# MEETINGS SCHEDULED FOR JUNE

**Location:**

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

**THURSDAY, June 22, 2017**

**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, June 22, 2017.

**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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*Equal Opportunity Housing and Equal Opportunity Employment*

**AGENDA**
**Minnesota Housing Board Meeting**
**Thursday June 22, 2017**
**1:00 p.m.**

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. (page 5) Regular Meeting of May 24, 2017
5. **Reports**
   A. **Chair**
   B. **Commissioner**
   C. **Committee**
6. **Consent Agenda**
   A. (page 13) Selection, Commitment, Operating Subsidy Renewal Grants
   B. (page 19) Commitment, Low and Moderate Income Rental (LMIR, LMIR Bridge Loan (BL) and Flexible Financing for Capital Costs (FFCC) Programs - Dublin Crossing
7. **Action Items**
   A. (page 29) Approval, Resolution Rental Housing Bonds for Dublin Crossing
   B. (page 125) Approval, Selection/ Commitment, Housing Trust Fund - Rental Assistance for Exploited Families Pilot
8. **Discussion Items**
   A. (page 131) Developing the 2018 Affordable Housing Plan – Initial Thoughts and Feedback
   B. (page 217) Single Family and Multifamily Divisional Staff Update
   C. (page 219) Fiscal 2018 Administrative Budget
9. **Information Items**
   A. (page 227) Post-Sale Report, Homeownership Finance Bonds (HFB) 2017 Series EF
   B. (page 239) Closing of Minnesota Housing Investment in National Occurring Affordable Housing (NOAH) Fund
   C. (page 241) Report of Complaints Received by Agency or Chief Risk Officer
   D. (page 243) Semi-Annual Status Report, Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity)
10. **Other Business**
    None.
11. **Adjournment**

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DRAFT MINUTES

**Minnesota Housing Finance Agency Board Meeting**
**Wednesday May 24, 2017**
1:00 pm
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 Minnesota Housing Finance Agency at 1:01 p.m.

2. **Roll Call.**
   **Members Present**: John DeCramer, Joe Johnson, Craig Klausing, Rebecca Otto, Stephanie Klinzing and Terri Thao.
   **Minnesota Housing staff present**: Tal Anderson, Ryan Baumtrog, Sara Bunn, Wes Butler, Kevin Carpenter, Adam Connell, Jessica Deegan, Matt Dieveney, Diane Elias, Rachel Franco, Anne Heitlinger, Summer Jefferson, Karen Johnson, Mary Beth Kehrwald, Kasey Kier, Tresa Larkin, Eric Mattson, Kim McAfee, Judi Mortenson, Tom O'Hern, John Patterson, Kirby Pittman, Devon Pohlman, Caryn Polito, Paula Rindels, Ester Robards, Danielle Salus, Joel Salzer, Terry Schwartz, Laird Sourdif, Barb Sporlein, Kim Stuart, Susan Thompson, Will Thompson, Kody Thurnau, Mary Tingerthal, Katie Topinka, Ted Tulashie, Elaine Vollbrecht and Karin Wilbricht.
   **Others Present**: Loni Aadalen, Ramsey County, Ramona Advani, Office of the State Senator, Marsha Cressy, MN Step, Acoa Ellis, Catholic Charities, Chip Halbach, Minnesota Housing Partnership, Cory Hoeppner, RBC Capital Markets, Zachary Hylton, Ramsey County, Melanie Lien, Piper Jaffray, Paul Rebholz, Wells Fargo and Ellen Sahli, Family Housing Fund

3. **Agenda Review.**
   Chair DeCramer announced that there were two changes to the agenda. Addition of the Housing Infrastructure Bonds Board Report to the Discussion Item 8.B, and the removal of the words "Regional Treatment Center" from Consent Item 7.D. A revised board agenda, the 2017 Legislative Report and the Board Report for Proposed Early Award Process, Housing Infrastructure Board Proceeds were distributed at the meeting.

4. **Approval of the Minutes.**
   A. **Regular Meeting of April 27, 2017**
   Auditor Otto asked about the last paragraph on page six, specifically about her comment regarding the action the board can take, she requested that the minutes reflect the answer she was given at the meeting. Mr. Klausing noted that on page seven he asked about transit

oriented development, not transit orient development as stated in the minutes. The minutes will be modified to reflect these changes, add Ramon Davani's name to the list of members present and to correct an error on page one, from Chari DeCramer to Chair DeCramer. Auditor Otto moved the approval of the minutes with corrections. Mr. Johnson seconded the motion. Motion carries 6-0.

**5. Reports.**

**A. Chair**

None.

**B. Commissioner**

Commissioner Tingerthal shared the following with the board:

- Not quite final Legislative Report will be discussed towards the end of the meeting. Ryan Baumtrog and Katie Topinka will provide a legislative update.
- Frontline Program ran on May 9 and the response has been muted, less impact than we had feared. We followed up with our congressional delegation and answered any questions they had.
- The Office space move will occur over several weeks in September. We will notify the board if we need to change venue for our August board meeting.

The following employee introduction was made:

- Judi Mortenson introduced Marcia Kaasa. Ms. Kaasa joined the Agency as our Supervisor of Business Systems and Process Support. Marcia grew up in a small town in North Central North Dakota. She lives in Shoreview with her husband and children and is enjoying her work at the Agency.

**C. Committee**

Chair DeCramer noted that the Finance and Audit Committee met earlier in the day to discuss risk assessment standards and audit planning for the 2017 audit engagement with RSM US LLP, the Agency's external auditing firm. Ms. Klinzing moved to accept the report of the committee. Ms. Thao seconded the motion. Motion carries 6-0.

**6. Consent Agenda**

No Items.

**7. Action Items**

**A. Approval, Proposed 2019 Housing Tax Credit (HTC) Program Qualified Allocation Plan and Procedural Manual**

Devon Pohlman led the discussion of the 2019 QAP changes. She referred to the discussion at the April 27 board meeting. She highlighted the key changes to the program and mentioned that broader community engagement discussions have begun. For more detail, refer to the board materials. Mr. Klausing inquired on the policy considerations on economic areas of opportunity versus concentration of poverty and whether this has the impact of concentrating

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affordable housing as opposed to disbursing it throughout the community and what was the discussion around it. Ms. Pohlman said that we aim from a policy standpoint with the QAP to balance preserving affordable units that are at risk of loss but we also have a very strong section where we outline areas of opportunity based on access to jobs, quality schools, and transit. Ms. Pohlman concluded her overview with the timeline for the 2019 Housing Tax Credit Program.

Chair DeCramer opened up the discussion with a question on page 20 regarding the appraisal, by asking who pays for the appraisal. Summer Jefferson indicated that the fee for the appraisal is included in the development budget and is paid for by the developer of the project.

Mr. Johnson remarked that the streamlining is great and inquired about what kind of public comments we expect due to the changes of the QAP. Ms. Pohlman indicated that staff is expecting to have robust conversations, and created tools to highlight what we have changed, held one webinar, one in-person session, and will continue with one-on-one engagement.

Ms. Thao, appreciated the testing of these new pieces and the examples that were provided in the packet. It was very helpful to understand what the impact would be on the projects.

Commissioner Tingerthal pointed out that there is one correction under the timeline on page 14. The June 22, 2017 date is incorrect. The Agency Board will be asked to approve the final 2019 QAP and Manual at the July 27, 2017 board meeting.

Chair DeCramer remarked that he appreciated that people had the opportunity to make informal comments before we had the formal comment period. Auditor Otto remarked that she had an informal conversation with someone who is familiar with our work and that the individual was pleased to hear that we incorporated definitions from the MN DOT 10 year plan for multi-modal planning.

**Motion:** Joe Johnson moved approval of the Proposed 2019 Housing Tax Credit (HTC) Program Qualified Allocation Plan and Procedural Manual. Seconded by Auditor Otto. Motion carries 6-0.

**B. Approval, 2017 Housing Credit Program (HTC) 2017 Round 2 Selections**

Summer Jefferson presented a request to the board for adoption of a resolution authorizing the selection and reservation of Low-Income Housing Tax Credits for Round 2 of the 2017 Housing Tax credit program. The total credit availability for this round is $272,915, with staff recommending selection of two developments for award, Bottineau Ridge Phase II and Aeon Prospect Park. Both applications have previously received an award of tax credits from either Minnesota Housing and or one of the suballocators. One of the applications qualified for the Round 2 supplemental priority and the three remaining projects (Westgate, Country Terrace, and Ramsey Apartment) did not meet eligibility requirements. . These developments were not

scored or reviewed for feasibility and will not be placed upon the wait list for any credits that may be returned. There is also a waiver request for Bottineau Ridge to receive a waiver to the $1 million per development cap.

Craig Klausing moved approval of the Round 2 selections and to grant the waiver for Bottineau Ridge. Seconded by Stephanie Klinzing. Motion Carries 6-0.

**C. Approval, Multifamily 2016 RFP Funding Modifications, Deferred Loans**

Susan Thompson led the discussion requesting the board's approval of two resolutions authorizing modifications to funding amounts for six projects that were selected as part of the 2016 Consolidated Request for Proposals (RFP). A number of the selected projects have funding gaps, and our goal is to keep the developments moving forward in order to close in 2017 and not have to reapply for funds. There was a targeted outreach to developers in March about their funding gaps. Six developments are recommended to receive additional deferred funding. There are four developments that are expected to receive funding from a funding partner and are not part of the request. There are others that we are considering for restructuring to their amortizing loans and they are also not part of this request. The request is for $3.9m in additional funding.

Chair DeCramer opened up the discussion and inquired about the initial expectation when staff began looking into funding gaps. Ms. Thompson indicated that they expected the gap to be much higher, and Chair DeCramer commented that he appreciated that we had alternate funding methods for some of the projects. Commissioner Tingerthal remarked that there are a few projects that staff is reviewing and it's possible those projects will come back to the board for approval at a later time. **Motion:** Terri Thao moved approval of Multifamily 2016 RFP Funding Modifications, Deferred Financing. Seconded by Craig Klausing. Motion carries 6-0.

**D. Approval, Selection/Commitment Bridges Rental Assistance Program**

Joel Salzer led the discussion requesting the board's approval for the selection and commitment of Bridges funding to 22 applicants.

Bridges is a program that provides rental assistance to individuals who are both struggling with housing stability and have a Serious Mental Illness. Bridges is intended to provide short term rental assistance until tenants can access a Section 8 voucher. For this reason, almost all of the Bridges grantees are HRAs or PHAs who administer a Section 8 program. This makes the transition from Bridges to Section 8 as smooth and seamless as possible for the tenants. Bridges is primarily funded with state appropriations and some Pool 3 funding. Any approvals authorized today would be contingent on the legislature passing a bill that included Bridges funding.

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The Bridges RFP posted in February and was open to both existing and new potential grantees. We received 22 applications, all from the current grantees representing the same geographic areas that are currently served. Together they requested $10.6M and proposed to serve 750 households. Staff from both Minnesota Housing and DHS reviewed and scored all applications. Overall, the applications were very strong and staff was impressed and pleased with the applications we received, although there were more requests for funds than we had available. If additional funding was available, all applicants demonstrated a very real need and internal capacity to serve the proposed number of households.

There is one applicant, who was selected in 2015, that requested an increase in funding but whose application and performance as a current administrator needs additional strengthening. Staff is recommending a reduced amount, which may enable the grantee to actually perform better because there will be fewer households to manage. Staff felt comfortable making this recommendation because the grantee has expressed an interest and desire in learning more about the program and how to improve as an administrator. We've included a few funding conditions on their funding award.

Staff is recommending just over $9M in funding to 22 grantees to serve just under 700 households each month. Joel referred the board members to the revised board resolution that was distributed at the board meeting. The numbers in the board report (page 195) are accurate, and those numbers are reflected in the revised board resolution.

Chair DeCramer opened up the discussion. Ms. Thao inquired as to how staff handles a program that is underperforming. Are they not recommended; is there proper recourse; are they eligible to come back and apply the following year? Mr. Salzer indicated that these grants are over a two year period, and the recommendation that is made in their selection letter for the second year of funding is conditional upon their first year of funding being successful. We have a timeframe and measures in place of what we look for and they have the first year of the grant to hit the established benchmarks. **Motion:** Auditor Otto moved approval of Selection and Commitment, Bridges Rental Assistance Program. Seconded by Joe Johnson. Motion carries 6-0.

**E. Approval, Selection/Commitment Family Homeless Prevention and Assistance Program (FHPAP)**

Diane Elias presented the funding recommendations for the Family Homeless Prevention and Assistance Program (FHPAP) for the 2018-19 biennium which begins July 1, 2017.

Staff issued the RFP in February and received twenty proposals from across the state. All of the applicants are prior grant administrators except for two. One represents a merger between two former grant administrators, Western and Heartland, which is now called United CAP agency. The other is a proposal from the Minnesota Tribal Collaborative which is a new applicant. The

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Minnesota Tribal Collaborative is dedicated to addressing homelessness for Native Americans, particularly those residing within the tribal nations. The five members include Bois Forte, Mille Lacs, Leech Lake, White Earth and Red Lake. Last year the collaborative successfully applied for long-term homeless service funds through the Department of Human Services. This will be their first FHPAP application and White Earth will act as the grant administrator on behalf of the collaborative.

Over the past year, we also worked on our scoring methodology to provide more clarity and address issues we found in the prior methodology. The new methodology also provides greater balance between the relative need and amount of funding an applicant is receiving.

Staff recommends approval of the funding recommendations which allows FHPAP to cover the entire statewide geographic area, add tribal nations and employ promising new strategies to end homelessness.

Chair DeCramer opened up the discussion. Ms. Klinzing asked for the definition of Tribal Nations with regards to "cooperation with Tribal Nations to address and end homelessness on the Reservations". Ms. Elias indicated that depending on the Tribal Nation, it can be all in one geographic area or scattered sites and the statute does not have geographic boundaries.

Commissioner Tingerthal shared an observation that because we as a state fund this program, which allows us to serve 14,000 households, and upon exit 80% of the individuals are in stabilized housing, if the funding for the program did not exist, there would be an astounding number of people who would be homeless. Ms. Klinzing commented that although we are counting the 14,000 households, the generations that are benefitting from the program are way beyond that number.
**Motion:** Stephanie Klinzing moved Approval, selection and commitment, FHPAP. Seconded by Terri Thao. Motion carries 5-0. Chair DeCramer abstained.

**F**. **Approval, Authorization to Forgive of certain indebtedness of the Family Housing Fund to Minnesota Housing**.
Kevin Carpenter and Tal Anderson led the discussion requesting the Board's approval to forgive certain indebtedness of the Family Housing Fund to Minnesota Housing. Tal Anderson provided the Board with historical context of the programmatic impact of the monies and the organizational history with Minnesota Housing, Family Housing Fund and Greater Metropolitan Housing Corporation (GMHC). Mr. Carpenter noted that Ellen Sahli, President, Family Housing Fund is in attendance.

Mr. Anderson referred board members to the board report included in their packet. In addition, he provided additional context of the two organizations and the history of the funding of the

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organizations. Mr. Carpenter provided the board with the objectives of what staff wants to accomplish with this request. Currently Family Housing Fund has a loan balance due to Minnesota Housing of approximately $3.4M. That loan matured on May 23, 2017. GMHC has a loan balance due to Family Housing Fund for approximately the same amount and is up for repayment. Minnesota Housing also has a $2M direct loan to GMHC for multifamily predevelopment and the loan matured on September 30, 2016. Family Housing Fund has other loans to GMHC.

Today staff is requesting authorization to forgive Minnesota Housing's approximate $3.4M loan to the Family Housing Fund, subject to the seven conditions listed in the board resolution.

Chair DeCramer opened up the discussion. Ms. Klinzing referred to the board resolution and the third paragraph. She made a request of the staff to provide more detail to the "variety of circumstances" wording. Staff agreed to revise the language. Commissioner Tingerthal clarified that what the board is looking for is language in the resolution that outlines the extraordinary nature of the circumstances that would have us consider the forgiveness. Auditor Otto remarked that what staff is asking of the board is permission to work through something and make it the best it can be. Mr. Carpenter indicated that yes, that is exactly what is being asked. Chair DeCramer asked if a request to forgive the loan will come back before the board when the seven criteria are met or if the board is now authorizing the forgiveness of the loan based on the completion of the seven criteria as stated in the resolution. Mr. Carpenter indicated that the board is authorizing the forgiveness of the loan. Ms. Thao asked if there is a timeline, or whether there should be a timeline for meeting the conditions set in the resolution. Mr. Carpenter indicated that it is GMHC's responsibility to drive the timeline and he expects a quick turnaround. **Motion:** Auditor Otto moved Approval, Forgiveness of certain indebtedness of the Family Housing Fund to Minnesota Housing. Seconded by Joe Johnson. Motion carries 5-0. Mr. Klausing abstained.

**8. Discussion Items**

**A. Summary of 2017 Legislative Session**

Katie Topinka and Ryan Baumtrog led the 2017 Legislative Update discussion. Ryan thanked Katie for her work this session and acknowledged the staff that helped with their requests for materials and information for the session.

Minnesota Housing has a bill that received bipartisan support, and is one of three bills that have passed the senate and the house. The bill has not been submitted to the Governor for his signature. The Legislature is currently in special session.

Katie Topinka reviewed the details of the Minnesota Housing Budget Bill. She referred the board to the chart located on the back of the handout that was distributed at the meeting. The

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chart shows our programs that are funded by state appropriations. We have two new programs this year, Greater Minnesota Workforce Housing Program and Homework Starts with Home. The Greater Minnesota Workforce Housing Program was formerly with the Department of Employment and Economic Development, but was moved to Minnesota Housing this session with $2M per year base funding.

Homework Starts with Home is a continuation of rental assistance for highly mobile students. We received $2M in funding which we will use to provide rental assistance to families who are homeless or move frequently. Katie also reviewed the Bonding Bill and indicated that staff will provide an update to the board at the June 2017 board meeting. Katie acknowledged her intern Sean Mock who was helpful this session.

Chair DeCramer opened up the discussion. Commissioner Tingerthal thanked Ryan and Katie for their work this session.

**B**. **Discussion, Early Award Process, Housing Initiative Infrastructure Bond Proceeds**
Commissioner Tingerthal led the discussion of the Early Award Process, Housing Infrastructure Bond Proceeds. Commissioner Tingerthal referred the board to the board report that was distributed at today's meeting. The report provides an overview of the funds, the eligibility for an early award and the process by which funds will be awarded.

Chair DeCramer opened up the discussion. Chair DeCramer inquired whether the June 1, 2017 is only for the intent to apply and that full applications are due by June 15, 2017. Commissioner Tingerthal indicated that the timeline is correct, intent to apply by June 1, full applications due by June 15, 2017.

**9. Information Items**

**A.** 2017 Affordable Housing Plan and 2016-19 Strategic Plan: Second Quarter Progress Report Informational Item. No Action

**10. Other Business**

None.

**11. Adjournment**

The meeting was adjourned at 2:43 p.m.

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**Board Agenda Item:** 6.A
**Date: 6/22/2017**

**Item:** Selection, Committment, Operating Subsidy Renewal Grants

**Staff Contact(s):**
Vicki Farden, 651.296.8125, vicki.farden@state.mn.us
Joel Salzer, 651.296.9828, joel.salzer@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Adoption of the attached Resolution authorizing $3,085,152 from the state appropriated Housing Trust Fund (HTF) for Operating Subsidy renewal grants. This action, along with funding from the Department of Human Services Mental Health Division (DHS-MHD), will renew grants for 1,501 supportive housing units at 44 existing developments, providing up to two years of funding.

**Fiscal Impact:**
The funding recommended has been budgeted under the current 2017 Affordable Housing Plan (AHP) and has not been identified for any other purpose.

**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
- Attachment A – 2017 Operating Subsidy Renewal Grants

The Operating Subsidy (OS) Program provides funds for revenue shortfalls and unique costs associated with operating low-income supportive housing developments. Minnesota Housing and the Department of Human Services – Mental Health Division (DHS-MHD) have partnered for 10 years to provide funding to support this activity. Minnesota Housing's Affordable Housing Plan set aside funds from the Housing Trust Fund (HTF) for this purpose. The DHS Housing with Services for Adults with Serious Mental Illness (HSASMI) funds come to Minnesota Housing through an Interagency Agreement and are administered under HTF Program rules and in accordance with the OS Program Guide. The DHS- MHD provides up to $1,000,000 in operating subsidy annually to support existing agency-financed supportive housing developments agreeing to provide housing units with support for adults with a Serious Mental Illness (SMI).

The OS funding is only available to current grantees demonstrating the need for the subsidy and who have investigated and implemented, where available, all other possible funding sources and cost saving measures. These developments leverage many other funding sources for operations and unique costs such as Group Residential Housing (GRH), HUD Continuum of Care, Section 8 Rental Assistance, Medicaid, philanthropy and other state program grants. The OS funding is critical to preserve these affordable supportive housing units for very low-income households with long histories of homelessness. The average cost per unit per year paid by OS funding is $1,738.

