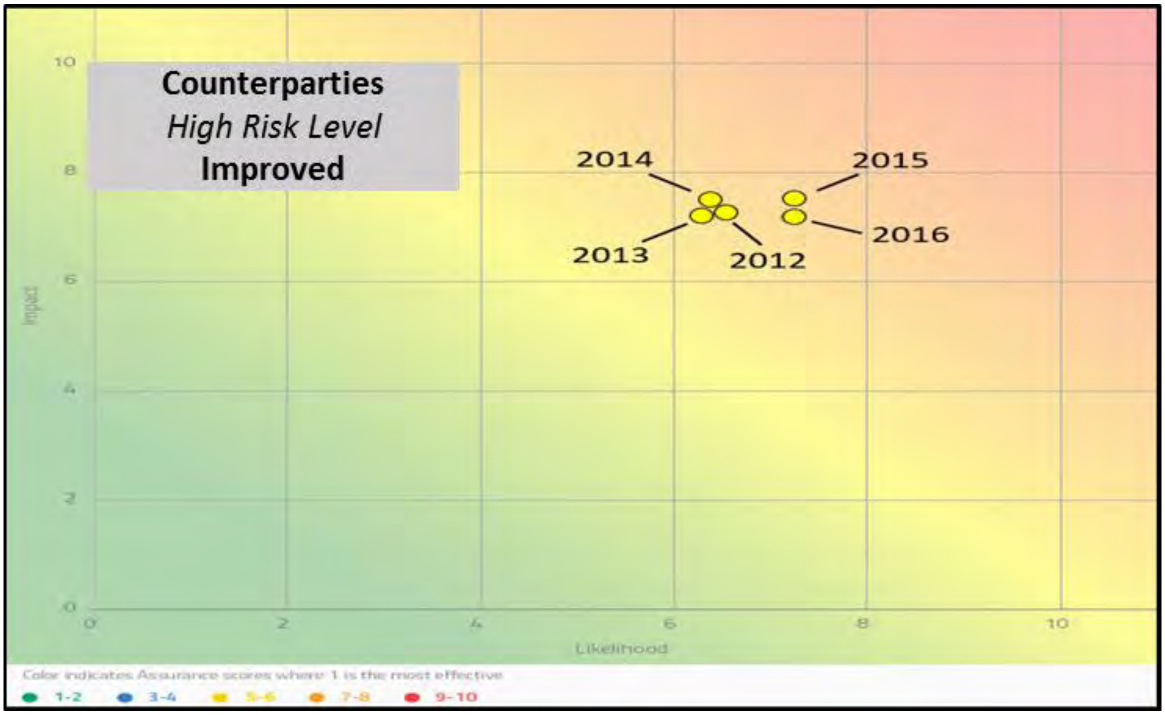
The Risk Profile Matrix lists the 11 previously identified critical sources of risk. The matrix lists the risk sources, from the highest to lowest risk level, as determined by the Residual Index score.

Three critical sources of risk, Federal Resources, State Appropriations, and Business Continuity have moderate to slightly higher levels of assessed residual risk in 2016 than in 2015. Additional detail on these and other risk sources is available in the Risk Source Narratives.

		2016 Risk Level		**2015 Risk Level**		**2014 Risk Level**		**2013 Risk Level**		**2012 Risk Level**		**2011 Risk Level**	**2015-16**
		Rank	Residual Index	Rank	Residual Index	Rank	Residual Index	Rank	Residual Index	Rank	Residual Index	*Index scores not available*	**Change**
D	Counterparties	1	314	2	315	3	262	4	237	3	267	Moderate	Improved
B	Information Technology	2	262	3	311	2	294	2	331	1	344	High	Improved
A	Interest Rates	3	256	1	332	1	327	1	337	2	298	High	Improved
E	Federal Resources	4	253	6	192	4	239	5	236	5	192	Moderate	Worsened
F	Operational Capacity	5	206	4	220	5	227	6	175	6	191	Moderate	Improved
C	Bond Markets	6	191	5	215	6	210	3	238	4	238	High	Improved
G	Compliance	7	151	7	154	7	130	7	118	8	102	Moderate	Improved
I	State Appropriations	8	132	8	108	8	117	9	105	7	120	Moderate	Worsened
J	Business Continuity	9	113	9	74	9	77	10	76	10	87	High	Worsened
H	Loan Performance	10	71	10	72	10	72	8	109	9	96	Not Identified	Improved
K	Planning and Execution	11	53	11	60	11	64	11	68	11	49	Moderate	Improved

Risk Source Narratives

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



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.25)	About as Likely as Not (6.25)	Could Be Improved (5.75)	High (45)	High (267)
2013	Serious (7.17)	About as Likely as Not (6.17)	Could Be Improved (5.33)	High (44)	High (237)
2014	Serious (7.5)	About as Likely as Not (6.33)	Could Be Improved (5.33)	High (48)	High (262)
2015	Serious (7.5)	Likely (7.17)	Could Be Improved (5.5)	High (55)	High (315)
2016	Serious (7.17)	Likely (7.17)	Could Be Improved (5.5)	High (53)	High (314)

Counterparties are assessed as a high risk source, which is unchanged from the previous assessment. A slight decrease in the assessed impact drove the residual index down from 315 to 314, which is the highest residual risk score for 2016. The relatively unchanged residual index is primarily a result of continued lack of competition for master servicing, greater competition for Single Family loan originations, a limited number of loan and grant administrators in select areas of Minnesota, weak operational capacity for some loan and grant administrators, and areas of poor vendor performance. Counterparties are vital to the Agency accomplishing its strategic and affordable housing plans. Counterparties include Government-Sponsored Enterprises (GSEs) including Fannie Mae and Freddie Mac, other Minnesota state agencies, Tribal Governments, credit rating agencies, capital markets participants, lenders, guaranteed investment contract (GIC) providers, brokers, realtors, grantees, sub-grantees, vendors and borrowers. After the financial crisis of the late 2000's, many new regulations have been developed to help prevent systemic failures within the capital markets caused by a failure of a financial institution. There are fewer entities today that provide services, such as liquidity and swap providers that are necessary for the Agency to conduct business. The likelihood of disruptions to Agency activities because of counterparty actions is recognized as a concern. There is continuing uncertainty around the future role and structure of GSEs. Agency relationships with lenders impact its ability to conduct and attract new businesses. Complex policies, processes and deadlines in working with state contracted vendors increase costs. Nonprofit and government program administrators continue to find it difficult to raise capital to fund operations and services.