Minnesota Housing notified 44 grantees with OS grants expiring by December 31, 2017, of the opportunity to apply for renewal OS funding. Applications were due on April 11, 2017. Forty four (44) renewal applications were received. Minnesota Housing staff reviewed property financial information, budgets, narrative applications and spoke with owners and managers to ensure the assistance is necessary. After careful review, staff recommends reductions to several grants based on demonstrated need or other available resources that have not been fully utilized, such as operating reserves or the Group Residential Housing (GRH) Service Rate. The recommendations result in a reduction of $273,242 for the OS renewal funding. Staff recommends funding the 44 properties as outlined in Attachment A, using Minnesota Housing funding for 27 properties and DHS funding for 17 properties.

It is expected that this will be the last biennium that DHS funding for OS will be coordinated and managed by Minnesota Housing. DHS wants to put all of their HSASMI grantees into their biennial competitive RFP cycle. In 2019, it is expected that the 17 DHS funded OS grantees will apply for funding directly with DHS.

Minnesota Housing and DHS funding resources that are used for the purpose of providing OS to the recommended developments for two years are reflected below:

| Funding Type | Proposals | Award Amount | Percent |
|---|---|---|---|
| HTF Operating Subsidy Grants | 27 | $ 3,085,152 | 59% |
| DHS Operating Subsidy Grants | 17 | $ 2,132,329 | 41% |
| **TOTAL** | 44 | $ 5,217,481 | |

The distribution of units and households assisted are as follows:

- 62% of the units are in the seven county metropolitan area (22 properties)
- 38% of the units are in the greater Minnesota area (22 properties)
- 46% of the units are for households with long histories of homelessness
- 20% of the units are for families, 70% are for single adults and 10% are for youth

**ATTACHMENT A: Operating Subsidy Renewal Grants**

| Region | D# | MOS # | Property Name | Applicant | City | County | HH Type | Total Supp Hsg Units | LTH Units | SMI Units | Rdcmd 2 YR Award | Funding Source | Subsidy Purpose |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CENTRAL | D3866 | 17575 | Belle Haven Townhomes | Belle Haven LP | Princeton | Mille Lacs | Families | 17 | 4 | | $ 40,000 | HTF | Revenue Shortfall |
| CENTRAL | D4056 | 17607 | HOPE on Ninth | St. Cloud Hope on Ninth | St. Cloud | Stearns | Families | 31 | 10 | | $ 45,000 | HTF | Tenant Service Coordinator |
| CENTRAL | D5200 | 17582 | River Crest Apartments | Center City Housing | St. Cloud | Sherburne | Singles | 40 | 30 | | $ 142,266 | HTF | Front Desk |
| METRO | D3173 | 17570 | 2011 Pillsbury Residence | Alliance Housing Inc. | Minneapolis | Hennepin | Singles | 27 | 14 | | $ 24,000 | HTF | Tenant Service Coordinator |
| METRO | D6350 | 17577 | 3631 Penn Avenue Apartments | Alliance Housing Inc. | Minneapolis | Hennepin | Families | 6 | 2 | | $ 52,200 | HTF | Revenue Shortfall and Tenant Service Coordinator |
| METRO | D3192 | 17600 | American House Apartments | 352 Wacouta LLC | Saint Paul | Ramsey | Singles | 70 | 10 | 35 | $ 165,000 | HTF | Revenue Shortfall and Tenant Service Coordinator |
| METRO | D3912 | 17601 | Anpa Waste Numpa | Anpa Waste LLC | Minneapolis | Hennepin | Youth-families | 10 | 10 | | $ 110,062 | HTF | Revenue Shortfall |
| METRO | D5957 | 17574 | Higher Ground -Mpls | CHDC Boxleitner LLC | Minneapolis | Hennepin | Singles | 85 | 85 | | $ 260,000 | HTF | Front Desk |
| METRO | D2475 | 17599 | Kimball Court | 545 Snelling LLC | Saint Paul | Ramsey | Singles | 76 | 10 | 25 | $ 124,318 | HTF | Tenant Service Coordinator |
| METRO | D5886 | 17593 | Lincoln Place | Dakota County CDA | Eagan | Dakota | Youth-singles | 24 | 5 | 7 | $ 300,000 | HTF | Revenue Shortfall and Front Desk |
| METRO | D1504 | 17595 | Louisiana Court Apts | Vail Place | St. Louis Park | Hennepin | Singles | 18 | 18 | 18 | $ 120,000 | HTF | Tenant Service Coordinator |
| METRO | D5216 | 17586 | LSS Park Avenue Apts | Hennepin County/LSS | Minneapolis | Hennepin | Families | 10 | 5 | | $ 74,000 | HTF | Revenue Shortfall |
| METRO | D5909 | 17608 | Nicollet Square | PCNF Nicollet Housing | Minneapolis | Hennepin | Youth-singles | 42 | 22 | | $ 364,076 | HTF | Tenant Service Coordinator |
| METRO | D5225 | 17611 | Sankofa Apartments | Model Cities | Saint Paul | Ramsey | Youth-families | 15 | 11 | 4 | $ 110,000 | HTF | Revenue Shortfall |
| METRO | D4076 | 17585 | The Salvation Army Booth Brown House | The Salvation Army | St. Paul | Ramsey | Youth-singles | 25 | 8 | | $ 182,000 | HTF | Front Desk |
| NE | D0430 | 17576 | 2001 W 3rd St. LLC | Center City Housing | Duluth | St. Louis | Youth-singles | 12 | 0 | | $ 25,078 | HTF | Revenue Shortfall |
| NE | D3845 | 17612 | Alicias Place | Center City Housing | Duluth | St. Louis | Singles | 10 | 5 | | $ 33,160 | HTF | Revenue Shortfall |
| NE | D5954 | 17603 | Fond du Lac Supportive Housing | Fond du Lac Band | Cloquet | Carlton | Families | 24 | 24 | | $ 76,000 | HTF | Revenue Shortfall |
| NE | D6730 | 17604 | Fond du Lac Veterans Supportive Housing | Fond du Lac Band | Cloquet | Carlton | Singles | 10 | 10 | | $ 57,000 | HTF | Revenue Shortfall |
| NE | D6723 | 17580 | Hillside Apartments (O'Neil) | Hillside Apartments | Duluth | St. Louis | Families | 44 | 22 | | $ 174,000 | HTF | Revenue Shortfall and Front Desk |
| NE | D0447 | 17581 | Apartments | Center City Housing | Duluth | St. Louis | Singles | 39 | 8 | | $ 130,000 | HTF | Coordinator |
| NE | D6357 | 17597 | New Moon | Bois Forte Band | Tower | Saint Louis | Families | 19 | 19 | 7 | $ 153,836 | HTF | Revenue Shortfall and Tenant Service Coordinator |
| NE | D5197 | 17572 | North Shore Horizons | North Shore Horizons | Two Harbors | Lake | Families | 6 | 3 | | $ 9,000 | HTF | Front Desk |
| NW | D7535 | 17606 | Giwanakimin | Naytahwaush LLC | Naytahwaush | Mahnomen | Families | 20 | 6 | 8 | $ 70,156 | HTF | Revenue Shortfall and Tenant Service Coordinator |
| SE | D6347 | 17583 | Silver Creek Corner | Center City Housing | Rochester | Olmsted | Singles | 40 | 30 | | $ 113,000 | HTF | Front Desk |
| SW | D3871 | 17588 | Country View | Kandiyohi County HRA | Willmar | Kandiyohi | Families | 6 | 6 | 0 | $ 65,000 | HTF | Revenue Shortfall |
| WC | D3890 | 17602 | DreamCatcher Homes | White Earth | Ogema | Becker | Families | 20 | 4 | 4 | $ 66,000 | HTF | Revenue Shortfall |
| | | | | | | | **TOTAL** | 746 | 381 | 108 | **$ 3,085,152** | **HTF** | |

**ATTACHMENT A: Operating Subsidy Renewal Grants**

| Region | D# | MOS # | Property Name | Applicant | City | County | HH Type | Total Supp Hsg Units | LTH Units | SMI Units | Rdcmd 2 YR Award | Funding Source | Subsidy Purpose |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| METRO | D3065 | 17578 | Dale Street Place | CHDC Redeemers LLC | Saint Paul | Ramsey | Singles | 150 | 75 | 50 | $ 170,000 | DHS | Tenant Service Coodinator |
| METRO | D1591 | 17589 | Delancey Selby Stone Apts | PPL Selby Avenue LLC | St. Paul | Ramsey | Singles | 13 | 13 | 13 | $ 230,000 | DHS | Front Desk |
| METRO | D6256 | 17605 | Fort Road Flats | PPL West 7th Housing | St. Paul | Ramsey | Families | 16 | 10 | 14 | $ 40,000 | DHS | Tenant Service Coordinator |
| METRO | D2355 | 17590 | HOPE Harbor | The Salvation Army | Minneapolis | Hennepin | Singles | 46 | 40 | 35 | $ 114,686 | DHS | Front Desk |
| METRO | D2939 | 17591 | Jackson Street Village | Saint Paul Family | St. Paul | Ramsey | Families | 24 | 4 | | $ 50,000 | DHS | Tenant Service Coordinator |
| METRO | D5229 | 17592 | Lexington Commons | CommonBond | St. Paul | Ramsey | Singles | 48 | 7 | 30 | $ 250,000 | DHS | Front Desk and Tenant Service Coordinator |
| METRO | D3124 | 17594 | Lindquist Apartments | Lindquist Apartments | Minneapolis | Hennepin | Youth-singles | 26 | 4 | 4 | $ 150,000 | DHS | Front Desk |
| METRO | D0959 | 17609 | Opportunity Housing | Aeon | Minneapolis | Hennepin | Singles | 116 | 73 | | $ 210,000 | DHS | Revenue Shortfall and Front Desk |
| METRO | D5896 | 17610 | PPL Re-Start / North Side Community LP | North Side Community | Minneapolis | Hennepin | Singles | 14 | 3 | 5 | $ 63,600 | DHS | Front Desk and Tenant Service Coordinator |
| METRO | D3151 | 17573 | St. Christopher Place | Catholic Charities of St. Paul and Minneapolis | St. Paul | Ramsey | Singles | 71 | 15 | 20 | $ 200,000 | DHS | Front Desk and Tenant Service Coordinator |
| NE | D3797 | 17598 | Perpich Apartments | Range Mental Health | Hibbing | St. Louis | Singles | 27 | 4 | 27 | $ 143,000 | DHS | Tenant Service Coordinator |
| SE | D4045 | 17587 | Castleview Apartments | The Salvation Army | Rochester | Olmsted | Singles | 32 | 8 | 8 | $ 92,660 | DHS | Front Desk |
| SE | D1194 | 17568 | Jordan Tower II | Red Wing HRA | Red Wing | Goodhue | Families | 104 | 0 | 104 | $ 48,336 | DHS | Tenant Service Coordinator |
| SE | D3844 | 17596 | Maxfield Place | The Salvation Army | Mankato | Blue Earth | Singles | 10 | 10 | 5 | $ 41,158 | DHS | Front Desk |
| SE | D4075 | 17584 | The Francis | Center City Housing | Rochester | Olmsted | Singles | 18 | 9 | 12 | $ 60,000 | DHS | Front Desk |
| SE | D6374 | 17571 | Youngdahl Living | Yougdahl Development | Owatonna | Steele | Singles | 16 | 4 | 16 | $ 191,889 | DHS | Front Desk |
| WC | D6252 | 17579 | Gateway Gardens | HRA of Clay County | Moorhead | Clay | Singles | 24 | 24 | 24 | $ 77,000 | DHS | Front Desk |
| | | | | | | | **TOTAL** | 755 | 303 | 367 | **$ 2,132,329** | **DHS** | |
| | | | | | | | | 1501 | 684 | 475 | **$ 5,217,481** | **TOTAL HTF ANF DHS** | |

| Funding Distribution | | Properties | units | cost/unit/yr |
|---|---|---|---|---|
| Metro | $3,363,942 | 22 | 932 | $1,805 |
| Greater MN | $1,853,539 | 22 | 569 | $1,629 |

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

**RESOLUTION NO. MHFA 17-XXX**

**RESOLUTION APPROVING SELECTION/COMMITMENT HOUSING TRUST FUND OPERATING SUBSIDY RENEWAL GRANTS**

WHEREAS, the Minnesota Housing Finance Agency (Minnesota Housing) has received applications to provide operating subsidies for properties serving families and individuals who are low-income, homeless or long-term homeless.

WHEREAS, Minnesota Housing staff has reviewed the applications and determined that they are in compliance with 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 Minnesota Housing staff to enter into grant agreements using state resources as set forth below, subject to changes allowable under the Multifamily funding modification policy, upon the following conditions:

1. Minnesota Housing staff shall review and approve the recommended grantees for up to the total recommended amount for up to two (2) years;

| D# | Property Name | City | Recommended Two Year Award |
|---|---|---|---|
| D5954 | Fond du Lac Supportive Housing | Cloquet | $76,000 |
| D6730 | Fond du Lac Veterans Supportive Housing | Cloquet | $57,000 |
| D0430 | 2001 W 3rd St. LLC | Duluth | $25,078 |
| D3845 | Alicia's Place | Duluth | $33,160 |
| D6723 | Hillside Apartments (O'Neil) | Duluth | $174,000 |
| D0447 | Memorial Park Apartments | Duluth | $130,000 |
| D5886 | Lincoln Place | Eagan | $300,000 |
| D3173 | 2011 Pillsbury Residence | Minneapolis | $24,000 |
| D5906 | 3631 Penn Avenue Apartments | Minneapolis | $52,200 |
| D3912 | Anpa Waste Numpa | Minneapolis | $110,062 |
| D5957 | Higher Ground -Mpls | Minneapolis | $260,000 |
| D5216 | LSS Park Avenue Apts | Minneapolis | $74,000 |

| | | | |
|---|---|---|---|
| D5909 | Nicollet Square | Minneapolis | $364,076 |
| D7535 | Giwanakimin | Naytahwaush | $70,156 |
| D3890 | Dream Catcher Homes | Ogema | $66,000 |
| D3866 | Belle Haven Townhomes | Princeton | $40,000 |
| D6347 | Silver Creek Corner | Rochester | $113,000 |
| D3192 | American House Apartments | Saint Paul | $165,000 |
| D2475 | Kimball Court | Saint Paul | $124,318 |
| D5225 | Sankofa Apartments | Saint Paul | $110,000 |
| D5200 | River Crest Apartments | St. Cloud | $142,266 |
| D4056 | HOPE on Ninth | St. Cloud | $45,000 |
| D1504 | Louisiana Court Apts | St. Louis Park | $120,000 |
| D4076 | The Salvation Army Booth Brown House | St. Paul | $182,000 |
| D6357 | New Moon | Tower | $153,836 |
| D5197 | North Shore Horizons | Two Harbors | $9,000 |
| D3871 | Country View | Willmar | $65,000 |
| | | | **$3,085,152** |

2. The issuance of grant agreements in form and substance acceptable to Minnesota Housing staff and the closing of the individual grants shall occur no later than 12 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 Minnesota Housing, in its sole discretion, deems necessary.

Adopted this 22nd day of June 2017

_____

CHAIR

**Item:** Commitment, Low and Moderate Income Rental (LMIR, LMIR Bridge Loan (BL) and Flexible Financing for Capital Costs (FFCC) Programs -Dublin Crossing, Mankato, D7947

**Staff Contact(s):**
Paul Marzynski, 651.296.3797, paul.marzynski@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Minnesota Housing staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a Resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of $2,235,000, a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment not to exceed $5,750,000, and a deferred funding commitment in the amount of $169,762 under the Flexible Financing for Capital Costs (FFCC) program, subject to the review and approval of the mortgagor, and the terms and conditions of Minnesota Housing's term letter.

**Fiscal Impact:**
In the 2017 Affordable Housing Plan (AHP), the Minnesota Housing board allocated $60 million in new activity for the LMIR program, which includes $25 million from the Housing Investment Fund (Pool 2) and $35 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated $4.5 million in new activity under the FFCC program, funded through the Housing Affordability Fund (Pool 3). Funding for this loan falls within the approved budget, and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, this loan should generate approximately $44,700 in fee income (origination fee) as well as interest earnings, which will help offset Minnesota Housing operating costs.

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

**Attachments:**
- Background
- Development Summary
- Resolution

At its October 19, 2016 meeting, the Minnesota Housing board approved Dublin Crossing for processing under the Low and Moderate Income Rental (LMIR) program, the Low and Moderate Income Rental Bridge Loan (LMIRBL) program and the Flexible Financing for Capital Costs (FFCC) programs. In addition, a commitment of funding under the Economic Development and Housing Challenge Program (EDHC) was authorized during the same board meeting.

The following summarizes the changes in the composition of the proposal since that time:

| DESCRIPTION | SELECTION | COMMITMENT | VARIANCE |
|---|---|---|---|
| **Total Development Cost** | **$12,023,893** | **$11,739,244** | **(284,649)** |
| Gross Construction Cost | 8,722,588 | 8,487,330 | (235,258) |
| **Short-term Agency Sources:** | | | |
| LMIRBL | $5,561,000 | $5,750,000 | $189,000 |
| | | | |
| **Permanent Agency Sources:** | | | |
| LMIR | 2,329,000 | 2,235,000 | (94,000) |
| FFCC | 544,000 | 169,762 | (374,238) |
| EDHC | 5,641,781 | 5,641,781 | 0 |
| **Total Permanent Agency Sources** | **$8,514,781** | **$8,046,543** | **(468,238)** |
| **Non-agency Sources:** | | | |
| Syndication Proceeds | 2,477,704 | 2,698,179 | 220,475 |
| Greater MN Housing Fund | 300,000 | 300,000 | 0 |
| Blue Earth County Def Loan | 50,000 | 50,000 | 0 |
| Mankato CDGB | 100,000 | 100,000 | 0 |
| Corp. Donations, and Rebates | 286,650 | 249,764 | (36,886) |
| Deferred Developer Fee | 294,758 | 294,758 | 0 |
| **Total Non-agency Sources** | **$3,559,112** | **$3,742,701** | **183,589** |
| **Total Permanent Sources** | **$12,023,893** | **$11,739,244** | **(284,649)** |

| NET RENTS | SELECTION | | COMMITMENT | | VARIANCE | |
|---|---|---|---|---|---|---|
| **Unit Type** | **# of DU** | **Net Rent** | **# of DU** | **Net Rent** | **# of DU** | **Net Rent** |
| 2BR LTH (PBV) | 5 | $729 | 5 | $767 | 0 | $38 |
| 3BR LTH (PBV) | 2 | $1,020 | 2 | $1,075 | 0 | $55 |
| 3BR (PBV) | 3 | $1,020 | 3 | $1,075 | 0 | $55 |
| 1BR | 1 | $750 | 7 | $675 | 6 | -$75 |
| 1BR (Sec 811 RA) | 5 | $594 | 5 | $594 | 0 | $0 |
| 2BR | 16 | $800 | 20 | $830 | 4 | $30 |
| 3BR | 8 | $925 | 8 | $950 | 0 | $25 |
| 1BR (market rate) | 6 | $825 | 0 | | (6) | NA |
| 2BR (market rate) | 4 | $1,100 | 0 | | (4) | NA |
| **Total Units** | **50** | | **50** | | **0** | |
| LTH Units | 7 | | 7 | | 0 | |
| Section 811 Units | 0 | | 5 | | 5 | |

**Factors Contributing to Variances:**

1. **Construction costs**
   Construction costs decreased by approximately $300,000 based on the final construction bids.

2. **Syndication Proceeds**
   Tax credit syndication proceeds increased as a result of converting the project from an 80% tax credit development to a 100% tax credit development. The conversion was made as a result of the uncertainty of the pending federal tax reform, which created an unstable market for housing tax credits with lower credit pricing and thus created a funding gap for the project. Increasing the percentage of tax credit units to 100% provided 25% more in annual tax credits, which resulted in additional syndicated tax credit equity proceeds, offsetting the lower credit pricing and eliminating the funding gap.

3. **Agency Loans**
   The lower construction costs and increased tax credited equity resulted in a reduction in Minnesota Housing's total permanent funding. The bridge loan increased to meet the tax credit allocation requirements.

**Other significant events since board selection:**
None.

**Development Summary**:

| | | | | | |
|---|---|---|---|---|---|
| | | | | D7947 | |
| Name: | Dublin Crossing | | | App#: | M17442 |
| Address: | 920 Patriot Drive | | | | |
| City: | Mankato | County: | Blue Earth | Region: | Southeast |

**Mortgagor:**

Ownership Entity: CB Mankato Housing, Limited Partnership

General Partner/Principals: CB Mankato Housing LLC, whose managing member is CommonBond Communities

**Development Team:**

| | |
|---|---|
| General Contractor: | Weis Builders, Rochester |
| Architect: | Kaas Wilson, Bloomington |
| Attorney: | Winthrop & Weinstine, Minneapolis |
| Management Company: | CommonBond Housing, St. Paul |
| Service Provider: | CommonBond Advantage Services, St. Paul |

**Current Funding Request/Program and Terms:**

**$2,235,000** **LMIR First Mortgage (LMIR)**

| | |
|---|---|
| Funding Source: | Housing Invest Fund (Pool 2) |
| Interest Rate: | 4.625% |
| MIP Rate: | 0.125% |
| Term (Years): | 30 |
| Amortization (Years): | 30 |

**$5,750,000** **LMIR Bridge Loan (LMIRBL)**
(up to)

| | |
|---|---|
| Funding Source: | Tax Exempt Future Bond Sale |
| Interest Rate: | 2.50% (estimated) |
| Term (Months): | 24 |

**$169,762** **Flexible Financing for Capital Costs (FFCC)**

| | |
|---|---|
| Funding Source: | Housing Affordability Fund (Pool 3) |
| Interest Rate: | 0.00% |
| Term (Years): | 30 |

**Funds Previously Committed**

**$5,641,781** **Economic Development and Housing Challenge Program (EDHC) loan**

**RENT GRID:**

| UNIT TYPE | NUMBER | UNIT SIZE (SQ. FT.) | GROSS RENT | AGENCY LIMIT | INCOME AFFORDABILITY* |
|---|---|---|---|---|---|
| 2BR LTH (PBV) | 5 | 1,029 | $ 801 | $ 1,053 | $ 32,040 |
| 3BR LTH (PBV) | 2 | 1,371 | $ 1,106 | $ 1,217 | $ 44,240 |
| 3BR (PBV) | 3 | 1,371 | $ 1,106 | $ 1,217 | $ 44,240 |
| 1BR | 7 | 797 | $ 848 | $ 877 | $ 33,920 |
| 1BR (Sec 811 RA) | 5 | 797 | $ 692 | $ 877 | $ 27,680 |
| 2BR | 20 | 1,029 | $ 886 | $ 1,053 | $ 35,440 |
| 3BR | 8 | 1,371 | $ 1,073 | $ 1,217 | $ 42,920 |

**Purpose:**
Dublin Crossing Apartments is a new construction development located in the city of Mankato near transit, jobs and services. The project will contain 50 Housing Tax Credit (HTC) units and will include seven units reserved for family households who have experienced long-term homelessness (LTH). The development meets the strategic priorities of Supportive Housing/Homelessness, it addresses Specific Critical Local Housing Needs, and provides Greater Minnesota Workforce Housing.

**Population to be Served:**
The development will provide housing for families, singles, Long-Term Homeless (LTH) families, and individuals with serious mental illness. Fifty units will serve households at incomes up to 60% Multifamily Tax Subsidy Projects (MTSP); seven units will serve households who have experienced long-term homelessness; 10 units will receive Project-Based Section 8 rental assistance; and five units will receive Section 811 rental assistance.

**Project Feasibility:**
The project is feasible as proposed. Permanent funding sources include a $2,235,000 amortizing LMIR mortgage; a $169,762 FFCC loan, and a $5,641,781 Economic Development and Housing Challenge (EDHC) loan. Short-term funding sources include a $5,750,000 LMIRBL loan funded by a Minnesota Housing issuance of short-term, tax-exempt bonds to qualify the development for an annual 4% tax credit allocation of approximately $331,098. This financing will be leveraged with approximately $2,698,179 of tax credit equity.

**Development Team Capacity:**
Developer, CommonBond Communities, has a long history of bringing development proposals to completion in a timely manner. The developer has utilized Minnesota Housing first mortgages, deferred loans, and tax credits with proven success. Minnesota Housing has had positive experience with the property management, CommonBond Housing.

**Physical and Technical Review:**
Kaas Wilson is the project architect and Weis Builders is the general contractor. Both the contractor and architect have the capacity to effectively design and construct the project due to their successfully completing many similar sized affordable housing developments in Minnesota.

**Market Feasibility:**
Mankato is located in South Central Minnesota in Blue Earth County and is a top growth community for workforce housing. This development is positioned in an economically integrated location close to low- to moderate-wage jobs. The property is ideally located near residential, retail shopping, schools, parks and bus lines. The property intends to serve low- to moderate-income working singles and families, as well as seven long term homeless households. There remains a strong demand for rental housing in Mankato with occupancies at 98 percent for comparable affordable properties.

**Supportive Housing:**
CommonBond Advantage Services will be the service provider for the development and will provide tenant service coordination. CommonBond Advantage Services has extensive experience in supportive housing for the population to be served. The rents for tenants needing supportive services are made affordable with 15 Project-Based Section 8 and Section 811 rental assistance units. A portion of the supportive housing services will be funded through the development's operating budget, with the majority of services being funded by the CommonBond Communities general operating fund.

| **Development Cost Summary:** | | | | |
|---|---|---|---|---|
| | | **Total** | | **Per Unit** |
| **Total Development Cost** | | $ 11,739,244 | | $ 234,785 |
| **Acquisition or Refinance Cost** | | $ 722,000 | | $ 14,440 |
| **Gross Construction Cost** | | $ 8,487,330 | | $ 169,747 |
| **Soft Costs (excluding Reserves)** | | $ 2,360,054 | | $ 47,201 |
| **Reserves** | | $ 169,860 | | $ 3,397 |
| | | | | |
| **Total LMIR Mortgage** | | $ 2,235,000 | | $ 44,700 |
| First Mortgage Loan-to-Cost Ratio | | | 19% | |
| | | | | |
| **Agency Deferred Loan Sources:** | | | | |
| Flexible Financing Cap Costs (FFCC) | | $ 169,762 | | $ 3,395 |
| EDHC MF | | $ 5,641,781 | | $ 112,836 |
| | | | | |
| | | | | |
| **Total Agency Sources** | | $ 8,046,543 | | $ 160,931 |
| | | | | |
| Total Loan-to-Cost Ratio | | | 69% | |
| | | | | |
| **Other Non-Agency Sources** | | | | |
| Syndication Proceeds | | $ 2,698,179 | | $ 53,964 |
| Greater Minnesota Housing Fund GMHF | | $ 300,000 | | $ 6,000 |
| Blue Earth County Loan | | $ 50,000 | | $ 1,000 |
| Mankato CDGB | | $ 100,000 | | $ 2,000 |
| Corp. Donations, and Rebates | | $ 249,764 | | $ 4,995 |
| Deferred Developer Fee | | $ 294,758 | | $ 5,895 |
| | | | | |
| **Total Non-Agency Sources** | | $ 3,692,701 | | $ 73,854 |

Board Agenda Item: 6.B
Attachment: Resolution

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

**RESOLUTION NO. MHFA 17-XX**

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT**
**LOW AND MODERATE INCOME RENTAL (LMIR) PROGRAM**
**LOW AND MODERATE INCOME RENTAL BRIDGE LOAN (LMIRBL) PROGRAM**
**AND FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM**

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

| | |
|---|---|
| Name of Development: | Dublin Crossing |
| Sponsors: | CommonBond Communities |
| Guarantors: | CommonBond Communities |
| Location of Development: | Mankato |
| Number of Units: | 50 |
| General Contractor: | Weis Builders, Rochester |
| Architect: | Kaas Wilson, Bloomington |
| Amount of Development Cost: | $11,739,244 |
| Amount of LMIR Mortgage: | $2,235,000 |
| Amount of LMIR Bridge loan (BL) (not to exceed) | $5,750,000 |
| Amount of FFCC Loan: | $169,762 |

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

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

**NOW THEREFORE, BE IT RESOLVED**:

THAT, the board hereby authorizes Minnesota Housing staff to issue a commitment to provide construction and permanent mortgage loans to said applicant from the Housing Investment Fund (Pool 2 under the LMIR Program), the sale of new tax-exempt bonds (under the LMIRBL program) and the Housing Affordability Fund (Pool 3 under the FFCC Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed $2,235,000; and

2. The interest rate on the permanent LMIR amortizing loan shall be 4.625 percent per annum plus 0.125 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

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

4. The amount of the FFCC deferred loan shall be $169,762; and

5. Repayment of the FFCC loan shall be deferred, with an interest rate of 0.0 percent, and the loan term shall be co-terminus with the LMIR loan; and

6. The combined LMIR and FFCC End Loan Commitment shall be entered into on or before December 31, 2017 and shall have an 18 month term (which shall also be the LMIR and FFCC commitment expiration date); and

7. The amount of the LMIR Bridge Loan shall not exceed $5,750,000; and

8. The LMIR Bridge Loan transaction will be financed with the proceeds of Minnesota Housing tax-exempt bonds, and the commitment is subject to the ability of the agency to sell bonds on terms and conditions, and in a time and manner acceptable to Minnesota Housing; and

9. The interest rate on the LMIR Bridge Loan will be based on the interest rate on the series of bonds issued to finance the LMIR Bridge Loan plus, up to the maximum allowable spread, which is estimated to be 2.50 percent per annum, payable monthly with the principal due in a balloon payment no more than 24 months after closing; and

10. The LMIR Bridge Loan shall be closed by December 31, 2017; and

11. The mortgagor shall agree with the terms set forth in Minnesota Housing's term letter; and

12. The mortgagor shall execute documents embodying the above in form and substance acceptable to Minnesota Housing staff; and

13. CommonBond Communities shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

14. CommonBond Communities shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with Minnesota Housing; and

15. The sponsor, the builder, the architect, the mortgagor, and such other parties as Minnesota Housing staff in its sole discretion deems necessary shall execute all documents relating to the loans, the loans' security, the construction of the development, and the operation of the development.

Adopted this 22nd day of June 2017

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CHAIRMAN

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Minnesota Housing Finance Agency

**Board Agenda Item:** 7.A
**Date: 6/22/2017**

**Item:** Approval, Resolution Rental Housing Bonds for Dublin Crossing

**Staff Contact(s):**
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Paula Rindels, 651.296.2293, paula.rindels@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Staff is requesting authorization to issue short-term fixed rate tax-exempt bonds, in an amount not to exceed $6,000,000, to acquire and finance the construction of a 50-unit rental housing development located in Mankato, Minnesota.

**Fiscal Impact:**
The Agency will earn a spread while these bonds are outstanding, and will also receive interest earnings and certain fee income from other funding provided as part of the permanent financing of the project.

**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):**
- Preliminary Official Statement
- Resolution

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**PRELIMINARY OFFICIAL STATEMENT DATED JULY ___, 2017**

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The issuer has deemed this Preliminary Official Statement final, as of its date, except for information permitted to be omitted by Rule 15c2-12 of the Securities and Exchange

**NEW ISSUE**

**Ratings: Moody's: ""**
**S&P: ""**

***Minnesota Housing Finance Agency has prepared this Official Statement to provide information about the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read all of this Official Statement. Capitalized terms used on this cover page have the meanings given in this Official Statement.***

# $5,750,000*
# MINNESOTA HOUSING FINANCE AGENCY
# Rental Housing Bonds, 2017 Series A (Non-AMT)†

**Dated: Date of Delivery** **Due: as shown on inside front cover**

| | |
|---|---|
| *Tax Exemption* | Interest on the Series Bonds is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (For additional information, including further information on the application of federal and state alternative minimum tax provisions to the Series Bonds, see "Tax Exemption and Related Considerations" herein.) |
| *Redemption* | The Agency may redeem all or a portion of the Series Bonds by optional or special redemption as described under "The Series Bonds" herein. |
| *Security* | Payment of principal and interest on the Series Bonds is secured, on an equal basis with payment of principal and interest on all Outstanding Bonds that the Agency has issued, and may subsequently issue, under the Bond Resolution, by a pledge of Bond proceeds, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are also general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES BONDS AND THE SERIES BONDS ARE NOT A DEBT OF THE STATE. (See "Security for the Bonds.") |
| *Interest Payment Dates* | February 1 and August 1, commencing February 1, 2018.* |
| *Denominations* | $5,000 or any integral multiple thereof. |
| *Closing/Settlement* | On or about _____, 2017* through the facilities of DTC in New York, New York. |
| *Bond Counsel* | Kutak Rock LLP. |
| *Underwriter's Counsel* | Dorsey & Whitney LLP. |
| *Trustee* | Wells Fargo Bank, National Association, in Minneapolis, Minnesota. |
| *Book-Entry-Only System* | The Depository Trust Company. (See Appendix F herein.) |

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

## RBC Capital Markets

The date of this Official Statement is _____, 2017.

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*Preliminary; subject to change.

†Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations.")

## MATURITY, PRINCIPAL AMOUNT, INTEREST RATE AND PRICE*

**$5,750,000* Series A Bonds**

| Maturity Date | Principal Amount | Interest Rate | Price | CUSIP** |
|---|---|---|---|---|
| **August 1, 2019*** | **$5,750,000*** | **____%** | **100%** | |

*Preliminary, subject to change.

**CUSIP number has been assigned by an organization not affiliated with the Agency and is included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of this CUSIP number, nor is any representation made as to its correctness on the Series Bonds or as indicated above. A CUSIP number for a specific maturity may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

Neither Minnesota Housing Finance Agency nor the Underwriter has authorized any dealer, broker, salesman or other person to give any information or representations, other than those contained in this Official

Statement. Prospective investors must not rely on any other information or representations as being an offer to buy. No person may offer or sell Series Bonds in any jurisdiction in which it is unlawful for that person to make that offer, solicitation or sale. The information and expressions of opinion in this Official Statement may change without notice. Neither the delivery of the Official Statement nor any sale of the Series Bonds will, under any circumstances, imply that there has been no change in the affairs of the Agency since the date of this Official Statement.

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

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. This stabilizing, if commenced, may be discontinued.

NO FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS RECOMMENDED THESE SECURITIES. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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# OFFICIAL STATEMENT

## relating to
## $5,750,000*
## MINNESOTA HOUSING FINANCE AGENCY
## Rental Housing Bonds, 2017 Series A (Non-AMT)

This Official Statement (which includes the Appendices) provides certain information concerning the issuance and sale by Minnesota Housing Finance Agency (the "Agency") of its Rental Housing Bonds, 2017 Series A (the "Series Bonds"). The Agency is issuing the Series Bonds pursuant to Minnesota Statutes, Chapter 462A, as amended (the "Act"), a resolution of the Agency adopted February 25, 1988 (as amended and supplemented in accordance with its terms, the "Bond Resolution"), and a series resolution of the Agency adopted _____, 2017 (the "Series Resolution"). (The Bond Resolution and the Series Resolution are herein sometimes referred to as the "Resolutions.")

The Rental Housing Bonds Outstanding in the aggregate principal amount of $37,340,000 as of May 31, 2017, the Series Bonds and any additional Rental Housing Bonds issued pursuant to the Bond Resolution (collectively referred to as the "Bonds"), are and will be equally and ratably secured under the Bond Resolution.

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

## INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota. The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of making mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income if the Agency determines that those loans are not otherwise available from private lenders with equivalent terms and conditions.

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to financing loans through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and its Alternative Loan Fund in the Residential Housing Finance Bond Fund. Please refer to the information in the notes to the financial statements included in Appendix B to this Official Statement at pages 57 and 58 under the heading "Net Position — Restricted by Covenant."

*Preliminary, subject to change.

The Agency uses proceeds of Bonds it issues pursuant to the Bond Resolution to finance a portion of the activities undertaken pursuant to the Rental Housing Program (the "Program"). The multifamily division of the Agency administers the Program. The purpose of the Program is to increase the supply of, and to maintain and improve, the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, the Agency intends that the Program will provide both short-term and long-term, fixed rate, first lien (or second lien if the Agency also holds the first lien) mortgage loans ("Mortgage Loans"), and, under certain circumstances, subordinate mortgage loans ("Subordinate Mortgage Loans"), to finance the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the "Developments"). The Bond Resolution authorizes, upon conditions set forth therein, the issuance of additional series of Bonds on a parity with the Outstanding Bonds, including the Series Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments that it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to the Developments. The procedures the Agency presently uses to reduce those risks are described more fully herein under the heading "The Rental Housing Program."

The Agency intends to use the proceeds of the Series Bonds to fund a short-term first lien mortgage loan, to a private owner, that will finance a portion of the costs of acquisition, construction and equipping of a multifamily housing development in Mankato, Minnesota. (See "The Development.") The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or bonds, and federal or State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The net position of the General Reserve and the Alternative Loan Fund are legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds. (For purposes of the Resolutions, the General Reserve is designated as the General Reserve Account.) (See "The Agency — Net Position Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund.")

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

Although the State has appropriated amounts to the Agency for various specific purposes (see "The Agency — State Appropriations"), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through State appropriations, the Agency recovers the costs of administering the programs only to the extent of interest earnings on the appropriations. The appropriations are not available to pay debt service on the Bonds.

**The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or will be obligated to pay the principal or redemption price of, or interest on, the Series Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to that payment.**

# THE AGENCY

## Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce that housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for that housing.

## Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed and qualified. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members* of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

*John DeCramer*, Chairman — Term expires January 2020, Marshall, Minnesota – Magnetics Engineer

The Honorable *Rebecca Otto — Ex officio*, St. Paul, Minnesota – State Auditor

*Joseph Johnson III*, Vice Chairman — Term expires January 2021, Duluth, Minnesota – Banker

*Craig Klausing*, Member – Term expires January 2019, Roseville, Minnesota – Attorney

*Stephanie Klinzing*, Member – Term expires January 2019, Elk River, Minnesota – Writer and Publisher

*Terri Thao*, Member — Term expires January 2020, St. Paul, Minnesota – Program Director

*One position is currently vacant.

## Staff

The staff of the Agency presently consists of approximately 240 persons, including professional staff members and contractors who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint the permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

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

*Mary Tingerthal* — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing Partnership Network where she coordinated the work of the Housing Partnership Fund, which provides acquisition and predevelopment financing; Housing Partnership Ventures, which serves as the Network's investment vehicle; the Charter School Financing Partnership, a new conduit for charter school loans; and the Network's housing counseling intermediary and neighborhood stabilization programs. In 2008, she was instrumental in establishing the National Community Stabilization Trust -- a nationwide company dedicated to helping local organizations put vacant and

foreclosed properties back into productive reuse. Prior to that, Ms. Tingerthal held senior management positions with the National Equity Fund, GMAC Residential Funding, the City of Saint Paul, and the Community Reinvestment Fund. She worked for the Agency beginning in the late 1970s when she spent 10 years working with the Agency's home improvement division. Ms. Tingerthal holds a Master's Degree in Business from Stanford Graduate School of Business, and a Bachelor of Arts Degree from the University of Minnesota. She serves as the vice chair of the Consumer Advisory Council to the Federal Reserve Board and serves on the Boards of the National Housing Trust, the National Community Investment Fund, and the National Council of State Housing Agencies.

*Barbara Sporlein* — Deputy Commissioner, appointed effective November 2011. Her primary responsibilities are talent management, agency-wide planning, inter-agency collaboration, operations, Indian Housing, and credit risk management. Prior to this position, Ms. Sporlein was the Director of Planning for the City of Minneapolis between 2004 and 2011. As Planning Director she was responsible for the City's long range planning, transportation planning, development consultation and review, heritage preservation, environmental review, public art program, and zoning administration and enforcement. Prior to that position, Ms. Sporlein served as the Deputy Director of the Saint Paul Public Housing Agency between 1994 and 2004, and as a City Planner for the City of Saint Paul from 1990 to 1994. Ms. Sporlein has a Bachelor of Science Degree in Geography from the University of Wisconsin-Madison, a Master of Planning Degree from the Humphrey School of Public Affairs at the University of Minnesota, and a Certificate in Advanced Studies in Public Administration from Hamline University. Ms. Sporlein serves on the Board of Directors for the Daniel Rose Center for Public Leadership, and is a member of the Citizens League, the Urban Land Institute, the Minnesota Chapter of National Association of Housing and Redevelopment Officials, and the American Planning Association. Ms. Sporlein is a Certified Public Housing Manager and Housing Finance Professional.

*Kevin Carpenter* — Chief Financial Officer, appointed effective March 2016. In this position, Mr. Carpenter leads the finance and accounting teams of the Agency and provides strategic direction regarding the organization's financial resources. Prior to this position, Mr. Carpenter was the Chief Financial Officer at the City of Minneapolis from May 2011 to November 2015, and also had significant tenure in various senior financial and operating positions at RBC Capital Markets, LLC. He previously was an investment banker at RBC Capital Markets, LLC and at Lehman Brothers. Mr. Carpenter earned a Master's Degree in Business Administration from Harvard University Business School and a Bachelor of Arts degree in Government from Dartmouth College.

*Terrance Schwartz* — Director of Finance appointed effective June 2015. Mr. Schwartz is also the Director of Operations since August 2011. Mr. Schwartz was Controller for the Agency from September 2007 to June 2015. Previous to that he held various accounting positions of increasing responsibility with the Agency. Mr. Schwartz served four years in the United States Marine Corps. He holds a Bachelor of Science Degree with a concentration in Accounting from the University of St. Thomas, St. Paul, Minnesota.

*Thomas O'Hern* — General Counsel, appointed effective November 2015. Prior to becoming General Counsel, Mr. O'Hern was employed by the Minnesota Attorney General's Office for 32 years as an Assistant Attorney General representing many state agencies and boards. Mr. O'Hern has represented the Agency since 2003. Mr. O'Hern earned his law degree from American University and holds a Bachelor of Arts degree from George Washington University in Washington D.C.

*Wes Butler* — Assistant Commissioner, Multifamily, appointed effective January 2015. Previously, Mr. Butler was Manager of Residential Finance for the City of Minneapolis Department of Community Planning and Economic Development from 2008 to 2014 where he managed a staff responsible for the redevelopment of over 6,000 units of housing, and managed an annual budget in excess of $14 million per year. Prior to serving in that position, Mr. Butler held positions as development finance analyst for the City of Minneapolis and as deputy director for the Washington County Housing and Redevelopment Authority. Mr. Butler holds a Master's degree in Business Administration from the University of St. Thomas and a Bachelor of Arts degree in Geography and Urban Planning from the University of Colorado.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101, and its general telephone number is (651) 296-7608. The Agency's Investor Relations Representative may be reached at the Agency's general telephone number. The Agency's website address is http://www.mnhousing.gov. No portion of the Agency's website is incorporated into this Official Statement.