Effectiveness of Control / Mitigation Activities
Counterparty risk is addressed on an ongoing basis through strengthening relationships with sole source providers and developing alternative processes when necessary. The Agency can comment on the future role and structure of GSEs through its membership in the National Council of State Housing Agencies (NCSHA); however, it cannot control the outcome. The Agency continues to work with lenders and other key counterparties to better understand process, program and technological needs. The Agency provides technical assistance to develop operational capacity for identified loan and grant administrators. The Agency issued a request for proposals for a master servicer for the single family residential loan programs.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.67)	Likely (7.83)	Could Be Improved (5.50)	High (60)	High (344)
2013	Serious (7.57)	Likely (7.14)	Could Be Improved (5.43)	High (54)	High (331)
2014	Serious (7.43)	Likely (7.14)	Could Be Improved (5.29)	High (53)	High (294)
2015	Serious (7.43)	Likely (7.43)	Could Be Improved (5.43)	High (55)	High (311)
2016	Serious (7.14)	Likely (6.43)	Could Be Improved (5.14)	High (47)	High (262)

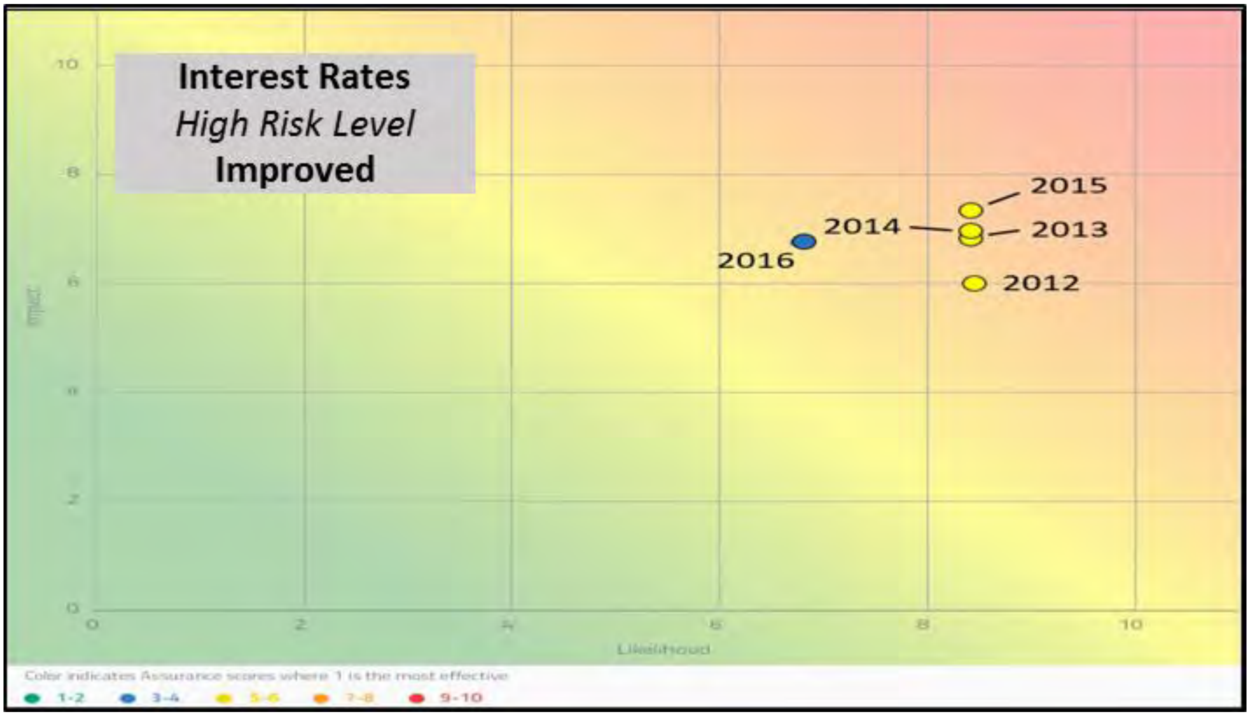
Information Technology (IT) is assessed as a high risk source, which is unchanged from the previous assessment. A slight decrease in assessed impact and decrease in the assessed likelihood with a slight improvement in the assessed level of assurance drove the residual index down from 311 to 262 which is the second highest residual risk rating for 2016. Information Technology has always been ranked as the first or second highest residual risk since the inception of the Agency Risk Profile; however this year's residual index is the lowest for IT since the inception of the Agency Risk Profile. The Agency's work environment consists of volatile and complex housing and finance markets and numerous legal and regulatory rules, and involves many counterparties. Each aspect of this environment requires information technology systems to make them work effectively. Systems in place today have been effective and have passed risk, audit and compliance standards tested in the annual financial audit. The need to adapt quickly, increasing compliance requirements, and sophistication in the type of funding sources used to fund Agency programs underscore the need for adequate technology to access potential new sources of capital while lessening the likelihood of compliance failures. Multifamily Remodel, Multifamily Loan Servicing Software, Single Family Loan Origination System, Business Intelligence tools, Customer Relationship Management, Enterprise Content Management are major projects with significant technological components currently underway. There is increasing confidence in the process to identify, request, explore, approve and track new technology projects; however, high levels of risk to implementing efficient and effective IT systems remain. Identified risks include:

- Business line and Business Technology Support (BTS) personnel must develop deeper understanding of the business requirements to determine the most effective technology solutions.
- Communications between business line and BTS personnel must be enhanced to implement the most effective technology solutions.
- Strong project management practices and realistic timelines are needed to successfully implement technology solutions.
- Adequate staff resources both in BTS and the business lines are needed to support Agency information technology systems projects.
- Current State of Minnesota contracting procedures make it difficult to procure needed software or services on a timely basis.
- Agency-wide initiatives compete for IT resources which impacts project delivery and results in continued unmet technology needs.

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

Effectiveness of Control / Mitigation Activities

In recent years, the Agency has increased both its BTS staffing and operations budget and has adopted a process to identify, request, explore, approve and track new technology projects. The Agency has a Continuity of Operations Plan and an off-site "hot" site for its technology operations. The Agency has a Business Technology Investment Committee (BTIC) comprised of the Commissioner, Deputy Commissioner, Chief Financial Officer (CFO) and Chief Information Officer (CIO) to prioritize and coordinate technology investments. In addition, the Operations Committee, which is comprised of the Deputy Commissioner, CIO and Director of Operations, is tasked to resolve administrative and operational issues. Overall, the Operations Committee reports that the majority of projects were completed early or on time in 2016.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (6.00)	Likely (8.33)	Could Be Improved (5)	High (52)	High (298)
2013	Serious (6.77)	Likely (8.33)	Could Be Improved (5)	High (52)	High (337)
2014	Serious (6.67)	Likely (8.33)	Could Be Improved (4.67)	High (58)	High (327)
2015	Serious (7.00)	Likely (8.33)	Could Be Improved (4.67)	High (60)	High (332)
2016	Serious (6.75)	Likely (6.75)	Good (4.25)	High (47)	High (256)

Overall, interest rates were assessed as a high risk source, which is unchanged from the previous assessment. A slight decrease in the assessed level of impact, a decrease in assessed level of likelihood, and higher level of assessed assurance drove down the residual index from 332 to 256. Federal Reserve policymakers are expected to raise the central bank's benchmark rate at their upcoming meeting in December. Recently the average rate on a 30 –year fixed rate loan rose to 4.08 percent which topped its 3.93 percent level of a year ago. Interest rate risk management is a key activity at Minnesota Housing because the Agency's large portfolio of assets is the primary revenue-generation tool. Continued volatility of interest rates is likely in the current political and economic environment. Interest rate volatility is out of the Agency's control; however, depending on the interest rate environment, the