**Independent Auditors**

The financial statements of the Agency as of and for the year ended June 30, 2016, included in this Official Statement as Appendix B, have been audited by RSM US LLP, independent auditors, as stated in their report appearing herein. RSM US LLP has not been engaged to perform, and has not performed, any procedures on the financial statements after June 30, 2016. RSM US LLP also has not performed any procedures relating to this Official Statement.

**Financial Statements of the Agency**

The Agency financial statements included in this Official Statement as Appendix B as of and for the fiscal year ended June 30, 2016 are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board ("GASB") .

Information regarding the Minnesota State Retirement System ("MSRS"), to which the Agency contributes, is included in Appendix B in the Notes to Financial Statements at pages 59 through 62 under the heading "Defined Benefit Pension Plan." The Agency's allocable portion of unfunded pension plan liability with respect to MSRS is $8.979 million.

In Appendix C to this Official Statement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the nine months ended March 31, 2017. The Agency has prepared the information in Appendix C and, in the opinion of the Agency, that information reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of the Agency (excluding State and Federal Appropriated Funds) for the period, subject to year-end adjustments. The information in Appendix C is not accompanied by a statement from the independent auditors.

**Disclosure Information**

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix D hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency must file the Agency Annual Report no later than 120 days after the close of each fiscal year, commencing with the fiscal year ended June 30, 2017, with the Municipal Securities Rulemaking Board, at its EMMA internet repository. The Agency also must file notices of the occurrence of the enumerated events, if any, with EMMA. (See "Appendix D — Summary of Continuing Disclosure Undertaking.")

The Agency timely filed the Agency Annual Report for its fiscal year ended June 30, 2015 with EMMA; however, until March 14, 2016, that Agency Annual Report was not specifically linked to the CUSIP for the Agency's Homeownership Finance Bonds, 2015 Series C (CUSIP 60416QGE8) and one CUSIP for the Agency's Residential Housing Finance Bonds, 2015 Series C (CUSIP 60416SKL3).

The specific nature of the information to be contained in the Agency Annual Report or the notices of events, and the manner in which these materials are to be filed, are summarized in "Appendix D — Summary of Continuing Disclosure Undertaking." The Agency has made these covenants to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5) (the "Rule").

In addition to the information required by the Continuing Disclosure Undertaking, the Agency also uses its best efforts to prepare a semiannual disclosure report for the Bond Resolution and a quarterly disclosure report for its single family bond resolutions. Recent reports are available at the Agency's website at http://www.mnhousing.gov (click on tab "Investors"), but no information on the Agency's website is incorporated into this Official Statement. The Agency is also committed to providing appropriate credit information as requested by any rating agency rating the Bonds at the Agency's request.

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

In addition to its bond funds pledged to the payment of particular bonds by bond resolutions of the Agency, the Agency has also established certain other funds that it has restricted by covenant. Currently, the restricted funds are the General Reserve and the Alternative Loan Fund. The General Reserve contains the Housing Endowment Fund (also referred to as "Pool 1") and the Agency's net investment in capital assets. The Alternative Loan Fund, which is held under the Residential Housing Finance Bond Resolution but is not pledged to pay bonds issued thereunder, comprises the Housing Investment Fund (also referred to as "Pool 2") and the Housing Affordability Fund (also referred to as "Pool 3"). The net position of the General Reserve and the Alternative Loan Fund is not pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available therein, are generally available to pay any debt obligations of the Agency, including the Bonds.

Subject to the restrictions in the Bond Resolution and its other bond resolutions, the Agency may withdraw excess assets from bond funds held thereunder. To the extent the Agency withdraws excess assets from bond funds, the Agency has pledged to deposit those excess assets in the General Reserve or the Alternative Loan Fund, except for any amounts as may be necessary to reimburse the State for money appropriated to restore a deficiency in any debt service reserve fund.

The Agency has further covenanted that it will use the money in the General Reserve and the Alternative Loan Fund only to administer and finance programs in accordance with the policy and purpose of the Act. This includes creating reserves for the payment of bonds and for loans made from the proceeds thereof, and accumulating and maintaining a balance of funds and investments as will be sufficient for that purpose. To ensure that assets available in the General Reserve and the Alternative Loan Fund provide security for the Agency's bondowners as covenanted in the bond resolutions, the Agency has established investment guidelines for Pools 1 and 2. The investment guidelines are subject to change by the Agency from time to time in its discretion.

Under the net position requirements and investment guidelines effective January 23, 2014, the required size of Pool 1 (which is intended to be a liquidity reserve) is 1 percent of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net position (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date; and realized gains and losses resulting from the purchase and sale of investment securities between Agency funds) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be at least equal to the combined net position of the same funds as of the immediately preceding fiscal year end. Currently, this amount is $721.57 million, representing the combined net position of these funds so calculated as of June 30, 2016. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operations of the Agency. Pool 3 represents the more mission-intensive operations of the Agency and is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities. Pool 3 is not subject to the investment guidelines. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. The Agency approves all interfund transfers. A further discussion of Pools 1, 2 and 3 and the amounts credited thereto as of June 30, 2016 appears in the Notes to Financial Statements of the Agency included in Appendix B to this Official Statement at pages 57 and 58 under the heading "Net Position — Restricted by Covenant."

The following summary indicates the revenues earned, the expenses paid, and funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), for the two most recent audited fiscal years of the Agency and for the nine-month period ended March 31, 2017 (unaudited) (in thousands):

| | Nine Months Ended March 31, 2017 (unaudited) | Fiscal Year Ended June 30, 2016 | Fiscal Year Ended June 30, 2015 |
|---|---|---|---|
| Revenues | | | |
| Fees earned and other income[1] | $ 8,782 | $11,252 | $10,616 |
| Interest earned on investments | 180 | 161 | 95 |
| Unrealized gain (loss) on investments | -- | -- | -- |
| Administrative reimbursement[2], [3] | 16,706 | 21,523 | 20,142 |
| Total revenues | 25,668 | 32,936 | 30,893 |
| Expenses | | | |
| Salaries and benefits | 18,480 | 21,258 | 20,457 |
| Other general operating expenses | 2,903 | 6,010 | 6,079 |
| Total expenses | 21,383 | 27,268 | 26,536 |
| Revenues over expenses | 4,285 | 5,668 | 4,317 |
| Non-operating transfer of assets between funds[4] | (5,371) | (6,682) | 15,574 |
| Change in net position | (1,086) | (1,014) | 19,891 |
| Net position beginning of period | 14,280 | 15,294 | (4,597)[5] |
| Net position end of period | $13,194 | $14,280 | $15,294 |

(1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.

(2) The Agency transfers bond funds to the General Reserve for administrative reimbursement in accordance with the Agency's Affordable Housing Plan based on the adjusted assets of the bond funds. Adjusted assets are defined generally as total assets (excluding the reserve for loan loss), unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.

(3) Reimbursement from appropriated accounts consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. The Agency recovers costs associated with administering state appropriations only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations generally are recovered from the appropriations.

(4) The Agency may transfer excess assets from bond funds to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, the Agency may transfer funds in excess of the requirement for Pool 1 from the General Reserve to the Alternative Loan Fund. See the comments under the headings "Interfund Transfers" and "Net Position Restricted by Covenant" in the Notes to Financial Statements of the Agency in Appendix B to this Official Statement for additional information.

(5) Pursuant to GASB 68 and 71 the Agency recorded a change in the beginning net position in the amount of $22.380 million as a one-time negative adjustment to record the Agency's proportionate share pension liability.

**State Appropriations**

Over the years, the State Legislature has appropriated funds to the Agency to be used for low interest loans, grants, programs for low and moderate income persons and families and other housing related program costs. The Agency generally does not pay its general or administrative expenses from appropriated funds, although it can recover its allocable costs of administering State appropriations from investment earnings thereon. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. The Agency has expended or committed most of the appropriations.

Over the biennial periods ended June 30, 2011, 2013 and 2015 and the current biennial period ending June 30, 2017, the total appropriations to the Agency aggregated approximately $366.5 million. This total amount of appropriations includes budget reductions of approximately $4.9 million in the biennial period ended June 30, 2011. Reductions in appropriations during that period did not adversely affect the Agency's ability to operate its programs. For the biennium ending June 30, 2019, the Legislature appropriated approximately $107.6 million to the Agency, including an increase of approximately 3.9 percent to the Agency's base budget for state appropriations in order to fund a program previously administered by another state agency.

The appropriations are not available to pay debt service on the Bonds.

**Agency Indebtedness**

The principal amount of bonds and notes of the Agency that are outstanding at any time (excluding the principal amount of any refunded bonds and notes) is limited to $5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of May 31, 2017:

| | Number of Series* | Final Maturity | Original Principal Amount* (in thousands) | Principal Amount Outstanding (in thousands) |
|---|---|---|---|---|
| Rental Housing Bonds | 8 | 2049 | $ 39,815 | $ 37,340 |
| Residential Housing Finance Bonds | 41 | 2048 | 1,735,820 | 1,071,120 |
| Homeownership Finance Bonds | 36 | 2047 | 1,560,000 | 1,119,514 |
| Multifamily Housing Bonds (Treasury HFA Initiative) | 1 | 2051 | 15,000 | 13,980 |
| Totals | 86 | | $3,350,635 | $2,241,954 |

*Does not include series of bonds or the original principal amount of any bonds that had been, as of May 31, 2017, defeased or paid in full, whether at maturity or earlier redemption.

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

The Agency has entered into liquidity facilities and interest rate swap agreements in respect of its outstanding Residential Housing Finance Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to those variable rate bonds and swap agreements is included in the Notes to Financial Statements contained in Appendix B to this Official Statement. The Agency does not make any representation as to the creditworthiness of any provider or counterparty on facilities and agreements relating to its variable rate bonds.

In 2009, the Agency issued $13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. In 2011, the Agency issued $21,750,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2011, to finance permanent supportive housing in five additional multifamily housing developments. Both series of bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

From time to time, beginning in 2012, the Legislature has authorized the Agency to issue housing infrastructure bonds (the "Housing Infrastructure Bonds") for various purposes payable, like the Nonprofit Housing Bonds, solely from a standing appropriation from the State General Fund and not from any other funds or assets of the Agency. The aggregate principal amount of Housing Infrastructure Bonds that the Agency may issue is $175,000,000. The Agency has issued ten series of its State Appropriation Bonds (Housing Infrastructure) in 2013, 2014, 2015 and 2016 in an aggregate principal amount of $117,290,000 under a separate indenture of trust.

The Agency recently issued its Drawdown Index Bonds, Series 2016, Subseries A-1 (AMT), and Drawdown Index Bonds, Subseries B-1 (Non AMT/Non ACE), in a cumulative principal amount not to exceed $300,000,000 (collectively, the "2016 Drawdown Bonds"), pursuant to a separate indenture of trust (the "2016 Drawdown Bonds Indenture"). The Agency issued the 2016 Drawdown Bonds for the purpose of preserving current private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of portions of Residential Housing Finance Bonds and Homeownership Finance Bonds previously issued by the Agency (the "Refunded Bonds"). Funds representing prepayments and repayments of mortgage loans financed with Refunded Bonds, and other amounts available under the applicable bond resolution for the payment of those Refunded Bonds, will be deposited into a cash collateral fund established under the 2016 Drawdown Bonds Indenture as security for the repayment of the principal amount of the 2016 Drawdown Bonds drawn by the Agency. The amount of the draws on the 2016 Drawdown Bonds outstanding and not repaid may not exceed $80,000,000 at any time. The Agency has made draws in the aggregate principal amount of $151,945,000, $27,070,000 of which is outstanding. The obligation of the Agency to pay the interest on, but not the principal of, the 2016 Drawdown Bonds is a general obligation of the Agency.

## THE DEVELOPMENT

### The Development

The Agency intends to use the proceeds of the Series Bonds to make a short-term first lien bridge Mortgage Loan that will finance a portion of the costs of the acquisition and construction of a multifamily housing development. The Development, to be known as Dublin Crossing, will be a single building, multi-story rental development to be located in Mankato, Minnesota. The Development will have 50 residential units, . The total development cost is estimated to be approximately $11.74 million. The Development is expected to be completed by August 2018. The Development will be acquired and constructed by CB Mankato Housing Limited Partnership, a Minnesota limited partnership, or another entity affiliated with CommonBond Communities, Saint Paul, Minnesota.

The Agency expects to use the proceeds of the Series Bonds to be deposited in the Mortgage Loan Account to make the bridge Mortgage Loan with respect to the Development by [July] 2017. The bridge Mortgage Loan, in the principal amount of $5.75 million,* will mature in full on July 1, 2019.* The bridge Mortgage Loan will not be insured by FHA or secured by any other third-party credit enhancement, but the Agency expects it to be repaid from a long-term end loan from the Agency in the principal amount of $2.235 million, portions of two deferred repayment loans from the Agency with respect to the Development in the principal amounts of approximately $5.64 million and $0.17 million, respectively, and equity contributions from the tax credit investor, which is purchasing the low income housing tax credits described below. The bridge Mortgage Loan will be secured in part by a guaranty from an affiliate of the general partner of the borrower.

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

The Development will be benefitted by a project-based Section 8 Housing Assistance Payments Contract, with a 15-year term, covering 10 of the dwelling units, seven of which will be reserved for households who have experienced long-term homelessness, and provided by the Mankato Economic Development Authority. Five of the

*Preliminary, subject to change.

dwelling units will be benefitted by a Section 811 Rental Assistance Contract, with a minimum term of 20 years, provided by the Agency.

**Estimated Sources and Uses of Series Bond Proceeds and Agency Funds**

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

| | |
|---|---|
| *Sources:* | |
| Principal Amount of Series Bonds | $5,750,000* |
| Funds Available to the Agency | _____ |
| Total Sources of Funds | $_____. |
| *Uses:* | |
| Series A Mortgage Loan Account | $5,750,000* |
| Revenue Fund | |
| Costs of Issuance | _____ |
| Total Uses of Funds | $_____. |

## THE SERIES BONDS

The Series Bonds will be fully registered bonds initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") which will act as securities depository for the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Bond Resolution.

The Series Bonds will be issued in the denominations of $5,000 or any integral multiple thereof. The Series Bonds mature, subject to redemption as herein described, on the date and in the amount set forth on the inside front cover hereof.

The Series Bonds bear interest from their dated date, payable semiannually on February 1 and August 1 of each year, commencing February 1, 2018,* at the rate set forth on the inside front cover hereof until payment of the principal or redemption price of the Series Bonds. As long as the Series Bonds are in book-entry form, interest on the Series Bonds will be paid by moneys wired by the Trustee to DTC, or its nominee, as registered owner of the Series Bonds, and DTC will redistribute that interest. (See Appendix F – "Book-Entry-Only System.")

For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to that exchange or transfer.

**Special Redemption at Par**

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

*Preliminary, subject to change.

**Optional Redemption**

The Agency may redeem the Series Bonds at its option, in whole or in part, on any date on or after February 1, 2019,* in amounts as the Agency may designate, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

**General Redemption Provisions**

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

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

## SECURITY FOR THE BONDS

Outstanding Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and a grant of a security interest in (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from the proceeds, (c) all Revenues as defined in the Bond Resolution, and (d) money, Investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are also general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds, and federal or State laws heretofore or hereafter enacted pledging particular funds for a specified purpose. The pledge and security interests granted by the Bond Resolution are for the equal benefit, protection and security of Holders of all Bonds, including the Series Bonds.

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

**Mortgage Loans**

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

*Preliminary, subject to change.

Subordinate Mortgage Loans with respect to a Development upon the terms and conditions as the Agency may deem appropriate, but solely from amounts that would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

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

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

Appendix A to this Official Statement contains a brief description of the Mortgage Loans outstanding as of December 31, 2016 that have been financed by Bonds or that have been pledged as additional security under the Bond Resolution for the payment of Outstanding Bonds.

**Debt Service Reserve Fund**

No funds will be credited to the Debt Service Reserve Fund with respect to the Series Bonds (and the Debt Service Reserve Requirement in respect of the Series Bonds will be $0.00), since, in addition to the other security provided pursuant to the Bond Resolution, payment of principal with respect to the bridge loan funded by the Series Bonds will be secured as described under "The Development."

Upon issuance of the Series Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution will be approximately $1,386,006 and the value of the investments in the Debt Service Reserve Fund as calculated under the Bond Resolution will not be less than the aggregate Debt Service Reserve Requirement. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series Bonds, on an equal basis.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The Agency will use moneys held in or credited to a debt service reserve fund solely for the payment of principal of bonds of the Agency as the same mature, the purchase of those bonds, the payment of interest thereon or the payment of any premium required when the bonds are redeemed before maturity, provided that the moneys in that fund must not be withdrawn therefrom at any time in an amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency may

not issue any additional bonds or notes that are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of that issuance does not equal or exceed the minimum amount required by the resolution creating that fund unless the Agency deposits in each fund at the time of the issuance from the proceeds of the bonds or otherwise an amount that, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

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

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

**Additional Bonds**

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

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

**State Pledge Against Impairment of Contracts**

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

## THE RENTAL HOUSING PROGRAM

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

The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are

loans outstanding that were either funded from Bond proceeds under the Bond Resolution or are pledged as additional security under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program, either as long-term loans or as bridge loans. Recently originated loans have included the acquisition and construction of rental properties that will be eligible for federal low-income housing tax credits and loans for the preservation of existing federal subsidies under the Section 8 and Section 236 programs.

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

—Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)

—Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)/Asset Management Program

—Section 236 Interest Reduction Payments New Construction Program

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

—Apartment Renovation Mortgage Program

—Market Rate Mortgage Loan Program

The following table provides summary data regarding the outstanding loans financed or pledged as a portion of the security for the Rental Housing Bond Resolution as of December 31, 2016 for the programs as listed above:

*Rental Housing Program Mortgage Loan Program Summary as of December 31, 2016*

| Program | Number of Loans | Number of Units | Outstanding Loan Amount | Percentage of Total Amount |
|---|---|---|---|---|
| Section 8 Housing Assistance Payments Program* | 59 | 2,515 | $ 13,430,170 | 9.73% |
| Apartment Renovation Mortgage Program | 4 | 136 | 551,249 | 0.40 |
| Low and Moderate Income Rental Program** | 31 | 3,625 | 121,969,918 | 88.36 |
| Market Rate Mortgage Loan Program | 4 | 216 | 2,087,149 | 1.51 |
| Section 236 Interest Reduction Payments Program | 1 | 27 | 296 | 0.00 |
| | 99 | 6,519 | $138,038,782 | 100.00% |

*Includes three HUD Risk-Sharing loans for Developments with 325 aggregate units and an aggregate outstanding loan amount of $12,062,181.

**Includes 20 HUD Risk-Sharing loans for Developments with 2,140 aggregate units and an aggregate outstanding loan amount of $51,051,230 and four bridge mortgage loans for Developments with 379 units and an aggregate outstanding loan amount of $24,845,000.

**Low and Moderate Income Rental Program**

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

In the LMIR Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under the LMIR Program, may also use other available funds to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or other available funds are lent by the Agency to nonprofit or limited profit entities that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under the LMIR Program have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans to Developments financed under the LMIR Program also receive one or more low- or non-interest bearing, non-amortizing subordinate loans that facilitate keeping rents below market rate levels and reduce the amount of amortizing debt.

In the Agency's administration of its LMIR Program, the Agency has made Mortgage Loans of up to 100 percent of total development costs. Mortgage Loans for Developments are generally made for terms of 30 to 40 years or are made as short-term loans payable when construction or rehabilitation is completed.

*HUD Risk-Sharing Program*

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

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

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

The Agency has been designated by HUD as a "qualified HFA" under the Risk-Sharing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the "Risk-Sharing Agreement") which sets out the terms for the Agency's participation in the HUD Risk-Sharing Program. The Agency has a "Level I" and "Level II" approval under the regulations, which means the Agency agrees to reimburse HUD for 50 percent, or

from 10 percent to 50 percent, of any losses incurred as a result of a default under a HUD Risk-Sharing Program loan. “Level I” approval permits the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans with review and approval by the local HUD office. Most of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

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

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and that default continues for a period of 30 days. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after that grace period and monthly thereafter, unless waived by HUD, until the default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms and must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA’s reimbursement obligation to HUD under its Risk-Sharing Agreement.

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

**The Agency Regulatory Agreement**

The uninsured Section 8-assisted Developments and Developments financed under the LMIR and HUD Risk-Sharing Programs are all subject to regulatory agreements with the Agency regulating their rents, distributions, occupancy, management and operation. The regulatory agreements are in effect during the entire term of the Mortgage Loan. Under the regulatory agreements, a limited-profit or nonprofit owner may not make distributions to its partners or members in any one year in excess of a percentage of its initial equity in a Development. The allowable percentage of equity ranges from 6 percent to 15 percent, depending on the program under which the Mortgage Loan was financed.

**Section 8 Program**

*General Description*

Under the Section 8 Program, HUD provides for the payment of a subsidy for the benefit of low income families, which are defined generally as those families whose incomes do not exceed 80 percent of the median income for the area, as determined by HUD. Until recent years, almost all of the Developments with Section 8 subsidies financed by the Agency were financed from a set-aside from HUD under which the Developments were underwritten and financed by the Agency. The Agency entered into Traditional Contract Administration (“TCA”) Annual Contributions Contracts (“ACC”s) with HUD and Section 8 Housing Assistance Payments Contracts (“HAP Contracts”) with owners under which the subsidy payments were made on behalf of tenants in the Developments. Pursuant to the ACC for each Development, HUD committed funding through the entire term of the HAP Contract. The Agency receives monthly subsidy payments with respect to each assisted dwelling unit, and then in turn disburses or credits monthly housing assistance payments to the owner of the Development under the HAP Contract.

In addition, several of these Developments also received an Agency first mortgage loan, some of which were insured under an FHA insurance program. After the initial contract expiration, many of these HAP Contracts have been renewed for a period of 20 years. The owner has the option to renew for a shorter term. It is anticipated, but not assured, that HUD will continue to provide the opportunity for owners to renew expiring HAP Contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended. In recent years, the Agency has provided new financing (deferred or amortizing) to Developments with HAP Contracts, many in conjunction with a Declaration of Covenants, Conditions and Restrictions pursuant to which the owner has agreed to continuously renew the HAP Contract through the maturity date of the Agency's Mortgage Loan. It is anticipated, but not assured, that the federal government will continue to provide these owners with the option to renew their HAP Contracts upon expiration. Renewals of HAP Contracts beyond the expiration of the initial contract term are subject to annual appropriations and spending authority in the federal budget. Contracts to convert tenant-based HUD vouchers or certificates into project-based assistance (as described below) are also subject to annual appropriation and spending authorization in the federal budget.

*HAP Contract Term for State Agency Set-Aside Program*

Under HUD regulations, the initial terms of the HAP Contracts for uninsured Developments financed under the state agency set-aside program were for either 30 or 40 years, with provisions for renewal for five-year periods within the 30- or 40-year term. The term of the initial ACC is the same as the initial HAP Contract term. Nonrenewal of the Section 8 HAP Contract under federal law and Minnesota state statutes requires proper notification to the residents, the applicable city, the Metropolitan Council Housing and Redevelopment Authority, the Agency and HUD. This nonrenewal (opt-out) of the HAP Contract is independent of the Development's existing first mortgage financing. (See "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.") Although the Section 8 housing assistance payments are made to the owner and in effect represent rental income, the HAP Contract may, with HUD's consent, be assigned as security by the owner to the first mortgage lender for the Development. All of the Developments with HAP Contracts within the Agency's first mortgage loan portfolio are assigned to the Agency as security for the Mortgage Loan. HAP Contracts may not be terminated by HUD if the Mortgage Loan on the Development goes into default, so long as the owner has not breached any of the owner's obligations under the HAP Contract. In the event of a breach of the HAP Contract by the owner, HUD may abate subsidy payments or terminate the HAP Contract after giving the owner reasonable opportunity to comply with the requirements of the HAP Contract. Under HUD regulations, the HAP Contract may be assigned to a new owner of the Development. HUD may also determine that the HAP Contract may be terminated or may reassign the Section 8 housing assistance payments subsidy to another development. If the Section 8 subsidy is assigned to another development, the HAP Contract and the ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract. (See "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.")

**Certain Information Regarding Housing Assistance Payment Contracts**

*General*

The following discussion provides certain information with regard to the Section 8 program and HAP Contract requirements that may affect payments made by HUD pursuant to the HAP Contracts. That information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the United States Housing Act of 1937, as amended (the "Housing Act"), and HUD Section 8 Program Guidebooks, Handbooks, Notices, and Memoranda.

*Adjustments in Contract Rents*

The HAP Contract defines the type of contract rent adjustment that the Development can request. For HAP Contracts in the Agency's Traditional Contract Administration portfolio that are in their original term, owners can request an Annual Adjustment Factor Rent Adjustment based on the annual adjustment factor published by HUD. Interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP Contract to contract rents, resulting in upward adjustment. Pursuant to federal legislation enacted in 1997, if the contract rents for a Development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the initial differential between the initial contract rents and the comparable rents). The comparable rents are determined by independent appraisals of

Developments in the form of a Rent Comparability Study submitted by the owner. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining a Development resulting from substantial "and general increase in real property taxes, assessments, utility rates and hazard insurance increases, where the increased cost is not sufficiently covered by the annual AAF adjustment." HUD Notice H 2002-10. Adjustments may not result in material differences between rents charged for assisted units and unassisted units of similar quality and age in the same market area, except to the extent of the initial difference at the time of contract execution. Under current law, "[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner." 42 U.S.C. § 1437f(c)(1)(C). There can be no assurance that increases in contract rents will result in revenues sufficient to compensate for increased operating expenses of the Developments. There can be no assurance that there will not be a decrease in contract rents. A rent decrease may affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See "Certain Recent Developments.")

*Limitations on Increases in Housing Assistance Payments*

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP Contract. The annual maximum housing assistance payments are initially limited to the initial contract rents. A project account is required to be established and maintained by HUD, in an amount determined by HUD, and the account must be established and maintained consistent with its responsibilities under the Housing Act. Whenever the estimated annual housing assistance payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of that maximum commitment, HUD is required to take additional steps authorized by Section 8(c)(6) of the Housing Act to assure that housing assistance payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes "the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts." Based on this guidance, HUD does not increase annual contributions contract authority until the project account has been exhausted.

*Certain Recent Developments*

In July 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979 (the "Old Regulation HAP Contract"). This interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related development, including any refinancing that included prepayment of the first Mortgage Loan. HUD also stated that it would agree to amend any HAP Contract to eliminate that termination. All of the first mortgage loans with this form of HAP Contract in the Agency's TCA portfolio were provided by the Agency. There are many Developments with Agency mortgage loans that have been prepaid where HUD has continued to make payments under the HAP Contracts during the years since the Agency loans were prepaid. It is the Agency's understanding that current HUD practice is to approve the continuation of HAP Contracts upon payment of the original financing when the owner has elected to remain in the Section 8 program. In 2015, HUD issued the final version of the Section 8 Renewal Policy Guide Book. Chapter 16 of the Guide Book reiterates the Office of General Counsel interpretation of the Old Regulation HAP Contract and gives prepaying owners the option to amend the HAP Contract to extend the term to the originally scheduled maturity date, renew the HAP contract under the Multifamily Assisted Housing Reform and Affordability Act ("MAHRA"), or opt out of the Section 8 program. Contracts that are subject to Chapter 16 will be renewed and amended as outlined in the newly revised chapter. At this time, the Agency cannot predict the potential risk for opt-outs under the provisions of Chapter 16; however, the Agency handles potential opt-outs proactively to support the Agency's priority for preservation of federally assisted housing.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials as to the future of HUD and the Section 8 program. The scope of these pronouncements has ranged from a total elimination of HUD and the Section 8 program to a restructuring of HUD and the reduction in funding of the Section 8 program. In addition, the consolidation and alignment of HUD's programs and the transfer of certain administrative responsibilities for HUD programs to contract administrators, state and local governments and other

entities continue to be proposed. (Note that HUD has contracted project-based Section 8 program administration services to state and local governments and other entities since 1999.) Furthermore, Congress continues to propose reductions in all federal spending, including funding for HUD and its programs.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the current contract rents in effect as of April 15, 1987. (See "Adjustments in Contract Rents.") It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for Section 8 Developments to "market rents," but not lower than the initial contract rents, plus the initial difference, approved by HUD for the Development. Reductions in current contract rents have occurred and continue to occur due to HUD's changes to its Section 8 Renewal Policy Guide Book and its 4350.1 Handbook (Chapter 7).

At this time, the Agency cannot predict the terms of the legislation, if any, that may be enacted with respect to HUD. Legislation could significantly change HUD's structure, its administration and its programs (including the Section 8 program), and the funding of HUD and its programs. The Agency also cannot predict whether any legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds (including the Series Bonds) with amounts pledged under the Resolutions.

Over the years, there have been several court decisions with respect to the Section 8 program and HAP Contracts. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, held that HAP Contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January 1997 decision, *National Leased Housing Association v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the "overall limitation" provision contained in the rent adjustment section in HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, adjustments provided for in that section of the HAP Contract must not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units that are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAP Contracts permit HUD to reduce rents below a previous year's rent levels through the use of comparability studies, and that the "initial difference" referred to in the HAP Contract is determined by the initial dollar amount and not by a percentage of the initial rents. Based on guidance in HUD's Section 8 Renewal Policy Guidebook, issued in 2000, as amended, HAP Contracts that are renewed under MAHRA may have their contract rents reduced to "market rents." This Guidebook also provides the opportunity for debt restructuring by HUD's Office of Affordable Housing Preservation in conjunction with the reduction in contract rents if a property is eligible.

At this time, the Agency is unable to predict what additional actions, if any, HUD or Congress will take in the future with respect to rent adjustments. Future policy changes for rent adjustments may be impacted by federal budget constraints. Beginning in federal fiscal year 2012, HUD implemented three primary cost cutting measures that affect all New Regulation (i.e., post-1979) HAP Contracts. These cost cutting measures, which have been continued for federal fiscal year 2015, include using residual receipts in lieu of rent increases, using residual receipts in lieu of subsidy payments, using the lesser of budget-based or Operating Cost Adjustment Factor ("OCAF") rent adjustments, offering automatic OCAF rent adjustments that are limited to market rents including option 4 multi-year annual renewals, and short funding HAP Contracts. Old Regulation HAP Contracts that have not initially renewed under MAHRA have not been affected by the cost cutting measure of using residual receipts in lieu of subsidy payments. As noted above under "Adjustments in Contract Rents," Congress has passed legislation and HUD has implemented procedures to restrict Annual Adjustment Factor rent increases above fair market rents for the 1997 and subsequent federal fiscal years for contracts that are in their original 20-, 30- or 40-year term. Upon initial renewal of the HAP Contract, the Development generally is not eligible for Annual Adjustment Factor rent adjustments under MAHRA, but is eligible for budget based, Operating Cost Adjustment Factor, mark-up-to-market, and mark-to-market (mark down to market) rent adjustments. HUD's Section 8 Renewal Policy Guide Book, as amended, and its Handbook 4350.1, Chapter 7 do not allow for the use of initial differences, Financing Adjustments, or Financing Adjustment Factors when determining these rent adjustments; they are excluded from rent adjustment calculations. Also, HUD has proposed additional changes to the Section 8 HAP Contracts that include provisions around combining HAP Contracts and risk-based monitoring. Currently, guidance for combining HAP Contracts has been issued through a HUD memorandum. The Agency has not seen this tool leveraged by owners; however,

the potential does exist. This measure would reduce the number of on-site inspections and the number of financial statements that owners must submit, as well as allow properties to share income and operating expenses. The 2014 cost cutting measures remain in effect. Actions by HUD that limit options for contract renewals and restrict the definition of market rents in many cases result in a decrease in contract rents, which could negatively impact the ability of owners to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds from the amounts pledged under the Bond Resolution.

**Project-Based Vouchers**

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

**Section 8 Contract Administration**

In 2000, the Agency was awarded an Annual Contributions Contract ("ACC") with HUD as a Performance-Based Contract Administrator ("PBCA") for the contract administration of a portion of HUD's project-based Section 8 portfolio. Under the ACC, HUD partners with qualified entities for the administration of Section 8 HAP Contracts made directly between HUD and owners of the affected developments. In 2011, HUD held a national competitive rebid to qualified entities for the work performed under the ACC. The Agency was one of 11 states that had only one bid and were awarded a contract uncontested. As a result, the Agency was awarded a new two-year PBCA contract for the State of Minnesota, which was originally set to expire on September 30, 2013. The Agency has been granted extensions of its ACC since September 30, 2013. The most recent extension is in effect through December 31, 2017. The 2011 national rebid process resulted in a number of bid protests. As a result of those protests and the resultant litigation, the U.S. Court of Appeals for the Federal Circuit ruled that the PBCA ACCs should be awarded through the federal procurement process rather than the Notice of Funding Availability and cooperative agreements that HUD used in making its 2011 contract awards. The Supreme Court declined to review the ruling.

HUD has indicated it plans to release a Request for Funding Proposals ("RFP") to rebid the PBCA contracts nationwide in 2017. Early indications are that the HUD RFP may seek responses from entities that can administer PBCA contracts for multi-state regions, rather than single states. Depending on the form and content of the RFP, there may be bid protests and litigation with respect to the RFP and any new awards of the PBCA contracts that result from the RFP. The Agency intends to seek to retain the PBCA work in the State of Minnesota. There is, however, significant uncertainty in this area as it is unknown when HUD will release the PBCA RFP, what the terms of the RFP will be, and what impact any bid protests or litigation may have on the process.

**Section 236 Interest Reduction Payments Program**

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

amount by which the total rents collected on all subsidized dwelling units exceed the sum of the approved basic rents for all those units.

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

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

**Apartment Renovation Mortgage Program**

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. The Agency is not presently making any Mortgage Loans pursuant to this Program.

**Market Rate Mortgage Loan Program**

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

**Monitoring of Developments**

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

- The Agency's Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.
- The Agency's Multifamily Asset Management Section is responsible for the supervision of all Developments, beginning with the feasibility processing. Prior to loan closing the Asset Management Section works with the sponsors and their marketing and management agents to

review marketing and management plans. The management plan of a Development includes information on the management agent's proposed method of operating the Development. That information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting operating expenses, budget and energy conservation information. Upon completion of construction or rehabilitation, the Asset Management Section begins to monitor the implementation of the management plan, rent up and ongoing occupancy and reviews periodic submissions of income and expense data.

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

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

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

  (i) Monthly Operating Report—due the 15th day of the following month;

  (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of each quarter;

  (iii) Analysis of Reserve Accounts—prepared monthly by Asset Management staff;

  (iv) Annual Budget—due 60 days prior to the beginning of the fiscal year to which the budget relates; and

  (v) Annual Audited Financial Statements—due not more than 90 days (60 days for HUD Risk Share) following the end of each fiscal year.

  For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.
- *Training Sessions*. The Agency provides technical assistance when needed for new management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Technical assistance is provided, as needed, throughout the life of the Mortgage Loan.

**Applicable Federal Law Requirements**

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

## OTHER PROGRAMS

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs that provide loans for the purchase or improvement of single family housing and the acquisition,

construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the notes to the Financial Statements in Appendix B.

## TAX EXEMPTION AND RELATED CONSIDERATIONS

### General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). These requirements are generally described below. Noncompliance with these requirements may cause interest on the Series Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which that noncompliance is ascertained or occurs.

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

### Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered, with respect to the Series Bonds, on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency with the Tax Covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to the exclusion of interest on any Series Bond for any period during which the Series Bond is held by a person who is a "substantial user" of the facilities financed with the proceeds of the Series Bonds or a "related person" within the meaning of Section 147(a) of the Code. Bond Counsel is further of the opinion that interest on the Series Bonds is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the Series Bonds is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax. Interest on the Series Bonds is not includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series Bonds, and renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series Bonds, or under state and local tax law.

A form of the Bond Counsel opinion with respect to the Series Bonds is attached hereto as Appendix G.

Prospective owners of the Series Bonds should be aware that the ownership of obligations such as the Series Bonds may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. The extent of these collateral tax consequences will depend upon the owner's particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of

purchasing or owning the Series Bonds. Interest on the Series Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

The foregoing is a brief discussion of certain collateral Federal income tax matters with respect to the Series Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series Bonds.

**Certain Ongoing Federal Tax Requirements and Covenants**

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal Government. Noncompliance with those requirements may cause interest on the Series Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which that noncompliance occurs or is discovered. The Agency will covenant that it will do and perform all acts necessary or desirable to assure the exclusion of interest on the Series Bonds from gross income under Section 103 of the Code. The Agency will deliver a certificate with respect to ongoing Federal tax requirements with the issuance of the Series Bonds that will contain provisions relating to compliance with the requirements of the Code. The Agency also has required or will require owners to make certain covenants in the Mortgage Loan documents relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any covenant, the remedies available to the Agency or the owners of the Series Bonds can be enforced judicially in a manner to assure compliance with the Code and therefore to prevent the loss of the exclusion from gross income of the interest on the Series Bonds for Federal income tax purposes. Those Federal tax compliance covenants will be subordinate to the rights of FHA under the Mortgage Loan documents and the enforcement of those covenants will be subject to FHA approval. Because of these FHA restrictions, enforcement remedies available to the Agency or any other mortgagee may be inadequate to prevent the loss of tax exemption of interest on the Series Bonds for Federal income tax purposes.

**Low Income Set-Aside Requirements under the Code**

Each series of bonds issued under the Bond Resolution with the intention that the interest paid thereon will be excludable from gross income for Federal income tax purposes ("Tax-Exempt Bonds"), including the Series Bonds, must satisfy the applicable requirements of the Code. In general, Tax-Exempt Bonds originally issued for new money purposes after the general effective date of the Code of August 16, 1986, are fully subject to the applicable requirements of the Code, including the more restrictive low income set-aside requirements under the Code. The Series Bonds are fully subject to the low income set-aside requirements of the Code. This section includes brief summaries of certain low income set-aside requirements and other requirements for qualified residential rental projects under the Code.

The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide "qualified residential rental projects." The Code defines a residential rental project as a project containing units with separate and complete facilities for living, sleeping, eating, cooking, and sanitation that are available to the general public and are to be used on other than a transient basis. Section 142(d) of the Code requires that either (i) at least 20 percent of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the "qualified project period" by individuals and families whose annual adjusted income does not exceed 50 percent of the area median income (with adjustments for family size), or (ii) at least 40 percent of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60 percent of the area median income (with adjustments for family size). The Agency will make elections on the applicable low income set-aside requirements with respect to the Development expected to be financed with the proceeds of the Series Bonds prior to the issuance date of the Series Bonds. In addition, all of the units in the Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the "qualified project period" as the period beginning on the first day upon which 10 percent of the units in a

project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50 percent of the residential units in the project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to the project is outstanding, or (iii) the date upon which any assistance provided with respect to the project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140 percent of the applicable income limitation. Generally, upon an increase of a tenant's income over 140 percent of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation; provided however, that if tax credits under Section 42 of the Code are allowed with respect to the applicable Development, the next available unit of a comparable or smaller size in the same building as the tenant whose income has increased over 140 percent of the applicable income limitation must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

**Certain State Tax Legislation**

Minnesota, like many other states, generally taxes interest on obligations of governmental issuers in other states. In 1995, Minnesota enacted a statement of intent, codified at Minn. Stat. § 289A.50, subd. 10, that interest on obligations of Minnesota governmental units and Indian tribes be included in the net income of individuals, estates and trusts for Minnesota income tax purposes if a court determines that Minnesota's exemption of that interest and its taxation of interest on obligations of governmental issuers in other states unlawfully discriminates against interstate commerce. This provision applies to taxable years that begin during or after the calendar year in which any court decision becomes final, irrespective of the date upon which the obligations were issued.

On May 19, 2008 the U.S. Supreme Court held in *Department of Revenue of Kentucky v. Davis* that Kentucky's taxation of interest on bonds issued by other states and their political subdivisions, while exempting from taxation interest on bonds issued by the Commonwealth of Kentucky or its political subdivision, does not impermissibly discriminate against interstate commerce under the Commerce Clause of the U.S. Constitution. In a footnote, however, the Court stated that it had not addressed whether differential treatment of "so-called 'private-activity,' 'industrial-revenue,' or 'conduit' bonds . . . used to finance projects by private entities" violate the Commerce Clause, adding that "we cannot tell with certainty what the consequences would be of holding that Kentucky violates the Commerce Clause by exempting such bonds; we must assume that it could disrupt important projects that the States have deemed to have public purposes. Accordingly, it is best to set this argument aside and leave for another day any claim that differential treatment of interest on private-activity bonds should be evaluated differently from the treatment of municipal bond interest generally."

Since the Series Bonds are "private activity bonds" and the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in other states, the Agency cannot predict the outcome of any challenge. If Minnesota's treatment of the bonds were held to unlawfully discriminate against interstate commerce, the court making such a finding would have to decide upon a remedy for the tax years at issue in the case. Even if the remedy applied to those years preceding the decision were to exempt other states' bond interest rather than to tax Minnesota bond interest, application of the 1995 statute to subsequent years could cause interest on the Series Bonds to become taxable by Minnesota and the market value of the Series Bonds to decline.

**Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced that, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond

Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

## LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency, overtly threatened any litigation against the Agency seeking to restrain or enjoin the sale, issuance, execution or delivery of the Series Bonds or in any manner questioning or affecting the validity of the Series Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

The Agency is a party to various litigation arising in the ordinary course of business. While the ultimate effect of those actions cannot be predicted with certainty, the Agency expects that the outcome of these matters will not result in a material adverse effect on the financial position or results of operations of the Agency.

## LEGAL MATTERS

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

## FINANCIAL ADVISOR

CSG Advisors Incorporated (the "Financial Advisor") is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor does not underwrite or trade bonds and will not engage in any underwriting activities with regard to the issuance and sale of the Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

## RATINGS

The Series Bonds are rated "___" by Moody's Investors Service, Inc., and "__" by Standard & Poor's Ratings Services. The ratings reflect only the views of the applicable rating agency, and an explanation of the significance of that rating may be obtained only from the rating agency and its published materials. The ratings described above are not a recommendation to buy, sell or hold the Series Bonds. The Agency cannot give any assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Therefore, after the date of this Official Statement, investors should not assume that the ratings are still in effect. A downward revision or withdrawal of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds. The Agency has not assumed any responsibility either to notify the owners of the Series Bonds of any proposed change in or withdrawal of any rating subsequent to the date of this Official Statement, except in connection with the reporting of events as provided in the Continuing Disclosure Undertaking (see Appendix D to this Official Statement), or to contest any revision or withdrawal.