Agency encounters both challenges and opportunities. Interest rates in the general economy can at any time rise (high rate environment) or fall (low rate environment). Each scenario presents unique challenges to the Agency's business model. The Agency is currently in a low rate environment. A low interest rate environment, which benefits borrowers, is stressful to the Agency's financial results. Low rate environments generally cause high rates of mortgage loan prepayments, challenging the Agency to produce enough new lending to repopulate the balance sheet with assets at acceptable yield levels. In this environment, Agency interest rates are often very similar to rates in the conventional market, so loan production is maintained partially with use of scarce mortgage enhancements (i.e., deferred loans and grants). Assets held as cash in low rate environments produce diminished investment income, including periods of negative arbitrage when prepayments received are temporarily invested below bond yield until bonds can be repaid with the prepayments. Low rates also diminish earnings on committed but undisbursed state appropriations, resulting in less potential for overhead recovery payments to cover actual costs. Short term volatility in interest rates is also a risk because there is a time differential between when the Agency commits to purchase a loan and when the loan is delivered to and financed by the Agency. If interest rates rise dramatically in that time period, the Agency's anticipated profitability can be greatly reduced, eliminated or turned into a loss. While interest rate risks are currently monitored in an effective manner, the increase in packaging loans for sale in the securitization market has increased the volume of loans that are subject to interest rate movements.

Effectiveness of Control / Mitigation Activities

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

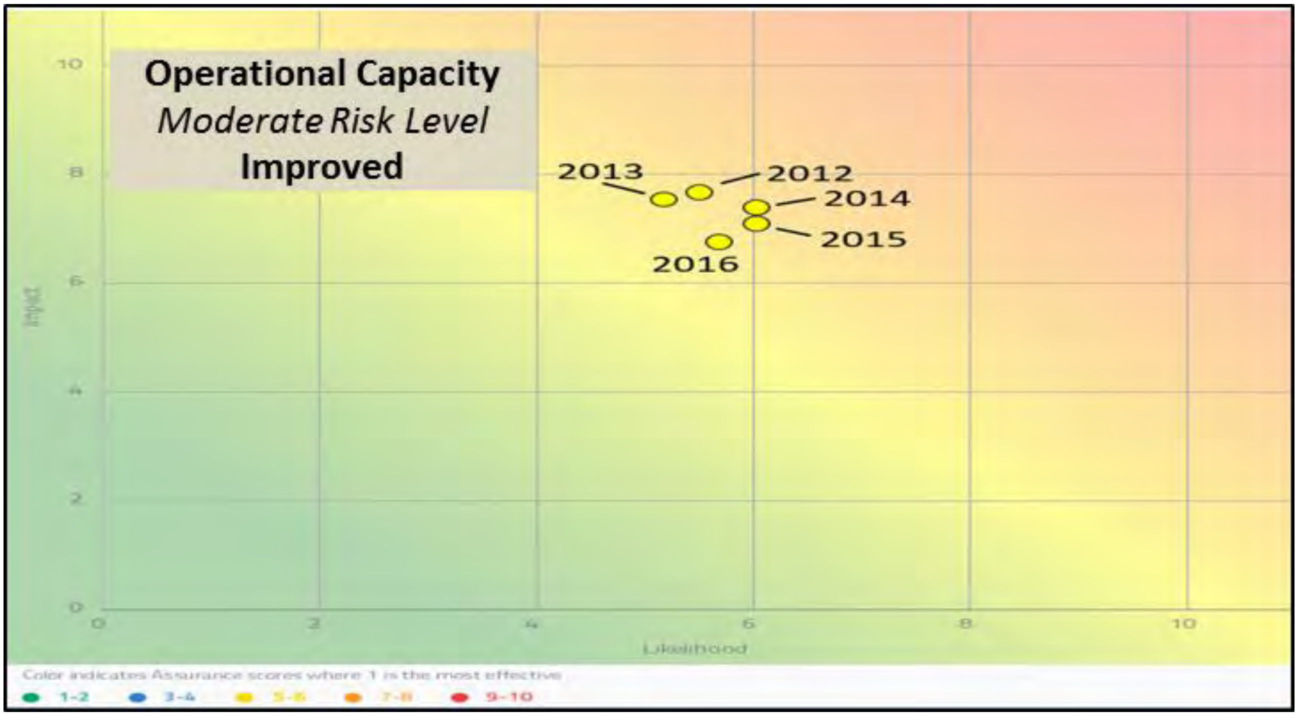
- Maximizing interest rate spread on bonds
- Effective loan pipeline management
  - Strategy to have mortgage pipeline 100% hedged at all times
  - Continue pursuing a best-execution policy that weighs the costs of selling fixed rate or variable rate tax-exempt mortgage revenue bonds compared with selling mortgage-backed securities
  - Setting program interest rates in a market-sensitive manner
  - Loan warehousing
- Effectively place loan production in alternative funding vehicles besides the bond markets: (e.g.,)
  - To Be Announced (TBA) sales of single family loan
  - HUD's Multifamily Accelerated Processing (MAP) program
  - HUD and Treasury Department Federal Financing Bank (FFB) Risk Sharing Initiative

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

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.33)	About as Likely as Not (6.0)	Could Be Improved (5.0)	High (38)	Moderate (192)
2013	Serious (6.50)	Likely (7.5)	Could Be Improved (4.5)	High (49)	High (236)
2014	Serious (6.25)	Likely (8)	Could Be Improved (4.5)	High (50)	High (239)
2015	Moderate (5.5)	Likely (7.75)	Good (4)	High (43)	Moderate (192)
2016	Moderate (6)	Likely (7.75)	Could Be Improved (4.75)	High (46)	High (253)

Federal Resources are assessed as a high risk source, which is an increase from the previous assessment as a moderate risk source. An increase in the assessed impact and deterioration of assessed assurance drove the residual index up from 192 to 253. The higher residual index reflects recent pressures on the availability of tax exempt bonds for housing uses, upcoming changes to the selection approach for Performance Based Contract Administration (PBCA) contracts, and tax reform efforts are likely to gain momentum given the results of the recent election. Because federal funds are a critical source of funding for a number of Agency programs; diminishing federal resources are an Agency-wide concern. As a result of the recent election, federal corporate tax reform will likely be a high priority and a potential lowering of the 35% corporate tax rate is projected to introduce a high degree of uncertainty for investor interest in Low Income Housing Tax Credits. It is highly likely that there will be continuing pressures to reduce federal resources for housing. There will also be federal budget pressures on the programs administered by the Department of Housing and Urban Development.

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

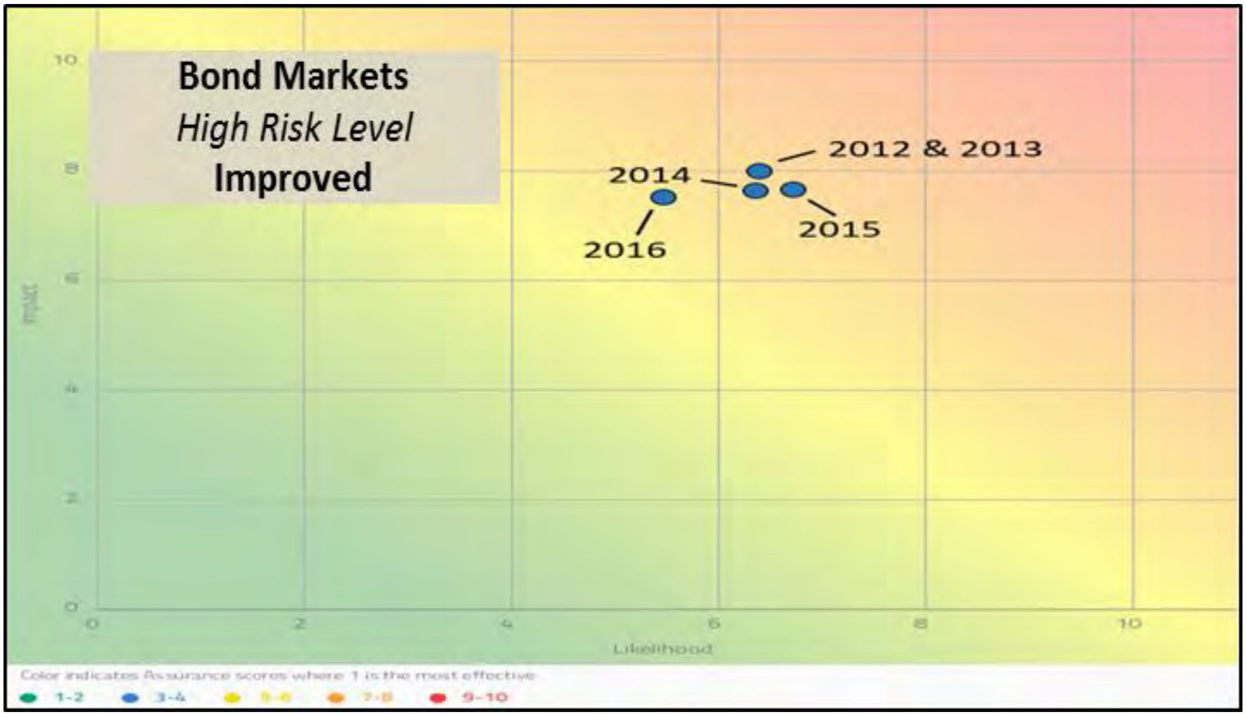


	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (7.57)	About as Likely as Not 5.43)	Could Be Improved (4.57)	High (40)	Moderate (191)
2013	Serious (7.13)	About as Likely as Not (5.13)	Could Be Improved (4.63)	High (36)	Moderate (175)
2014	Serious (6.88)	About as Likely as Not (6)	Could Be Improved (5)	High (41)	High (227)
2015	Serious (6.63)	About as Likely as Not (6)	Could Be Improved (4.88)	High (41)	High (220)
2016	Serious (6.75)	About as Likely as Not (5.63)	Could Be Improved (4.63)	High (39)	High (206)

Operational Capacity is assessed as a high risk source, which is unchanged from the previous assessment. A slight increase in the assessed impact, a decrease in assessed likelihood, combined with a slight improvement in assurance, drove the residual index down from 220 to 206. Having a strong organizational capacity is fundamental to the Agency's ability to implement effective strategies and fulfill its mission. Up to twenty-five percent of Agency employees will be eligible to retire in the next five years. The business is becoming more and more complex, leading to the possibility that positions will need to be upgraded to attract qualified replacements. State salaries for some managerial and professional positions are considered lower than the market and recruiting a pool of qualified replacements is important. In many areas of the Agency, staffing levels remain a concern due to high volume of work and significant process and systems changes. Certain key positions are reported to be overworked and sometimes struggle to keep up with all of the demands and priorities. As the economy improves, we expect turnover to increase which could exacerbate this problem.

Effectiveness of Control / Mitigation Activities

Strengthening organizational capacity is a core activity of the 2016 – 2019 Strategic Plan, and these efforts will focus on attracting, developing, and retaining a diverse workforce and improving business processes and supporting technology. The Agency assessed the training and development needs of all staff, selected training programs, and executed contracts for their delivery. The Agency rolled out the third year of the mentor program; introducing job shadowing and individual development plans. An organizational assessment of cultural competency was completed. Agency leadership may explore the development a capacity model to help determine when to utilize contract services versus Agency staff. All employees have individual work plans and all required performance reviews are completed annually. The Annual Employee Engagement Survey will be conducted again in 2016 with results used to identify and secure professional development opportunities and other Agency improvements.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (45)	High (238)
2013	Serious (8)	About as Likely as Not (6.33)	Good (4)	High (51)	High (238)
2014	Serious (7.33)	About as Likely as Not (6.33)	Good (4)	High (47)	High (210)
2015	Serious (7.33)	About as Likely as Not (6.67)	Good (4)	High (49)	High (215)
2016	Serious (7.5)	About as Likely as Not (5.5)	Good (4)	High (43)	Moderate (191)

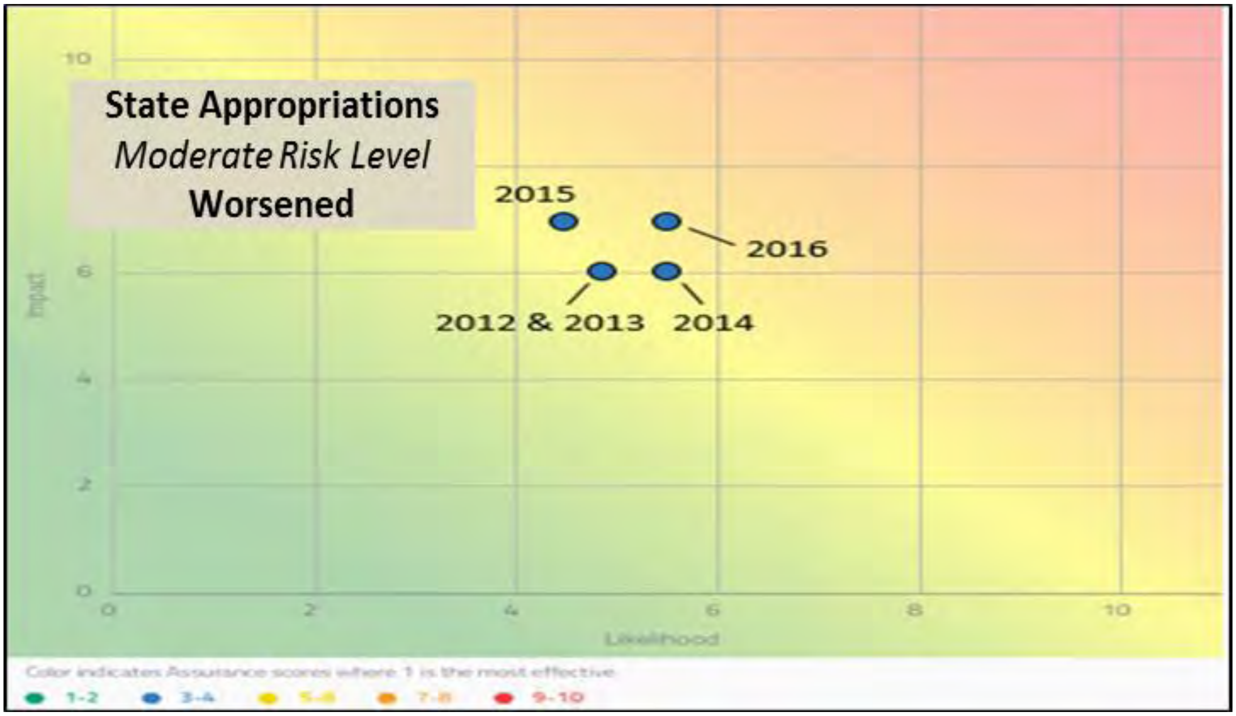
Bond Markets are assessed as a moderate risk source, which is a decrease from the previous assessment. Assessed likelihood decreased, driving the residual index down from 215 to 191. The Agency relies on the capital markets to fund its largest revenue producing programs. As loan originations continue to be very strong, Minnesota Housing continues to access the bond market on a regular basis. Increasing pressures on the availability of tax exempt bond volume cap for single family and multifamily financing is a serious threat to addressing the priorities in the strategic plan. Limited capacity in tax exempt bonding would constrain the number of future developments the Agency would be able to fund. Recent changes to money market fund rules and potential tax reform could have a negative impact on investors seeking tax exempt bonds.