## UNDERWRITING

RBC Capital Markets, LLC (the "Underwriter") will purchase the Series Bonds. The Underwriter is to be paid a fee of $_____ with respect to its purchase of the Series Bonds. The Underwriter may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

The Underwriter is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter may have, from time to time, performed and may in the future perform, various investment banking services for the Agency, for which it may have received or will receive customary fees and expenses. In the ordinary course of its various business activities, the Underwriter may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in those securities and instruments. Those investment and securities activities may involve securities and instruments of the Agency.

## MISCELLANEOUS

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

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

**MINNESOTA HOUSING FINANCE AGENCY**

By _____
Commissioner

_____, 2017.

# APPENDIX A

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

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

**AS OF DECEMBER 31, 2016**

**MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS**

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance (1) | Undisbursed Mortgage Amount | Development Reserves (2) | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|---|---|---|---|---|---|---|---|---|---|---|
| BIRCHWOOD EAST | Virginia | 6.75 % | $ 138,801 | $ - | $ 19,594 | 05/01/18 | HAP | 06/01/17 | 30 | 60 |
| BLACKDUCK | Blackduck | 7.50 | 50,179 | - | 234,602 | 12/01/17 | HAP | 09/30/17 | 30 | 30 |
| BOARDWALK | Wayzata | 6.50 | 391,070 | - | 203,903 | 12/01/19 | HAP | 10/22/18 | 77 | 77 |
| BOSSEN PARK APTS | Minneapolis | 6.68 | 1,893,644 | - | 174,889 | 02/01/30 | LMIR/HRS | N/A | 0 | 110 |
| CASCADE | Fergus Falls | 0.00 | 112,298 | - | 142,831 | 01/01/19 | HAP | 05/31/18 | 36 | 36 |
| CASCADE | Fergus Falls | 0.00 | 130,179 | - | See above | 12/01/21 | HAP/AMP | See above | See above | See above |
| CENTENNIAL PLAZA | Le Center | 7.50 | 52,749 | - | 62,211 | 12/01/17 | HAP | 12/21/31 | 40 | 40 |
| COLONY APTS | North Mankato | 6.30 | 1,086,851 | - | 191,566 | 05/01/30 | LMIR/HRS | N/A | 0 | 120 |
| CONCORDIA ARMS | Maplewood | 5.75 | 3,620,512 | - | 725,916 | 07/01/49 | LMIR/HRS/HAP | 12/31/32 | 125 | 125 |
| COUNTRYSIDE T.H. | Fairmont | 6.50 | 386,518 | - | 320,110 | 12/01/19 | HAP | 09/21/18 | 71 | 71 |
| DOVER HILL | Golden Valley | 6.07 | 6,694,045 | - | 852,725 | 03/01/41 | LMIR/HRS/236 | 12/01/16 | 0 | 234 |
| EASTGATE | Montevideo | 0.00 | 383,351 | - | 124,104 | 09/01/21 | HAP | 07/31/20 | 46 | 46 |
| FAIRVIEW APTS | St. Peter | 7.55 | 353,759 | - | 14,356 | 05/01/30 | LMIR/HRS | N/A | 0 | 48 |
| FIFTEEN HUND PERKINS | Windom | 0.00 | 338,931 | - | 231,532 | 03/01/21 | HAP | 11/27/19 | 48 | 48 |
| GARDEN COURT | Winnebago | 0.00 | 91,277 | - | 98,688 | 01/01/19 | HAP | 04/30/18 | 36 | 36 |
| GENEVA VILLAGE | Oakdale | 7.21 | 2,796,951 | - | 219,601 | 01/01/28 | LMIR | N/A | 0 | 175 |
| GRAHEK APTS. | Ely | 7.25 | 237,980 | - | 207,814 | 11/01/19 | HAP | 03/29/19 | 42 | 42 |
| GRAND TERRACE | Worthington | 2.60 | 5,245,000 | 4,583,648 | 0 | 07/01/18 | LMIR/BRIDGE | N/A | 0 | 48 |
| GREYSOLON PLAZA | Duluth | 6.50 | 5,768,329 | - | 1,687,858 | 05/01/47 | HAP/HRS | 11/25/20 | 150 | 150 |
| HEIGHTS MANOR | Columbia Heights | 6.50 | 380,434 | - | 645,347 | 12/01/19 | HAP | 09/21/18 | 85 | 85 |
| HILLSIDE HOMES | Spring Valley | 2.00 | 188,822 | - | 79,578 | 12/01/21 | HAP | 12/13/18 | 37 | 37 |
| HILLSIDE TERRACE | Long Lake | 6.72 | 1,561,492 | - | 257,559 | 08/01/34 | LMIR/HRS | 01/15/31 | 44 | 44 |
| HOMESTEAD APTS | Mankato | 7.55 | 1,000,079 | - | 50,767 | 05/01/30 | LMIR/HRS | N/A | 0 | 120 |
| HOPKINS VILLAGE | Hopkins | 1.90 | 9,500,000 | 1,316,731 | 0 | 01/01/17 | LMIR/BRIDGE | 12/31/35 | 64 | 161 |
| JACKSON PLACE | Elk River | 5.63 | 940,054 | - | 90,117 | 04/01/38 | LMIR | N/A | 0 | 32 |
| KENTUCKY LANE | Crystal | 5.00 | 2,111,725 | - | 126,412 | 12/01/31 | LMIR/HRS | N/A | 0 | 67 |
| LAKE CRYSTAL | Lake Crystal | 7.25 | 393,548 | - | 440,214 | 03/01/21 | HAP | 06/12/19 | 43 | 43 |
| LARSON COMMONS | Cloquet | 6.52 | 2,287,144 | - | 618,862 | 06/01/37 | HAP/HRS | 03/06/20 | 85 | 85 |
| LORING TOWERS APARTMENTS (3) | Minneapolis | 6.14 | 5,979,342 | - | 1,124,179 | 04/01/35 | LMIR/HRS | 12/31/32 | 230 | 230 |
| LYNDALE GREEN | Minneapolis | 6.05 | 3,237,981 | - | 240,619 | 03/01/52 | LMIR/HRS | N/A | 0 | 63 |
| MANITOU RIDGE (3) | White Bear Lake | 6.63 | 2,760,614 | - | 154,113 | 03/01/33 | LMIR/HRS/236 | N/A | 0 | 118 |
| MAPLE RIDGE MANOR | Alexandria | 0.00 | 249,030 | - | 243,472 | 11/01/20 | HAP | 07/30/18 | 40 | 40 |
| MAPLE RIDGE MANOR | Alexandria | 0.00 | 460,000 | - | See above | 12/31/21 | HAP/AMP | See above | See above | See above |
| MARSHALL SQUARE APTS | Marshall | 6.45 | 1,352,354 | - | 148,229 | 02/01/36 | LMIR/HRS/HAP | 08/24/25 | 90 | 90 |
| MATTHEWS PARK | Minneapolis | 0.00 | 116,099 | - | 268,231 | 12/01/17 | HAP | 10/31/36 | 24 | 24 |
| MERIDIAN APTS | Duluth | 0.00 | 222,309 | - | 236,932 | 12/01/21 | HAP | 07/19/18 | 39 | 39 |
| MILL POND VIEW | Pelican Rapids | 7.25 | 528,841 | - | 628,488 | 09/01/20 | HAP | 09/20/19 | 66 | 66 |
| MILLIE BENEKE | Glencoe | 0.00 | 120,420 | - | 84,549 | 08/01/19 | HAP | 08/06/18 | 41 | 41 |
| MOWER COUNTY | LeRoy | 6.50 | 204,010 | - | 792,355 | 10/01/20 | HAP | 06/30/19 | 30 | 30 |

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

**AS OF DECEMBER 31, 2016**

**MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS**

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance (1) | Undisbursed Mortgage Amount | Development Reserves (2) | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|---|---|---|---|---|---|---|---|---|---|---|
| MUNGER TERRACE | Duluth | 0.00 % | $ 379,035.77 | $ - | $ 260,092.30 | 12/01/21 | HAP | 01/23/19 | 45 | 45 |
| MUNGER TERRACE | Duluth | 0.00 | 177,516 | - | See above | 12/01/21 | HAP | See above | See above | See above |
| NORTH 44 fka TODD 27 | Long Prairie | 2.00 | 342,045 | - | 139,306 | 12/01/21 | HAP | 06/25/20 | 44 | 44 |
| NORTH MORA | Mora | 0.00 | 248,707 | - | 128,653 | 05/01/21 | HAP | 12/06/19 | 35 | 35 |
| NORTH STAR | Roseau | 7.25 | 317,604 | - | 351,710 | 02/01/20 | HAP | 05/13/19 | 51 | 51 |
| NORTHWOOD COMMONS | Baudette | 0.00 | 95,865 | - | 82,954 | 05/01/19 | HAP | 12/18/18 | 32 | 32 |
| OAKWOOD HOMES | Karlstad | 7.25 | 118,534 | - | 68,980 | 12/01/21 | HAP | 03/12/20 | 45 | 45 |
| OAKWOOD HOMES | Karlstad | 0.00 | 182,675 | - | See above | 12/01/21 | HAP | See above | See above | See above |
| OKABENA | Worthington | 7.25 | 275,912 | - | 284,486 | 07/01/19 | HAP | 11/29/18 | 60 | 60 |
| OTTERKILL GARDEN | Bagley | 7.50 | 58,421 | - | 102,179 | 02/01/18 | HAP | 04/30/17 | 30 | 30 |
| PARK VIEW TERRACE-M | Moorhead | 7.50 | 209,457 | - | 997,927 | 12/01/17 | HAP | 05/14/17 | 120 | 121 |
| PARKVIEW VILLA | Columbia Heights | 1.75 | 7,450,000 | 556,465 | 147,963.37 | 01/18/17 | LMIR/BRIDGE | 06/30/30 | 101 | 146 |
| PENNEL PARK APARTMENTS | Duluth | 6.20 | 2,429,324 | - | 337,063 | 07/01/35 | LMIR/HRS | 05/31/24 | 100 | 101 |
| PRINCETON | Princeton | 7.25 | 304,128 | - | 359,747 | 04/01/20 | HAP | 04/11/19 | 48 | 48 |
| RIVERSIDE MANOR | Dawson | 0.00 | 151,637 | - | 112,290 | 09/01/20 | HAP | 11/30/19 | 24 | 24 |
| RIVERTOWN COMMONS | Stillwater | 6.15 | 3,052,344 | - | 201,591 | 03/01/38 | LMIR/HRS | 04/02/20 | 96 | 96 |
| RIVERVIEW MANOR | Floodwood | 7.25 | 201,929 | - | 219,023 | 01/01/20 | HAP | 04/12/19 | 35 | 35 |
| ROCHESTER SQUARE APTS | Rochester | 5.75 | 1,971,835 | - | 272,402 | 07/01/44 | LMIR/HRS/HAP | 02/17/34 | 95 | 104 |
| ROSEMOUNT TOWNHOUSES | Rosemount | 1.00 | 237,417 | - | 65,165 | 10/01/21 | LMIR/HAP | 01/31/28 | 28 | 28 |
| SOUTHVIEW TERRACE | Hibbing | 2.00 | 613,476 | - | 411,106 | 12/01/21 | HAP | 07/31/17 | 43 | 145 |
| SUNRISE ESTATES | Jackson | 0.00 | 430,000 | - | 148,104 | 01/01/22 | HAP/AMP | 01/01/22 | 40 | 40 |
| THE CROSSROADS fka SOUTH PARK MANOR | Dodge Center | 0.00 | 356,770 | - | 71,029 | 05/01/22 | HAP | 09/12/20 | 37 | 37 |
| THE CROSSROADS fka SOUTH PARK MANOR | Dodge Center | 0.00 | 260,000 | - | See above | 05/01/22 | HAP/AMP | See above | See above | See above |
| THE MEADOWS TH | Perham | 1.85 | 2,650,000 | 935,537 | - | 01/01/18 | LMIR/BRIDGE | N/A | 0 | 24 |
| THIRTYONE HUND FOURTH AVENUE | Minneapolis | 7.50 | 61,096 | - | 18,885 | 01/01/24 | LMIR | N/A | 0 | 10 |
| TOWN SQUARE | East Grand Forks | 2.00 | 803,779 | - | 394,378 | 12/01/21 | HAP | 10/08/19 | 81 | 81 |
| VADNAIS HIGHLANDS | Vadnais Heights | 6.60 | 1,423,095 | - | 116,580 | 03/01/34 | LMIR/HRS/HAP | 07/31/23 | 35 | 35 |
| VALLEY VIEW MANOR | Ada | 6.50 | 127,137 | - | 380,197 | 04/01/19 | HAP | 06/27/18 | 40 | 40 |
| VALLEYVIEW COMMONS | Mahnomen | 0.00 | 92,091 | - | 187,965 | 04/01/19 | HAP | 10/12/18 | 32 | 32 |
| WARROAD | Warroad | 0.00 | 262,542 | - | 5,268 | 12/01/21 | HAP | 12/17/20 | 30 | 30 |
| WAYBURY APARTMENTS | Chaska | 6.35 | 4,017,446 | - | 605,051 | 08/01/37 | LMIR/HRS/HAP | 10/01/33 | 114 | 114 |
| WESTGATE-HIBBING | Hibbing | 7.50 | 155,714 | - | 3,465 | 12/01/17 | HAP | 01/31/37 | 30 | 100 |
| WESTGATE-HIBBING | Hibbing | 0.00 | 1,196,703 | - | See above | 12/01/17 | HAP | See above | See above | See above |
| WHISPERING PINES | Caledonia | 0.00 | 140,442 | - | 22,660 | 09/01/19 | HAP | 12/13/18 | 37 | 37 |
| WHITTIER COOP | Minneapolis | 0.00 | 299,322 | - | 241,224 | 12/01/21 | HAP | 09/14/30 | 45 | 45 |
| WHITTIER COOP | Minneapolis | 0.00 | 944,000 | - | See above | 12/01/21 | HAP/AMP | See above | See above | See above |
| WOODCREST MANOR | Mora | 1.00 | 327,887 | - | 149,759 | 08/01/21 | HAP | 03/07/20 | 42 | 42 |
| WOODLAND PARK APTS | St. Cloud | 7.29 | 868,037 | - | 152,284 | 12/01/31 | LMIR/HRS | 05/31/20 | 34 | 86 |
| YORKDALE | Edina | 5.00 | 4,006,708 | - | 524,239 | 6/1/2048 | HAP/HRS | 01/07/19 | 90 | 90 |
| Subtotal | | | $ 100,607,353 | $ 7,392,381 | $ 19,306,044 | | | | 3368 | 4944 |

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

**AS OF DECEMBER 31, 2016**

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

| Development Name | Location | Mortgage Loan Interest Rate | Outstanding Mortgage Loan Balance (1) | Undisbursed Mortgage Amount | Development Reserves (2) | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|---|---|---|---|---|---|---|---|---|---|---|
| 924 WASHINGTON | Bemidji | 9.50 | $ 15,794 | - | $ 1,095 | 08/01/19 | ARM | N/A | 0 | 8 |
| CAPITOL CITY | St. Paul | 5.15 | 1,099,815 | - | 132,967 | 11/01/37 | LMIR | N/A | 0 | 69 |
| CARRIAGE HOUSE | Moorhead | 6.50 | 338,944 | - | 8,682 | 07/01/21 | MR | N/A | 0 | 36 |
| CEDARVIEW COMMONS | North St. Paul | 5.18 | 4,378,918 | - | 707,481 | 11/01/25 | LMIR | N/A | 0 | 204 |
| CHESTER TERRACE | Duluth | 5.00 | 110,409 | - | 282,977 | 03/01/19 | ARM | N/A | 0 | 42 |
| CITY FLATS | Shakopee | 5.86 | 422,264 | - | 129,967 | 06/01/37 | LMIR | N/A | 0 | 27 |
| CORNERSTONE VILLAGE | St. Michael | 5.63 | 1,937,515 | - | 137,494 | 10/01/28 | LMIR | N/A | 0 | 42 |
| DELANCEY & SELBY STONE APTS. Fka 700-716 SELB | St. Paul | 5.50 | 44,914 | - | 170,377 | 11/01/18 | ARM | N/A | 0 | 38 |
| EAST VILLAGE NORTH | Minneapolis | 4.90 | 1,838,524 | - | 90,447 | 01/01/21 | LMIR | N/A | 0 | 70 |
| GEORGETOWNE HOMES | Shakopee | 6.50 | 3,594,853 | - | 203,957 | 08/01/31 | LMIR | N/A | 0 | 100 |
| HYLANDS | Rochester | 7.25 | 1,299,477 | - | 412,156 | 11/01/21 | HAP | 06/02/20 | 100 | 100 |
| LABLANCHE APARTMENTS | St. Paul | 5.00 | 12,336,499 | - | 374,491 | 06/01/19 | LMIR | N/A | 0 | 270 |
| LIBERTY PLAZA | St. Paul | 6.50 | 4,159,767 | - | 949,128 | 02/01/34 | LMIR/HRS | 09/30/19 | 78 | 173 |
| MESABA VILLAS (3) | Duluth | 6.75 | 296 | - | 383,950 | 12/01/17 | 236 | 12/01/17 | 27 | 27 |
| MORNINGSIDE TH | St. Joseph | 5.74 | 765,333 | - | 41,881 | 07/01/36 | LMIR | N/A | 0 | 32 |
| PARK PLAZA St. fka 830 13th STREET | St. Cloud | 8.50 | 380,132 | - | 2,524 | 02/01/21 | ARM | N/A | 0 | 48 |
| PASSAGES (4) | Minneapolis | 5.00 | 119,506 | - | 149,525 | 09/01/21 | MR | N/A | 0 | 17 |
| SLATER SQUARE | Minneapolis | 5.00 | 1,000,011 | - | 281,027 | 11/01/36 | MR | N/A | 0 | 163 |
| SLATER SQUARE | Minneapolis | 5.00 | 628,688 | - | See above | 11/01/36 | MR | See above | See above | See above |
| WASHINGTON CROSSING | Winona | 5.75 | 1,476,984 | - | 202,991 | 01/01/36 | LMIR/HRS | N/A | 0 | 62 |
| WILLOW RIDGE | Vadnais Heights | 6.39 | 1,482,787 | - | 121,382 | 04/01/38 | LMIR | N/A | 0 | 47 |
| Subtotal | | | $ 37,431,429 | $ - | $ 4,784,502 | | | | 205 | 1,575 |
| Total | | | $ 138,038,782 | $ 7,392,381 | $ 24,090,545 | | | | 3,573 | 6,519 |

Footnotes and Program Type legend appear on the last page of this Appendix A.

**DESCRIPTION OF MORTGAGE LOANS INTENDED TO BE FINANCED WITH PROCEEDS FROM RENTAL HOUSING BONDS 2017 SERIES A**

| Development Name | Location | Estimated Mortgage Rate | Estimated Mortgage Amount | Estimated Development Reserves | Mortgage Note Maturity | Program Type | Subsidy Expiration | No. of Subsidized Units | Total No. of Units |
|---|---|---|---|---|---|---|---|---|---|
| Dublin Crossing | Mankato | % | $5,750,000 | | 7/1/2019 | LMIR/ Bridge Loan | | 15 | 50 |

**Notes:**

(1) All loans can be prepaid subject to Agency approval.

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

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

(4) This loan was originated under the Market Rate program. After a November 2007 loan modification and assumption, however, the development became permanent supportive housing.

***Program Type Legend**

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

# APPENDIX B

## AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR ENDED JUNE 30, 2016

# APPENDIX C

## FINANCIAL STATEMENTS OF CERTAIN FUNDS OF THE AGENCY (EXCLUDING STATE APPROPRIATED AND FEDERAL APPROPRIATED FUNDS) AS OF MARCH 31, 2017 AND FOR THE NINE MONTHS THEN ENDED (UNAUDITED)

**As prepared by the Agency's Accounting Department**

# DISCLAIMER

The following information with respect to the General Reserve, Homeownership Finance, Multifamily Housing, Rental Housing, Residential Housing Finance ("RHFB") excluding Pool 3, and RHFB Pool 3 (the "Funds") as of March 31, 2017 and for the nine-month period then ended was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of these Funds as of March 31, 2017 and for the nine-month period then ended, subject to year-end adjustments.

State and federal appropriated funds are excluded from this presentation because assets and revenues of these funds are not pledged or available to support bonds or other obligations of the Agency or its general obligation pledge in respect thereof.