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

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.83)	Unlikely (4.50)	Good (4.33)	Moderate (22)	Moderate (102)
2013	Moderate (5.14)	Unlikely (4.57)	Good (4.43)	Moderate (24)	Moderate (118)
2014	Moderate (5.29)	Unlikely (4.71)	Good (4.43)	Moderate (26)	Moderate (130)
2015	Moderate (5.57)	About as Likely as Not (5)	Good (4.43)	Moderate (31)	Moderate (154)
2016	Moderate (5.5)	About as Likely as Not (5)	Good (4.25)	Moderate (30)	Moderate (151)

Compliance is assessed as a moderate risk source, which is unchanged from the previous assessment. A slight decrease in the assessed impact combined with a slightly better level of assurance drove the residual index down from 154 to 151. While Compliance is still rated as a moderate risk source it is noted that the residual index score has been increasing each year while leveling off in 2016. There is an Agency-wide focus on increased compliance requirements related to the Consumer Financial Protection Bureau implementing TILA (Truth in Lending Act) – RESPA (Real Estate Settlement Procedures Act) Integrated Disclosure Rule, also known as TRID, and the complexity of the published Final Rule amending the HOME Investment Partnerships (HOME) Program regulations, as well as new programs such as Section 811 Demonstration and National Housing Trust Fund. Each funding source and program (old, existing, new) involves compliance requirements; some can be very complex and cumbersome. The Agency has staff that understands the compliance requirements, but there is some turnover and new and changing requirements are a reality. The business systems to help track and report on compliance are varied, some are not well integrated and are outdated, but recent audit results have shown strong performance on compliance. In 2015, a complaint was filed with the U.S. Department of Housing and Urban Development (HUD) claiming that the State, Minnesota Housing and the Metropolitan Council have violated the Fair Housing Act. The complaint was signed by the cities of Brooklyn Park, Brooklyn Center, and Richfield, and the Metropolitan Interfaith Council on Affordable Housing (MICAH). The complaint contends that the State, Minnesota Housing and the Metropolitan Council have failed to affirmatively further fair housing across the Twin Cities region. Minnesota Housing has responded to the complaint and is awaiting a determination from HUD.

Effectiveness of Control / Mitigation Activities
The Agency has identified several compliance related projects as part of its Vision for Technology Support. The Property Online Reporting Tool (PORT) phase one is complete and phase two is underway. The Agency completed updating all required record retention schedules. Related to Data Practices, the Agency designated a Responsible Authority, Data Practices Compliance Officer, and Division designees, updated the Data Practices Manual, and provided training to staff. Because there is a consistent negative financial risk to the Agency for federal non-compliance, staff has been allocated to provide the appropriate level of compliance. The Single Family division received a compliance assessment report from a vendor that analyzed compliance requirements pertaining to lenders and servicers, as well as all requirements which may pertain to the Agency as an investor in homeownership loans. Single Family is using that report to undertake a comprehensive compliance review of their programs. The Agency is engaged in a comprehensive grants management policy compliance effort. RSM US, LLC issued an Unqualified Opinion regarding the Agency's 2016 financial statements.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6)	About as Likely as Not (5)	Good (4.0)	High (30)	Moderate (120)
2013	Moderate (6)	About as Likely as Not (5)	Good (3.5)	High (30)	Moderate (105)
2014	Moderate (6)	About as Likely as Not (5.5)	Good (3.5)	High (33)	Moderate (117)
2015	Serious (7)	Unlikely (4.50)	Good (3.5)	Moderate (30)	Moderate (108)
2016	Serious (7)	Unlikely (5.5)	Good (3.5)	Moderate (38)	Moderate (132)

State Appropriations are assessed as a moderate risk source, which is unchanged from the previous assessment. A slight increase in the assessed likelihood drove the residual index up from 108 to 132. State resources are critically important for funding certain homelessness programs including the Housing Trust Fund (HTF) which provides on-going rental assistance and Family Homelessness Prevention and Assistance. State appropriations, including the Challenge program, are also are a critical source of gap financing for the agency. The state is projected to have a budget surplus in the 2018-2019 budget cycle and currently has a reasonable budget reserve. In the 2015 session, the Agency received $2.5 million over the base budget and $105 million in total appropriations for the biennium. Legislative gridlock from divided government prevented the passing of a bonding bill that included $45 million for housing in 2016.

Effectiveness of Control / Mitigation Activities
The Agency has an Assistant Commissioner for Policy and Community Development and Legislative Director, who lead efforts at the state legislature. Agency programs are broadly supported by external advocacy groups, which may be helpful in mitigating potential cuts, but competing priorities from other parts of the state budget are always a threat.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (87)
2013	Serious (6.67)	Unlikely (3.67)	Good (3)	Moderate (26)	Low (76)
2014	Serious (6.33)	Unlikely (4)	Good (3)	Moderate (26)	Low (77)
2015	Serious (6.33)	Unlikely (4)	Good (2.67)	Moderate (26)	Low (74)
2016	Serious (6.33)	Unlikely (4.33)	Good (3.67)	Moderate (29)	Moderate (113)

Business Continuity is assessed as a moderate risk source, which is an increase from the previous assessment. Assurance deteriorated slightly from the previous assessment. The primary factor in the lower assurance rating was that one of the reviewers determined that they had rated assurance too high in 2015 and that the 2016 assessment rating was more appropriate. Business Continuity is defined in this context as the activities performed by the Agency to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions. The Agency has a Continuity of Operations Plan and a designated Continuity of Operations Plan (COOP) Manager.