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

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

**General Reserve & Bond Funds**
**Statement of Net Position**
**as of**
**March 31, 2017**
**(unaudited)**
**(with comparative totals as of March 31, 2016 (unaudited))**
**(in thousands)**

| | | Bond Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Residential Housing Finance | | | | | | | | |
| | General Reserve | Rental Housing | Bonds | Pool 2 | Homeownership Finance Bonds | Multifamily Housing Bonds | HOMES[SM] | General Reserve and Bond Funds Excluding Pool 3 | RHFB Pool 3 | Fiscal 2017 General Reserve and Bond Funds as of March 31, 2017 | Fiscal 2016 General Reserve and Bond Funds as of March 31, 2016 |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | $ 69,842 | $ 43,677 | $ 136,679 | $ 35,810 | $ 35,957 | $ 1,392 | $ - | $ 323,357 | $ 6,123 | $ 329,480 | $ 297,683 |
| Investments-program mortgage-backed securities | - | - | 525,827 | - | 1,163,021 | - | - | 1,688,848 | - | 1,688,848 | 1,405,035 |
| Investment securities-other | 19,950 | 1,970 | 26,172 | 87,657 | 1,400 | - | 22,060 | 159,209 | 36,937 | 196,146 | 174,892 |
| Loans receivable, net | - | 132,071 | 581,915 | 283,124 | - | 14,173 | - | 1,011,283 | 48,965 | 1,060,248 | 1,228,107 |
| Interest receivable on loans and program mortgage-backed securites | - | 602 | 4,861 | 1,318 | 3,497 | 52 | - | 10,330 | 59 | 10,389 | 10,929 |
| Interest receivable on investments | 101 | 34 | 293 | 260 | 16 | - | 57 | 761 | 108 | 869 | 748 |
| FHA/VA insurance claims, net | - | - | 2,287 | 161 | - | - | - | 2,448 | - | 2,448 | 3,450 |
| Real estate owned, net | - | - | 2,569 | - | - | - | - | 2,569 | - | 2,569 | 3,855 |
| Capital assets, net | 3,006 | | - | - | | | | 3,006 | - | 3,006 | 2,343 |
| Other assets | 1,192 | 1 | 8 | 154 | 6 | - | - | 1,361 | - | 1,361 | 1,391 |
| Total assets | 94,091 | 178,355 | 1,280,611 | 408,484 | 1,203,897 | 15,617 | 22,117 | 3,203,172 | 92,192 | 3,295,364 | 3,128,433 |
| **Deferred Outflows of Resources** | | | | | | | | | | | |
| Deferred loss on refunding | - | - | 153 | - | - | - | - | 153 | - | 153 | 215 |
| Deferred loss on interest rate swap agreements | | | 6,209 | - | - | - | - | 6,209 | | 6,209 | 12,017 |
| Deferred pension expense | 2,980 | - | - | - | | | | 2,980 | - | 2,980 | 1,042 |
| Total deferred outflows of resources | 2,980 | - | 6,362 | - | - | - | - | 9,342 | - | 9,342 | 13,274 |
| Total assets and deferred outflows of resources | $ 97,071 | $ 178,355 | $ 1,286,973 | $ 408,484 | $ 1,203,897 | $ 15,617 | $ 22,117 | $ 3,212,514 | $ 92,192 | $ 3,304,706 | $ 3,141,707 |
| **Liabilities** | | | | | | | | | | | |
| Bonds payable, net | $ - | $ 37,340 | $ 1,104,452 | $ 15,865 | $ 1,142,414 | $ 14,020 | $ 21,677 | $ 2,335,768 | $ - | $ 2,335,768 | $ 2,154,313 |
| Interest payable | - | 201 | 9,353 | 23 | 3,952 | 35 | 57 | 13,621 | - | 13,621 | 14,358 |
| Interest rate swap agreements | - | - | 6,209 | - | - | - | - | 6,209 | - | 6,209 | 12,017 |
| Net pension liability | 8,979 | - | | - | - | - | - | 8,979 | - | 8,979 | 9,313 |
| Accounts payable and other liabilities | 3,472 | 4,434 | 462 | 165 | 54 | - | - | 8,587 | 50 | 8,637 | 11,535 |
| Interfund payable (receivable) | (6,280) | - | - | 21,946 | - | - | - | 15,666 | (16,046) | (380) | (458) |
| Funds held for others | 66,379 | - | - | - | - | - | 383 | 66,762 | - | 66,762 | 70,595 |
| Total liabilities | 72,550 | 41,975 | 1,120,476 | 37,999 | 1,146,420 | 14,055 | 22,117 | 2,455,592 | (15,996) | 2,439,596 | 2,271,673 |
| **Deferred Inflows of Resources** | | | | | | | | | | | |
| Deferred revenue-service release fees | - | - | 2,375 | 6,987 | 4,364 | - | - | 13,726 | - | 13,726 | 11,179 |
| Deferred pension credit | 11,327 | - | - | - | - | - | - | 11,327 | - | 11,327 | 11,821 |
| Total deferred inflows of resources | 11,327 | - | 2,375 | 6,987 | 4,364 | - | - | 25,053 | - | 25,053 | 23,000 |
| Total liabilities and deferred inflows of resources | 83,877 | 41,975 | 1,122,851 | 44,986 | 1,150,784 | 14,055 | 22,117 | 2,480,645 | (15,996) | 2,464,649 | 2,294,673 |
| **Commitments and Contingencies** | | | | | | | | | | | |
| **Net Position** | | | | | | | | | | | |
| Restricted by bond resolution | - | 136,380 | 164,122 | - | 53,113 | 1,562 | - | 355,177 | - | 355,177 | 372,189 |
| Restricted by covenant | 10,188 | - | - | 363,498 | - | - | - | 373,686 | 108,188 | 481,874 | 472,502 |
| Invested in capital assets | 3,006 | 0 | 0 | 0 | 0 | 0 | 0 | 3,006 | 0 | 3,006 | 2,343 |
| Total net position | 13,194 | 136,380 | 164,122 | 363,498 | 53,113 | 1,562 | 0 | 731,869 | 108,188 | 840,057 | 847,034 |
| Total liabilities, deferred inflows, and net position | $ 97,071 | $ 178,355 | $ 1,286,973 | $ 408,484 | $ 1,203,897 | $ 15,617 | $ 22,117 | $ 3,212,514 | $ 92,192 | $ 3,304,706 | $ 3,141,707 |

**General Reserve & Bond Funds**
**Statement of Revenues, Expenses and Changes in Net Position**
**for the nine months ended**
**March 31, 2017**
**(unaudited)**
**(with comparative totals for the nine months ended March 31, 2016 (unaudited))**
**(in thousands)**

| | | Bond Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Residential Housing Finance | | | | | | | Fiscal 2017 General Reserve and Bond Funds | Fiscal 2016 General Reserve and Bond Funds |
| | General Reserve | Rental Housing | Bonds | Pool 2 | Homeownership Finance Bonds | Multifamily Housing Bonds | HOMES[SM] | General Reserve and Bond Funds Excluding Pool 3 | RHFB Pool 3 | Nine Months Ended March 31, 2017 | Nine Months Ended March 31, 2016 |
| **Revenues** | | | | | | | | | | | |
| Interest earned on loans | $ - | $ 5,269 | $ 25,667 | $ 13,354 | | $ 469 | $ - | $ 44,759 | $ 195 | $ 44,954 | $ 51,942 |
| Interest earned on investments-program mortgage-backed securities | - | - | 10,332 | - | 26,762 | - | - | 37,094 | - | 37,094 | 30,582 |
| Interest earned on investments-other | 180 | 177 | 1,245 | 2,870 | 80 | 3 | 542 | 5,097 | 611 | 5,708 | 6,454 |
| Net G/L on Sale of MBS Held for Sale/HM | - | - | - | 2,098 | - | - | - | 2,098 | - | 2,098 | 2,720 |
| Administrative reimbursement | 16,706 | - | - | - | - | - | - | 16,706 | - | 16,706 | 15,765 |
| Fees earned and other income | 8,782 | 174 | 245 | 1,020 | 416 | - | - | 10,637 | 36 | 10,673 | 10,467 |
| Unrealized (losses)gains on investments | - | (107) | (15,867) | 4,059 | (31,913) | - | - | (43,828) | (766) | (44,594) | 23,483 |
| Total revenues | 25,668 | 5,513 | 21,622 | 23,401 | (4,655) | 472 | 542 | 72,563 | 76 | 72,639 | 141,413 |
| **Expenses** | | | | | | | | | | | |
| Interest | - | 1,028 | 24,083 | 558 | 22,729 | 318 | 542 | 49,258 | - | 49,258 | 51,435 |
| Financing, net | | | 27 | 16 | 1,189 | | | 1,232 | | 1,232 | 14,954 |
| Loan administration and trustee fees | - | 71 | 1,625 | 877 | 326 | 4 | - | 2,903 | 11 | 2,914 | 3,050 |
| Administrative reimbursement | - | 904 | 5,845 | 2,995 | 4,741 | 71 | - | 14,556 | 942 | 15,498 | 14,510 |
| Salaries and benefits | 18,480 | - | - | - | - | - | - | 18,480 | - | 18,480 | 17,836 |
| Other general operating | 2,903 | 3 | 23 | 499 | 16 | - | - | 3,444 | 2,860 | 6,304 | 7,336 |
| Reduction in carrying value of certain low interest rate deferred loans | - | - | - | 190 | - | - | - | 190 | 2,695 | 2,885 | 997 |
| Provision for loan losses | - | (424) | (1,815) | 404 | - | - | - | (1,835) | 218 | (1,617) | 2,053 |
| Total expenses | 21,383 | 1,582 | 29,788 | 5,539 | 29,001 | 393 | 542 | 88,228 | 6,726 | 94,954 | 112,171 |
| Revenues over (under) expenses | 4,285 | 3,931 | (8,166) | 17,862 | (33,656) | 79 | - | (15,665) | (6,650) | (22,315) | 29,242 |
| **Other changes** | | | | | | | | | | | |
| Non-operating transfer of assets between funds | (5,371) | | | 5,371 | | | | | | | |
| Non-operating transfer of contribution to (from) program funds | | 22 | (1,651) | (10,856) | 12,485 | - | - | - | - | - | - |
| Change in net position | (1,086) | 3,953 | (9,817) | 12,377 | (21,171) | 79 | - | (15,665) | (6,650) | (22,315) | 29,242 |
| **Net Position** | | | | | | | | | | | |
| Total net position, beginning of period | 14,280 | 132,427 | 173,939 | 351,121 | 74,284 | 1,483 | - | 747,534 | 114,838 | 862,372 | 817,792 |
| Total net position, end of period | $ 13,194 | $ 136,380 | $ 164,122 | $ 363,498 | $ 53,113 | $ 1,562 | $ - | $ 731,869 | $ 108,188 | $ 840,057 | $ 847,034 |

**General Reserve & Bond Funds**
**Statement of Cash Flows**
**for the nine months ended**
**March 31, 2017**
**(unaudited)**
**(with comparative totals for the nine months ended March 31, 2016 (unaudited))**
**(in thousands)**

| | | Bond Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Residential Housing Finance | | | | | | | Fiscal 2017 General Reserve and Bond Funds | Fiscal 2016 General Reserve and Bond Funds |
| | General Reserve | Rental Housing | Bonds | Pool 2 | Homeownership Finance Bonds | Multifamily Housing Bonds | HOMES[SM] | General Reserve and Bond Funds Excluding Pool 3 | RHFB Pool 3 | Nine Months Ended March 31, 2017 | Nine Months Ended March 31, 2016 |
| Cash flows from operating activities: | | | | | | | | | | | |
| Principal repayments on loans and program mortgage-backed securities | $ - | $ 42,744 | $ 123,989 | $ 29,202 | $ 105,367 | $ 132 | $ - | $ 301,434 | $ 6,410 | $ 307,844 | $ 172,736 |
| Investment in loans and program mortgage-backed securities | - | (12,818) | (102,135) | (31,019) | (327,093) | - | - | (473,065) | (17,181) | (490,246) | (241,310) |
| Interest received on loans and program mortgage-backed securities | - | 5,251 | 36,052 | 12,752 | 28,021 | 469 | - | 82,545 | 399 | 82,944 | 54,974 |
| Fees and other income received | 8,870 | 174 | - | 11,458 | - | - | - | 20,502 | 36 | 20,538 | 17,257 |
| Salaries, benefits and vendor payments | (20,121) | (109) | (1,966) | (9,771) | (328) | (4) | - | (32,299) | (2,831) | (35,130) | (25,863) |
| Administrative reimbursement from funds | 17,217 | (904) | (5,845) | (2,995) | (4,741) | (71) | - | 2,661 | (942) | 1,719 | 1,022 |
| Deposits into funds held for others | 19,506 | - | - | - | - | - | - | 19,506 | - | 19,506 | 13,698 |
| Disbursements made from funds held for others | (20,856) | - | - | - | - | - | - | (20,856) | - | (20,856) | (15,227) |
| Interfund transfers and other assets | (2,038) | 55 | 115 | (7) | - | - | - | (1,875) | 4 | (1,871) | (177) |
| Net cash provided (used) by operating activities | 2,578 | 34,393 | 50,210 | 9,620 | (198,774) | 526 | - | (101,447) | (14,105) | (115,552) | (22,890) |
| Cash flows from noncapital financing activities: | | | | | | | | | | | |
| Proceeds from sale of bonds and notes | - | 7,895 | 138,329 | 842,730 | 321,046 | - | - | 1,310,000 | - | 1,310,000 | 798,937 |
| Principal repayment on bonds and notes | - | (25,235) | (277,695) | (855,865) | (114,238) | (180) | (3,796) | (1,277,009) | - | (1,277,009) | (569,099) |
| Interest paid on bonds and notes | - | (1,419) | (39,222) | (443) | (24,921) | (319) | (552) | (66,876) | - | (66,876) | (38,382) |
| Financing costs paid related to bonds issued | - | - | (1,683) | (16) | (2,591) | - | - | (4,290) | - | (4,290) | (3,640) |
| Interest paid/received between funds | 35 | - | - | (166) | - | - | - | (131) | 131 | - | |
| Principal paid/received between funds | - | - | - | (9,000) | - | - | - | (9,000) | 9,000 | - | |
| Agency contribution to progam funds | - | 22 | 1,091 | (10,669) | 9,556 | - | - | - | - | - | - |
| Transfer of cash between funds | 8,585 | - | - | (11,585) | - | - | - | (3,000) | 3,000 | - | - |
| | | | | | | | | - | | | |
| Net cash provided (used) by noncapital financing activities | 8,620 | (18,737) | (179,180) | (45,014) | 188,852 | (499) | (4,348) | (50,306) | 12,131 | (38,175) | 187,816 |
| Cash flows from investing activities: | | | | | | | | | | | |
| Investment in real estate owned | - | - | (1,684) | (31) | - | - | - | (1,715) | - | (1,715) | (980) |
| Interest received on investments | 596 | 164 | 1,538 | 2,969 | 71 | 3 | 552 | 5,893 | 350 | 6,243 | 4,167 |
| Net gain(loss) on Sale of MBS Held for Sale and HOME[SM] Certificates | - | - | - | 5,525 | - | - | - | 5,525 | - | 5,525 | (2,008) |
| Proceeds from sale of mortgage insurance claims/real estate owned | - | - | 14,804 | 141 | - | - | - | 14,945 | - | 14,945 | 9,482 |
| Proceeds from maturity, sale or transfer of investment securities | - | 18 | 4,241 | 514,848 | - | - | 3,796 | 522,903 | 359 | 523,262 | 311,554 |
| Purchase of investment securities | - | - | (1,082) | (487,161) | - | - | - | (488,243) | - | (488,243) | (396,762) |
| Purchase of loans between funds | - | (19,713) | - | 19,713 | - | - | - | - | 2,524 | 2,524 | (22) |
| Net cash provided (used) by investing activities | 596 | (19,531) | 17,817 | 56,004 | 71 | 3 | 4,348 | 59,308 | 3,233 | 62,541 | (74,569) |
| Net increase (decrease) in cash and cash equivalents | 11,794 | (3,875) | (111,153) | 20,610 | (9,851) | 30 | - | (92,445) | 1,259 | (91,186) | 90,357 |
| Cash and cash equivalents: | | | | | | | | | | | |
| Beginning of period | 58,048 | 47,552 | 247,832 | 15,200 | 45,808 | 1,362 | - | 415,802 | 4,864 | 420,666 | 282,363 |
| End of period | $ 69,842 | $ 43,677 | $ 136,679 | $ 35,810 | $ 35,957 | $ 1,392 | $ - | $ 323,357 | $ 6,123 | $ 329,480 | $ 372,720 |

**General Reserve & Bond Funds**
**Statement of Cash Flows, continued**
**for the nine months ended**
**March 31, 2017**
**(unaudited)**
**(with comparative totals for the nine months ended March 31, 2016 (unaudited))**
**(in thousands)**

| | | Bond Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Residential Housing Finance | | | | | | | Fiscal 2017 General Reserve and Bond Funds | Fiscal 2016 General Reserve and Bond Funds |
| | General Reserve | Rental Housing | Bonds | Pool 2 | Homeownership Finance Bonds | Multifamily Housing Bonds | HOMES$^{SM}$ | General Reserve and Bond Funds Excluding Pool 3 | RHFB Pool 3 | Nine Months Ended March 31, 2017 | Nine Months Ended March 31, 2016 |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities: | | | | | | | | | | | |
| Revenues over (under) expenses | $ 4,285 | $ 3,931 | $ (8,166) | $ 17,862 | $ (33,656) | $ 79 | $ - | $ (15,665) | $ (6,650) | $ (22,315) | $ 29,242 |
| Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | | | | | | | | | | |
| Amortization of (discounts) premiums and fees on loans and program mortgage-backed securities | | (36) | 498 | (562) | 1,875 | | - | 1,775 | 181 | 1,956 | 840 |
| Amortization of premium and fees on sale of HOMES$^{SM}$ certificates | - | - | - | - | - | - | - | - | - | - | - |
| Depreciation | 1,797 | - | - | - | - | - | - | 1,797 | - | 1,797 | 1,096 |
| (Loss) on sale of MBS held for sale and HOMES$^{SM}$ certificates | - | - | - | (2,098) | - | - | - | (2,098) | - | (2,098) | (2,358) |
| Realized losses (gains) on securities, net | - | - | (71) | - | - | - | - | (71) | - | (71) | - |
| Unrealized losses(gains) on securities, net | - | 107 | 15,867 | (4,059) | 31,913 | - | - | 43,828 | 766 | 44,594 | (3,813) |
| Provision for loan losses | - | (424) | (1,815) | 404 | - | - | - | (1,835) | 218 | (1,617) | 2,672 |
| Reduction in carrying value of certain low interest rate and/or deferred loans | - | - | - | 190 | - | - | - | 190 | 2,695 | 2,885 | 1,422 |
| Capitalized interest on loans and real estate owned | - | - | (1,439) | (17) | - | - | - | (1,456) | - | (1,456) | (1,096) |
| Interest earned on investments | (180) | (177) | (1,174) | (2,870) | (80) | (3) | (542) | (5,026) | (611) | (5,637) | (3,830) |
| Interest expense on bonds and notes | - | 1,028 | 24,083 | 558 | 22,729 | 318 | 542 | 49,258 | - | 49,258 | 34,631 |
| Financing expense on bonds | | | 27 | 16 | 1,189 | | | 1,232 | | 1,232 | 8,350 |
| Changes in assets and liabilities: | | | | | | | | | | | |
| Decrease (increase) in loans receivable and program mortgage backed secuirities, excluding loans transferred between funds | - | 29,926 | 21,854 | (1,817) | (221,726) | 132 | - | (171,631) | (10,771) | (182,402) | (68,574) |
| (Increase) decrease in interest receivable on loans | - | 18 | 994 | (23) | (616) | - | - | 373 | 23 | 396 | 148 |
| (Decrease ) increase in arbitrage rebate liability | - | - | - | - | - | - | - | - | - | - | - |
| (Decrease) increase in accounts payable | - | (35) | (563) | 2,043 | (402) | - | - | 1,043 | 40 | 1,083 | 2,125 |
| (Decrease) increase in interfund payable, affecting operating activities only | 509 | - | - | (7) | - | - | - | 502 | 1 | 503 | 299 |
| Increase in funds held for others | (1,350) | - | - | - | - | - | - | (1,350) | - | (1,350) | (1,529) |
| Other | (2,483) | 55 | 115 | - | - | - | - | (2,313) | 3 | (2,310) | (431) |
| Total | (1,707) | 30,462 | 58,376 | (8,242) | (165,118) | 447 | - | (85,782) | (7,455) | (93,237) | (30,048) |
| Net cash provided (used) by operating activities | $ 2,578 | $ 34,393 | $ 50,210 | $ 9,620 | $ (198,774) | $ 526 | $ - | $ (101,447) | $ (14,105) | $ (115,552) | $ (806) |

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

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and comprise the following at March 31, 2017 (in thousands):

| Funds | Deposits | Money Market Funds | State Investment Pool | Investment Agreements | Combined Totals |
|---|---|---|---|---|---|
| General Reserve | $ - | $ - | $ 69,842 | $ - | $ 69,842 |
| Rental Housing | - | 43,677 | - | - | 43,677 |
| Residential Housing Finance: | | | | | |
| Bonds | 388 | 133,032 | - | 3,259 | 136,679 |
| Pool 2 | 337 | 35,473 | - | - | 35,810 |
| Homeownership Finance | - | 35,957 | - | - | 35,957 |
| Multifamily Housing | - | 1,392 | - | - | 1,392 |
| HOMES℠ | - | - | - | - | - |
| Subtotal | 725 | 249,531 | 69,842 | 3,259 | 323,357 |
| Residential Housing Finance: | | | | | |
| Pool 3 | 9 | 6,114 | - | - | 6,123 |
| Total | $ 734 | $ 255,645 | $ 69,842 | $ 3,259 | $ 329,480 |