Effectiveness of Control / Mitigation Activities

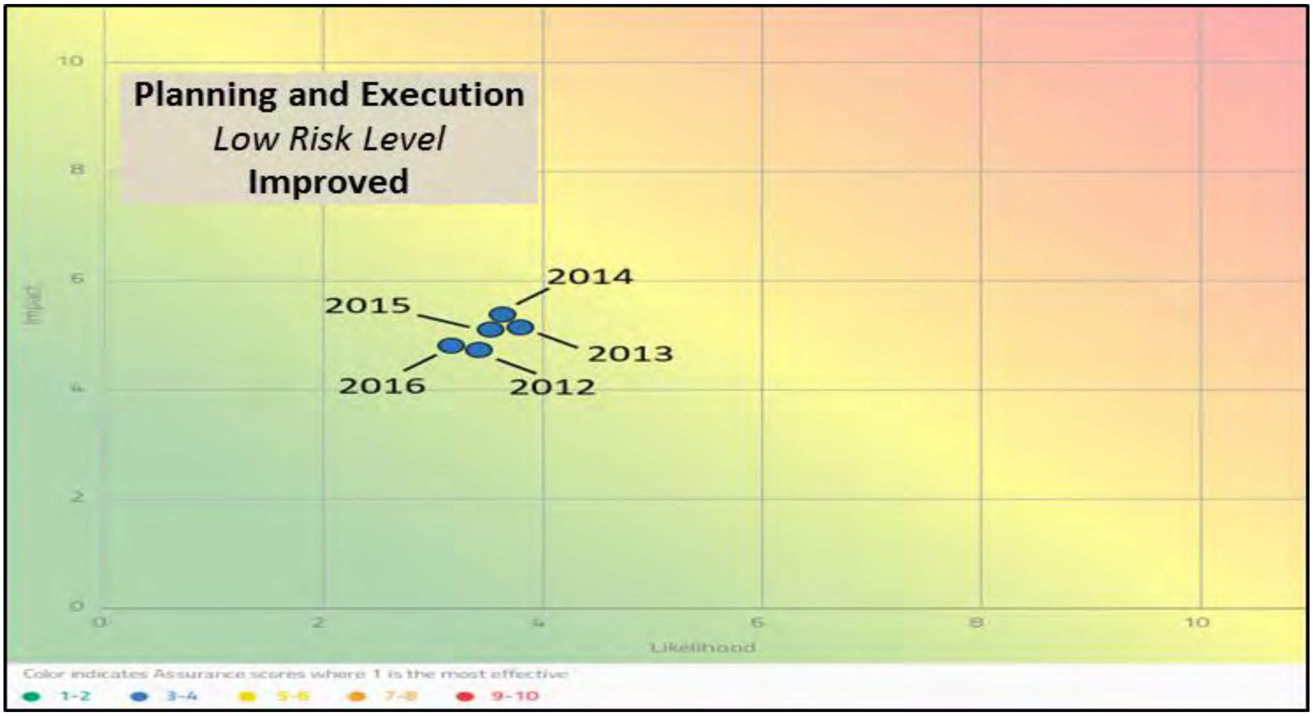
The Agency completed a major revision to its COOP in 2015 and enhanced the model in 2016. The critical business systems and technology-related parts of the Plan are current and tested. The Agency updates its Employee Policies and Procedures Manual as needed. There is a disaster recovery plan that is tested and audited on an annual basis. The Agency information technology and application system(s) audit for the fiscal year ending June 30, 2016 were tested as part of the financial statement audit and were determined to be effective. Record retention schedules for the entire agency are current.

	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (6.00)	Unlikely (4)	Good (4.00)	Moderate (24)	Low (96)
2013	Moderate (5.67)	About as Likely as Not (5)	Good (3.67)	Moderate (28)	Moderate (109)
2014	Moderate (5.33)	Unlikely (4.33)	Good (3)	Moderate (23)	Low (72)
2015	Moderate (5.33)	Unlikely (4.33)	Good (3)	Moderate (23)	Low (72)
2016	Moderate (5.67)	Unlikely (4)	Good (3)	Moderate (23)	Low (71)

Loan Performance is assessed as a low risk source, which is unchanged from the previously assessed low risk level. The Agency is at risk of financial loss in the event of a severe downturn in the real estate markets. Losses slowed down as home values stabilized and are increasing; the whole loan portfolio continues to pay off and is being replaced with Mortgage Backed Securities, reducing the risk of losses from foreclosures. Also, new multifamily loan production is partially insured under the HUD Risk Sharing program, and the older uninsured loans are gradually paying off. The Agency is now an approved Multifamily Accelerated Processing (MAP) lender which provides an additional outlet to securitize and sell multifamily loans.

Effectiveness of Control / Mitigation Activities

Effective asset monitoring policies and procedures and competent staff are considered effective control activities. Agency staff has worked closely with loan servicers and has supported a variety of efforts to reduce both loan delinquency losses and loss severities.



	Impact	Likelihood	Assurance	Inherent Index	Residual Index
2012	Moderate (4.75)	Unlikely (3.25)	Good (2.75)	Moderate (18)	Low (49)
2013	Moderate (5.00)	Unlikely (3.80)	Good (3.00)	Moderate (22)	Low (68)
2014	Moderate (5.2)	Unlikely (3.6)	Good (3.00)	Moderate (21)	Low (64)
2015	Moderate (5)	Unlikely (3.4)	Good (3.00)	Moderate (19)	Low (60)
2016	Moderate (4.83)	Unlikely (3.17)	Good (3.17)	Moderate (17)	Low (53)

Planning and Execution is assessed as a low risk source, which is unchanged from the previous assessment. Assessed impact decreased slightly from previous year, likelihood decreased slightly and assurance improved, resulting in a residual index that declined from 60 to 53. Effective planning is vital to any organization, especially one that makes significant financial investments in various programmatic areas. The Agency has a Strategy Management Framework that includes a "family" of planning and reporting documents and processes. The "head of the family" is the 2016-2019 Strategic Plan, which was adopted by the Board in July 2015. The plan was developed based on robust research and analysis of housing and finance market data, and an extensive external community and internal staff engagement. It includes the Agency's vision, mission, priorities and strategies. Every year, Agency staff develops an

Affordable Housing Plan, the one-year business plan that implements the Strategic Plan. The 2017 Affordable Housing Plan was adopted by the board on September 2016. The Affordable Housing Plan includes funding by program area and estimated number of households assisted and units produced, as well as other work plan highlights. Divisional work plans are based on the Affordable Housing Plan and then individual work plans are developed to support divisional work plans. All plans are aligned with the Strategic Plan. Each plan has one or more corresponding reporting documents containing a variety of performance measures - Results Management Report, Super Report, Annual Assessment and Report, Quarterly Division Reports, Individual Performance Appraisals.

Effectiveness of Control / Mitigation Activities

For the past five years, 100% of the employees' appraisals were completed. Appraisals measure the degree to which individual workplan goals have been accomplished. The Agency has a skilled team responsible for overseeing all of the Agency's planning, research and evaluation. Planning is well supported by the Senior Leadership Team and is a highly visible part of the organization. The Deputy Commissioner continues to represent the Agency on the State's Continuous Improvement Steering Committee, which should provide access to new ideas and resources. No additional mitigation is necessary at this time.

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Appendix A

Risk Impact

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

9 – 10 Major

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

7 – 8 Serious

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

- Activities are very complex. Employee training to perform activities is lengthy. Judgment required in decision-making is mostly rules based.

5 – 6 Moderate

- Negative impact on Net Assets – $50 to $100 million
- Impaired business functions cause customer service to significantly deteriorate
- Moderate Agency brand (reputation) issues
- Moderate liability (e.g., lawsuits) potential
- Business practices significantly inconsistent with industry standards
- Moderate negative impact on the Agency's strategic plan
- Moderate negative impact on the Agency's Affordable Housing Plan
- Identified issues are inconsistent with the organization's values
- An evaluation of segregation of duties for employees' assigned tasks has not be completed
- Process generates non-routine transactions.
- Moderate activity complexities; Moderate individual judgment; few aspects of operation covered by established practices. Employee training to perform activities is lengthy.

3 – 4 Minor

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

1 – 2 Insignificant

- Negative impact on net income – less than $10 million
- Critical functions will not be impaired
- No liability or threats to Agency brand (reputation)

- A segregation of duties evaluation has determined that there are no existing concerns within the past 12 months. The evaluation is sufficiently documented and verifiable.
- Process generates routine transactions related to the company's primary business activities.
- Activities are relatively straight forward. Employee training for activity performance is very minimal.

Likelihood

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

9 – 10 Major Highly Likely
At least 90% probability - Expected to occur in most circumstances

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

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

7 – 8 Likely
At least 66% but less than 90% probability - Will probably occur in most circumstances

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

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

5 – 6 About as likely as not
At least 33% but less than 66% probability - Might occur at some time

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

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

- Some changes in key personnel or staff

3 – 4 Unlikely
At least 10% but less than 33% probability - Could occur at some time

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

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

1 – 2 Rarely if ever
Less than 10% probability - May only occur in exceptional circumstances

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

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

Assurance (Effectiveness of Mitigation Activities)

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

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

9 – 10 Ineffective
Control effectiveness is not driven by the organization, but is solely dependent on each individual's background and standards.

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

- Ineffective and fragmented controls
- Undocumented procedures, mitigating strategies, entity-wide controls

- Inappropriate or no guidance from "tone at the top" (control environment)
- General inability of key personnel or staff to design and execute effective, cohesive mitigating activities

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

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

7 – 8 Poor
Organizational values and behavior expectations are not well defined or consistently understood beyond management.

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

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

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

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

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

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

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

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

- Written task guidance for important aspects; immediately available to auditors upon request

- Key controls that mitigate the risks are a combination of automated, hybrid and manual
- Full participation in a control self-assessment program

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

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

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

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

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

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

- Accountability at all levels is culturally driven
- Embedded ability to take advantage of short-term opportunities while ensuring long-term viability due to continuous discipline and sound ethical decision-making skills at all levels
- Effective, documented controls are in place
- Technically competent and experienced staff with minimal turnover
- Highly effective management review takes place

- No deficiencies observed in control environment (e.g., procedure manual, controls well documented, clear standards and trending for control exceptions)
- Management participates in control self-assessment activity or controls have been reviewed by groups independent of management in the past two years

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

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

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Appendix B - Risk Assessment Matrix

Section A: Inherent Risk Score Table

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

Section B: Assessed Assurance (Effectiveness of control / mitigation activities)				
1 - 2 Effective	3 - 4 Good	5 -6 Could be improved	7 - 8 Poor	9 - 10 Ineffective

Section C: Residual Risk Score Table

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

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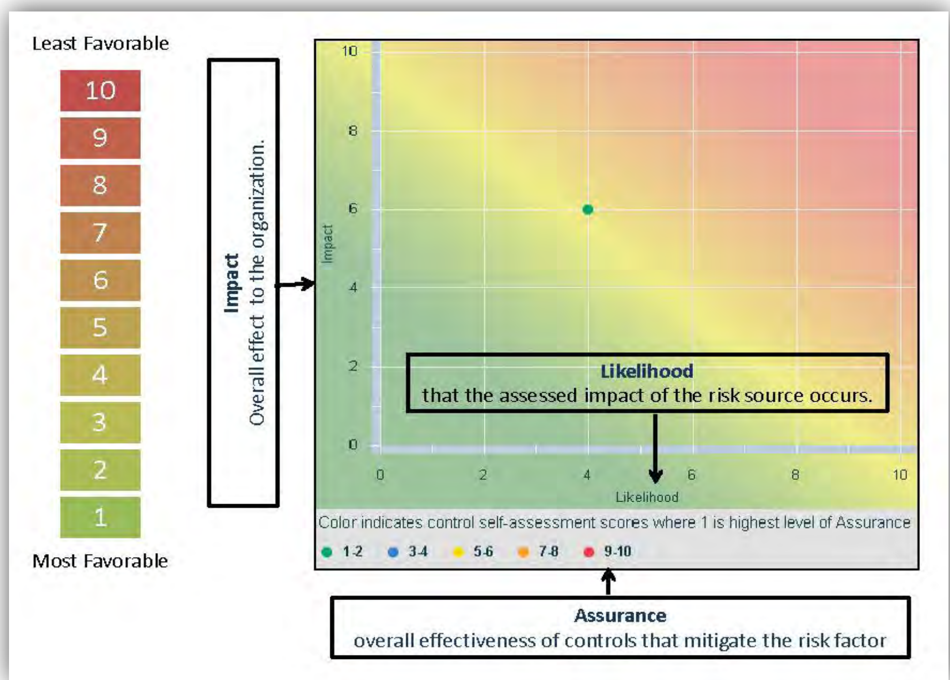
Appendix C – Index Calculations

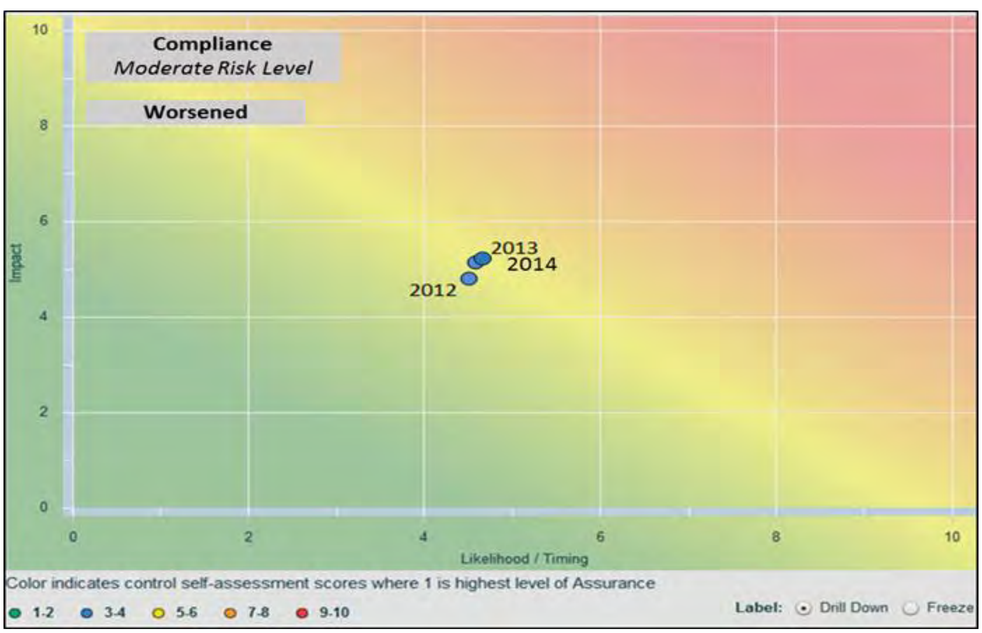
Assessed impact is on the y axis, likelihood is the x axis. Each critical risk has a data point associated with its assessed impact and likelihood. Additionally, each critical risk data point is color coded to reflect the level of assessed assurance *(Figure 1)*.

Figure 1



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

Figure 2



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

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

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

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

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Minnesota Housing Finance Agency

Board Agenda Item: 9.A
Date: 12/22/2016

Item: Quarterly Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)

Staff Contact(s):
Ruth DuBose, 651.297.3128, ruth.dubose@state.mn.us
Tal Anderson, 651.296.2198, tal.anderson@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☐ Discussion
☐ Resolution	☒ Information

Summary of Request:
The information provided is a summary of intake data and outcomes from August 1, 2014 – September, 2016 of the Homeownership Capacity program. This is an information item and does not require approval.

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):
- Quarterly Program Update

Quarterly Program Update:
A total of 10 agencies have been approved to provide Homeownership Capacity services since the beginning of the program which started August 1, 2014. A total of 1,196 clients have started receiving Homeownership Capacity services since that date.

The chart below identifies additional information about these clients:

	Percent of clients
Identify as a household of color or Hispanic ethnicity	85%
At or below 80% AMI	96%
Credit identified as the primary barrier to obtaining homeownership	70%

As of September 30, 2016, 274 clients have exited the program with the following outcomes:

	Percent of clients that exited the program
Home purchase*	49%
Client is actively pursuing homeownership^	6%
Client is still interested in homeownership, just not at this time	8%
Client is no longer interested in homeownership	18%
Client stopped communication	17%

* A number of clients were already participating in existing financial capability services at the time the program started, resulting in a higher than expected number of clients moving onto homeownership within the first year of the Homeownership Capacity program.

^ This information will be updated if and when the client purchases a home.

The second program year started October 1, 2015 with the goal of serving 580 households. The goal was exceeded with a total of 635 households entering the program between October 1, 2015 and September 30, 2016.

Minnesota Housing collects quarterly reports from Homeownership Capacity providers. Staff will provide intake and outcome updates on a semi-annual basis in 2017.

Board Agenda Item: 9.B
Date: 12/22/2016

Item: Report of Complaints Received by Agency or Chief Risk Officer

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:
☐ Approval ☒ No Action Needed
☐ Motion ☐ Discussion
☐ Resolution ☒ Information

Summary of Request:
The Agency and the Chief Risk Officer have developed procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding conflict of interest, misuse of funds and fraud that have been submitted by any person external or internal to the Agency.

Update from the Chief Risk Officer regarding complaints of potential conflict of interest, alleged misuse of funds and alleged fraud that have been reported to the Agency or the Chief Risk Officer since the Board adopted Reporting Non-Compliance with Agency Policy and Procedures on January 27, 2011.

Fiscal Impact:
There were 61 instances of potential conflicts of interests, alleged misused funds and alleged fraudulent activity for the 67-month period beginning December 2010 and ending November 2016. A total of $523,217 has not been recovered: $445,674 in misused funds (unchanged from last quarter), and $77,543 in fraudulent activity (unchanged from last quarter).

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):
Reporting Non-Compliance with Agency Policy and Procedures.

Reporting Non-Compliance with Agency Policy and Procedures

This reporting is designed to convey to the Board any complaints received, their current status, and their resolution, if one has been reached.

An updated report will be delivered to the Board quarterly, with the next report due March 23, 2017.

Complaints Received by Agency or Chief Risk Officer

Complaint	Status		
Resolution	Closed	In Process	Grand Total
Conflict of Interest	**14**		**14**
External Employment Approved	2		2
Insufficient Evidence	3		3
Seller Repurchase	2		2
Issue Resolved	2		2
Seller Indemnification	5		5
Fraud / Embezzlement	**7**		**7**
Funding Transferred to Different Entity	1		1
Insufficient Evidence	3		3
FBI Investigation Initiated	1		1
Seller Repurchase	2		2
Misuse of Funds	**35**	**5**	**40**
Insufficient Evidence	5		5
Issue Cured	4		4
Negotiated Settlement	10		10
None – Nonviable Counterparty	2		2
OLA Forwarded Complaint to County	1		1
Revenue Recapture	4		4
Entry of Judgment	2		2
None Yet		5	5
None - Affordability Period Expired	3		3
Funds Returned to Agency	4		4
Grand Total	**56**	**5**	**61**

Key Trends:

- Two new alleged misuse of funds cases opened from September 2016 through November 2016
- One misuse of funds case closed from September 2016 through November 2016

Report Legend:

- Complaint – An allegation or inquiry of non-compliance with Agency policy and procedures
- Status – Can be either In Process or Closed
- Resolution – How was the complaint resolved (Closed Status) or current disposition (In Process)

Item: 2017 Housing Tax Credit Program (HTC) Round 2

Staff Contact(s):
Summer Jefferson, 651.296.9790, summer.jefferson@state.mn.us

Request Type:

☐ Approval	☒ No Action Needed
☐ Motion	☐ Discussion
☐ Resolution	☒ Information

Summary of Request:
Staff requests to inform the board that the 2017 HTC Round 2 applications and selections will be delayed by one month given changing market conditions.

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

BACKGROUND
Historically, HTC Round 2 applications are submitted in January. The 2017 Housing Tax Credit Procedural Manual and other published materials indicated that applications are due January 31, 2017 with awards to be announced at the April 27, 2017 Board meeting.

The Agency will have approximately $200,000 in additional credits for the 2017 HTC Round 2.

The current tax credit investment market has a high level of uncertainty due to the possibility of federal corporate tax reform. This uncertainty has caused investors to slow or temporarily cease providing Letters of Intent for developer's whose projects have received an award of tax credits and have not yet closed. In many cases, investors are indicating that the future price of tax credits will be 10-20% lower than the price developers anticipated when they submitted their 2016 RFP applications in June, creating potential funding gaps. The historically high equity prices in recent months also meant that many projects did not seek the maximum amount of tax credits that they were eligible to receive

Agency staff will delay the 2017 Round 2 one month, with applications due on February 28, 2017 and award selections made at the May 25, 2017 Board meeting. The delay will allow additional time to assess the impact of these market conditions.