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

Investment Securities

Investment securities (comprising US Treasuries, US Agencies, municipals, and mortgage-backed securities*) are recorded at fair market value and were allocated to the following funds at March 31, 2017 (in thousands):

| Funds | Amortized Cost | Unrealized Appreciation in Fair Market Value | Estimated Fair Market Value |
|---|---|---|---|
| General Reserve | $ 19,868 | $ 82 | $ 19,950 |
| Rental Housing | 1,807 | 163 | 1,970 |
| Residential Housing Finance: | | | |
| Bonds | 545,114 | 6,885 | 551,999 |
| Pool 2 | 88,528 | (871) | 87,657 |
| Homeownership Finance | 1,143,278 | 21,143 | 1,164,421 |
| Multifamily Housing | - | - | - |
| HOMES[SM] | 21,677 | 383 | 22,060 |
| Subtotal | 1,820,272 | 27,785 | 1,848,057 |
| Residential Housing Finance: | | | |
| Pool 3 | 36,270 | 667 | 36,937 |
| Total | $ 1,856,542 | $ 28,452 | $ 1,884,994 |

*Mortgage-backed Securities Investments

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

**General Reserve & Bond Funds**
**Loans Receivable, net**
**(unaudited)**

Loans Receivable, net

Loans receivable, net at March 31, 2017 consist of the following (in thousands):

| Funds | Gross Loans Receivable | Allowance for Loan Losses | Loans Receivable, net |
|---|---|---|---|
| General Reserve | $ - | $ - | $ - |
| Rental Housing | 135,307 | (3,236) | 132,071 |
| Residential Housing Finance: | | | |
| Bonds | 584,368 | (2,453) | 581,915 |
| Pool 2 | 286,999 | (3,875) | 283,124 |
| Homeownership Finance | - | - | - |
| Multifamily Housing | 14,244 | (71) | 14,173 |
| HOMES$^{SM}$ | - | - | - |
| Subtotal | 1,020,918 | (9,635) | 1,011,283 |
| Residential Housing Finance: | | | |
| Pool 3 | 174,709 | (125,744) | 48,965 |
| Total | $ 1,195,627 | $ (135,379) | $ 1,060,248 |

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

**General Reserve & Bond Funds**
**Bonds Payable, net**
**(unaudited)**

Bonds Payable, net

Bonds payable, net at March 31, 2017 consist of the following (in thousands):

| Funds | Par Bonds Outstanding | Premiums on Bonds | Bonds Payable, Net |
|---|---|---|---|
| General Reserve | $ - | $ - | $ - |
| Rental Housing | 37,340 | | 37,340 |
| Residential Housing Finance: | | | |
| Bonds | 1,092,415 | 12,037 | 1,104,452 |
| Pool 2 | 15,865 | | 15,865 |
| Homeownership Finance | 1,142,414 | | 1,142,414 |
| Multifamily Housing | 14,020 | | 14,020 |
| Homes[SM] | 21,677 | | 21,677 |
| Subtotal | 2,323,731 | 12,037 | 2,335,768 |
| Residential Housing Finance: | | | |
| Pool 3 | - | | - |
| Total | $ 2,323,731 | $ 12,037 | $ 2,335,768 |

# APPENDIX D

# SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

The following statements are extracted provisions of the Continuing Disclosure Undertaking to be executed by the Agency in connection with the issuance of the Series Bonds.

**Purpose**

This Disclosure Undertaking is executed and delivered by the Agency for the benefit of the holders and owners (the "Bondholders") and the Beneficial Owners of the Series Bonds and in order to assist the Participating Underwriter in complying with the requirements of the Rule. There is no obligated person other than the Agency that is a party to the Disclosure Undertaking.

**Definitions**

In addition to the definitions set forth in the Resolutions, which apply to any capitalized term used in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

"*Annual Financial Information*" means the following financial information and operating data (in addition to Audited Financial Statements): information about the Mortgage Loans and Developments of a type substantially similar to that in Appendix A in the Official Statement.

"*Annual Financial Information Disclosure*" means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as described under the caption "Annual Financial Information Disclosure" herein.

"*Audited Financial Statements*" means the audited financial statements of the Agency, prepared pursuant to the standards and as described under the caption "Annual Financial Information Disclosure."

"*Beneficial Owners*" means (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Series Bond (including persons or entities holding Series Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Series Bond for federal income tax purposes, and such person or entity provides to the Trustee evidence of such beneficial ownership in form and substance reasonably satisfactory to the Trustee; or (2) in respect of a Series Bond not subject to a book-entry-only registration system, the registered owner or owners thereof appearing in the bond register maintained by the Trustee, as Registrar.

"*Commission*" means the Securities and Exchange Commission.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*Listed Event*" means the occurrence of any of the events with respect to the Series Bonds set forth below:

1. Principal and interest payment delinquencies;

2. Nonpayment-related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Agency (within the meaning of the Rule);

13. The consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

"*Listed Events Disclosure*" means dissemination of a notice of a Listed Event as described under the heading "Listed Events Disclosure" in this Appendix D.

"*MSRB*" means the Municipal Securities Rulemaking Board.

"*Participating Underwriter*" means each broker, dealer or municipal securities dealer acting as an underwriter in any primary offering of the Series Bonds.

"*Prescribed Form*" means, with regard to the filing of Annual Financial Information, Audited Financial Statements and notices of Listed Events with the MSRB at www.emma.msrb.org (or such other address or addresses as the MSRB may from time to time specify), such electronic format, accompanied by such identifying information, as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information.

"*Rule*" means Rule 15c2-12 adopted by the Commission under the Exchange Act, as the same may be amended from time to time.

"*Undertaking*" means the obligations of the Agency described under the headings "Annual Financial Information Disclosure" and "Listed Events Disclosure" in this Appendix D.

**Annual Financial Information Disclosure**

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year ended June 30, 2017, by one of the following methods: (i) the Agency may deliver such Annual Financial Information and the Audited Financial Statements to the MSRB within 120 days of the completion of the Agency's fiscal year or (ii) delivery of an Official Statement of the Agency to the MSRB within 120 days of the completion of the Agency's fiscal year, but only to the extent such Official Statement includes such Annual Financial Information and Audited Financial Statements.

The Agency is required to deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Agency will disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Disclosure Undertaking, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

All or a portion of the Annual Financial Information and the Audited Financial Statements may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Agency shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 120 days after the last day of the Agency's fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 business days after availability to the Agency.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by the Disclosure Undertaking, including for this purpose a change made to the fiscal year-end of the Agency, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

**Listed Events Disclosure**

The Agency hereby covenants that it will disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series Bonds or defeasance of any Series Bonds need not be given under this Disclosure Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Series Bonds pursuant to the Resolution.

**Consequences of Failure of the Agency To Provide Information**

The Agency shall give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Agency to comply with any provision of this Disclosure Undertaking, the Bondholder or Beneficial Owner of any Series Bond may seek specific performance by court order to cause the Agency to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution or any other agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Agency to comply with this Disclosure Undertaking shall be an action to compel performance.

**Amendment; Waiver**

Notwithstanding any other provision of this Disclosure Undertaking, the Agency may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if:

(i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;

(ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondholders of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Resolution at the time of the amendment; or

(iv) The amendment or waiver is otherwise permitted by the Rule.

**Termination of Undertaking**

The Undertaking of the Agency shall be terminated when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable.

**Additional Information**

Nothing in this Disclosure Undertaking shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Agency chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the Agency shall not have any obligation under this Disclosure Undertaking to update such information or include it in any future disclosure or notice of the occurrence of a Listed Event.

**Beneficiaries**

This Disclosure Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Disclosure Undertaking shall inure solely to the benefit of the Agency, the Bondholders and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

**Recordkeeping**

The Agency shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

# APPENDIX E

# SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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

**Resolution Constitutes Contract with Trustee and Bondholders**

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

**Definitions**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; (v) interest bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation, are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by each Rating Agency providing a Rating on Outstanding Bonds and maturing in 270 days or less; (viii) repurchase agreements and reverse repurchase agreements with banks which (1) are members of the Federal Deposit Insurance Corporation and (2) are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreements are secured by obligations described in the preceding clauses (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from each Rating Agency providing a Rating on Outstanding Bonds at the time the contract or agreement is made at least equal to the respective Rating of the Bonds by the related Rating Agency, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by each Rating Agency providing a Rating on Outstanding Bonds or such contracts or agreements are secured by obligations described in clauses (i), (ii), (iii) and (viii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least $50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i), (ii), (iii) and (viii) above; (xi) notes, bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; (xii) notes, bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by each Rating Agency providing a Rating on Outstanding Bonds; and (xiii) any other investment that as of the date made does not impair the Rating of any Outstanding Bonds.

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

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

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

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

*Outstanding*: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any

other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

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

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

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

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

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

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

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

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

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

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

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

**Authorization of Bonds**

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

**Other Obligations**

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

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

**Pledge of the Resolution**

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

**Custody and Application of Bond Proceeds**

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

*Note Accounts*. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note

Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

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

(i) the name of the Mortgagor to, and Development for, which the payment is to be made;

(ii) the amount to be paid; and

(iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

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

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

**Mortgage Provisions and Conditions**

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

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

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

and (iv) originals or photocopies of all other agreements and certificates of the Mortgagor relating to the Development.

*Participation*. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

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

(a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:

(i) the unpaid principal balance of the Mortgage Loan: plus

(ii) accrued interest to the date of the Prepayment; plus

(iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and

(b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

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

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

(a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;

(b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and

(c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

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

(a) obtained all governmental approvals required by law for the acquisition and construction of the Development;

(b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance

therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;

(c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

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

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

(a) receipt of full Prepayment conforming to the requirements stated below;

(b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;

(c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;

(d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;

(e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;

(f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or

(g) grant of a subordinate mortgage lien on the Development or a portion thereof.

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

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

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best

interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

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

(a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;

(b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;

(c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and

(d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

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

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

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

**Program Covenants—Revenue Covenant**

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and

things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

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

The Agency reserves the right:

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

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

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

**Deposit of Revenues and Other Money**

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

(a) Revenues to the Revenue Fund:

(b) Prepayments and Recovery Payments to the Redemption Fund; and

(c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

**Revenue Fund**

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

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

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

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

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

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

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

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

**Bond Fund**

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

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

applied to the payment of the principal or Accreted Value of said Bonds when due or transmit it to Paying Agents who shall apply it to such payment.

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

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

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

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

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

**Debt Service Reserve Fund**

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

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

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

(d) The Agency shall at all times maintain the Debt Service Reserve Fund and will do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service

Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of Article IV of the Bond Resolution and of the Act.

(e) In order to better secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve Fund) and (b) the amount, if any, determined by the Agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received into the Revenue Fund during that year, for the payment of the principal and interest due and payable in that year on all then Outstanding Bonds and Notes secured by the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund or Revenue Fund, as provided in the Bond Resolution.

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

**Expense Fund**

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

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

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

**Redemption Fund**

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

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any

money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

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

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

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

**Escrow Accounts**

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

**General Reserve Account**

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

**Investment and Deposit of Funds**

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

(b) Money in separate Funds may be commingled for the purpose of investment or deposit, subject to instructions from an Authorized Officer, to the extent possible in conformity with the provisions of paragraph (a) of this Section. Moneys in separate funds or series accounts may be invested in common

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

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

**Additional Bonds**

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

The Agency shall furnish to the Trustee:

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

(b) a Counsel's Opinion that:

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

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

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

(c) an Officer's Certificate stating:

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

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

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

the amount of interest payable on Variable Rate Bonds), which assumptions shall be based upon the Agency's reasonable expectations as of the date of such Officer's Certificate; and

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

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

The Trustee shall determine and certify:

(a) that it is has received the documents listed above; and

(b) that the amount of Bond proceeds or other funds of the Agency to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

**Hedge Agreements**

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

**Amendments of the Bond Resolution**

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

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

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

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Accreted Value thereof or

the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment, without unanimous consent of the Bondholders.

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

**Defeasance**

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

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

**Events of Default**

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

**Remedies**

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

# APPENDIX F

# BOOK-ENTRY-ONLY SYSTEM

**General**

The Depository Trust Company, New York, New York ("DTC"), is to act as securities depository for the Series Bonds. The ownership of one fully registered Series Bond for each maturity of the Series Bonds in the aggregate principal amount of that maturity will be registered in the name of Cede & Co., DTC's partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds, references herein to the Bondholders, Holders or registered owners of Series Bonds will mean Cede & Co. or the other nominee and will not mean the Beneficial Owners (as hereinafter defined) of the Series Bonds.*

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of beneficial ownership interests in the Series Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series Bonds on DTC's records. The ownership interest of each actual purchaser of each Series Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series Bonds, except in the event that use of the Book-Entry System for the Series Bonds is discontinued as described below.

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

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

Redemption notices will be sent to DTC. If less than all of the Series Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price, and interest on the Series Bonds will be made to Cede & Co., or another nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the bond issuer or trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of the Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price, and interest to Cede & Co. (or other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of payments to Direct Participants will be the responsibility of DTC, and disbursement of payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

*Neither the Agency, the Underwriter nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner that is required or permitted under the terms of the Resolutions to be given to Holders of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.*

**Discontinuation of Book-Entry System**

DTC may discontinue its book-entry services with respect to the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under those circumstances, the Series Bonds are required to be delivered as described in the Resolutions. The Beneficial Owner, upon registration of Series Bonds held in the Beneficial Owner's name, will become the Bondholder.

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

# APPENDIX G

# FORM OF OPINION OF BOND COUNSEL

_____, 2017

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Minnesota Housing Finance Agency
Rental Housing Bonds
2017 Series A

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2017 Series A, in the aggregate principal amount of $_____ (the "2017 Series A Bonds"), which are issuable only as fully registered bonds of single maturities in denominations of $5,000 or any integral multiple thereof.

The 2017 Series A Bonds are dated, mature on the date, bear interest at the rate and are payable as provided in the Series Resolution referenced below. The 2017 Series A Bonds are subject to optional and special redemption prior to maturity, including special redemption at par, as provided in the Series Resolution referenced below.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Bond Resolution adopted February 25, 1988, as amended and supplemented (the "Bond Resolution"), and the Series Resolution relating to the 2017 Series A Bonds adopted _____, 2017 (the "Series Resolution"). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the 2017 Series A Bonds with the covenants contained in the Bond Resolution, the Series Resolution and the loan documentation relating to the Development, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and other Funds held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2017 Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, and federal or state laws heretofore enacted appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2017 Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2017 Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the

Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to such Debt Service Reserve Fund; and (5) the interest payable on the 2017 Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided, however, that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any 2017 Series A Bond for any period during which such 2017 Series A Bond is held by a person who is a "substantial user" of the Development financed by the 2017 Series A Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Interest on the 2017 Series A Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations. Interest on the 2017 Series A Bonds will not be treated as an item of tax preference for purposes of calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the 2017 Series A Bonds. All owners of 2017 Series A Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2017 Series A Bonds.

Noncompliance by the Agency or the owner of the Development financed by the 2017 Series A Bonds with their covenants in the Bond Resolution, Series Resolution or applicable loan documentation relating to the Development may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the 2017 Series A Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2017 Series A Bonds, the Bond Resolution and the Series Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully yours,

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RESOLUTION NO. MHFA 17-014

RESOLUTION RELATING TO RENTAL HOUSING BONDS; AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A MULTIFAMILY HOUSING DEVELOPMENT IN MANKATO, MINNESOTA

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY:

**Section 1. Background and Recitals**. By Resolution No. MHFA 88-12, adopted February 25, 1988, as heretofore amended and supplemented (as so amended and supplemented and as from time to time hereafter amended or supplemented in accordance with its terms, the "Bond Resolution"), the Agency has provided the terms and conditions for the issuance and the covenants and agreements for the security of its Rental Housing Bonds to be issued for the purposes of its Program of making or purchasing Mortgage Loans to finance the acquisition, construction, rehabilitation and betterment of rental housing intended for occupancy primarily by persons of low and moderate income. It is now determined to be necessary and desirable to provide for the issuance of a series of Bonds pursuant to the Bond Resolution and Minnesota Statutes, Chapter 462A, as amended, to be used to finance one Mortgage Loan (the "Mortgage Loan") to a Mortgagor (the "Mortgagor") for the purposes of financing the acquisition and construction of the multifamily housing development (the "Development") described in Exhibit A hereto (which is hereby incorporated herein and made a part hereof). All terms defined in the Bond Resolution are used with like meaning in this resolution. This resolution is referred to herein as the "Series Resolution." The Mortgage Loan to the Mortgagor shall be evidenced by a Mortgage Note to be executed by the Mortgagor to the Agency and a Mortgage to be entered into between the Mortgagor and the Agency and certain other documents referred to in the Mortgage (collectively, the "Loan Documents").

**Section 2. Authorization of Series Bonds**.

(a) *Purpose*. To provide sufficient funds to be used and expended for the purposes set forth in Section 1, it is now determined to be necessary to issue one series of Bonds pursuant to the Bond Resolution, which is designated as "Rental Housing Bonds, 2017 Series," in the principal amount to be determined pursuant to Section 2(E) (the "Series Bonds"). The "2017" in the designation of the Bonds may be changed to "2018" and "Series" followed by an uppercase letter, each as an Authorized Officer of the Agency (as hereinafter defined) shall so designate. Proceeds of the Series Bonds are to be used:

(i) For the financing of the Mortgage Loan to the Mortgagor; and

(ii) Incident to this purpose, for the funding of the deposit of amounts determined by and pursuant to Section 303 of the Bond Resolution to be paid into the Funds and Accounts referred to in Sections 302 and 402 thereof.

(b) *Single Issue*. Pursuant to the provisions of Section 1.150-1(c)(1) of the Income Tax Regulations (the "Regulations"), the Agency may treat the Series Bonds, together with any other Bonds issued or to be issued pursuant to the Bond Resolution which may be sold by the Agency less than fifteen days apart from the date of sale of the Series Bonds, as a single issue of bonds. The Series Bonds and such other Bonds are herein collectively referred to as the "Issue."

(c) *Pledge*. The pledge made and security interests granted in the Bond Resolution and all covenants and agreements made by the Agency therein, are made and granted for the equal benefit, protection and security of the Holders of all of the Series Bonds and other Outstanding Bonds issued and to be issued thereunder, without preference, priority or distinction of one Bond over any other of any Series, except as otherwise expressly provided for therein.

(d) *Debt Service Reserve Requirements*. Upon issuance of the Series Bonds, the Debt Service Reserve Requirement for the Series Bonds shall be as established in the Officer's Certificate delivered by an Authorized Officer to the Trustee pursuant to Sections 5 and 6 of this Series Resolution.

(e) *Sale and Offering Documents*. The Agency hereby authorizes the issuance and sale of the Series Bonds for the purposes described in Section 2(a). It is acknowledged that the final terms of the Series Bonds have not been determined as of this date.

The Series Bonds may be offered for sale by negotiating for the sale of the Series Bonds to RBC Capital Markets, LLC, as underwriter (the "Underwriter") pursuant to a preliminary official statement and a bond purchase agreement.

The Agency has received and examined a draft of the form of a Preliminary Official Statement (the "Preliminary Official Statement"), containing information relating to the Agency, the Bond Resolution, the Series Resolution, the Development and the Series Bonds. Any of the Chair, the Commissioner, the Chief Financial Officer or the Finance Director (each an "Authorized Officer") is hereby authorized to finalize the Preliminary Official Statement and establish the date of sale of the Series Bonds.

Any Authorized Officer is hereby authorized to approve the final terms of the Series Bonds as follows, subject to the following parameters:

(i) the principal amount of the Series Bonds; provided that the principal amount of the Series Bonds is not in excess of $6,000,000;

(ii) the maturity date of the Series Bonds; provided that the Series Bonds mature at any time in such amount not later than 3 years from the Issue Date thereof;

(iii) the interest rate borne by the Series Bonds; provided that the interest rate on the Series Bonds shall not exceed 2.50%; and

(iv) the fee or other compensation payable to the Underwriter of the Series Bonds; provided that the fee or other compensation shall not exceed one and one half percent (1.50%) of the principal amount of the Series Bonds.

Such approval shall be conclusively evidenced by the execution of a bond purchase agreement with the Underwriter (the "Purchaser") by such Authorized Officer. The terms of the Series Bonds, including the purchase price, shall be set forth in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof.

Following a negotiated sale of the Series Bonds to the Underwriter, preparation and distribution of an Official Statement, substantially in the form of the Preliminary Official Statement, except for revisions required or approved by counsel for the Agency, and insertion of the final terms of such Series Bonds, is approved and the final Official Statement is authorized to be signed by the Chair or the Commissioner, and furnished to the Underwriter in a reasonable quantity for distribution to investors.

The Agency has received and examined a draft of the form of the bond purchase agreement (the "Bond Purchase Agreement"). An Authorized Officer is authorized to execute and deliver in the name and on behalf of the Agency the Bond Purchase Agreement with the Purchaser reflecting the terms of sale authorized pursuant to this Section 2(e).

(f) *Approval of Continuing Disclosure Undertaking*. The Agency has also examined the form of a Continuing Disclosure Undertaking relating to the Series Bonds, wherein the Agency will covenant for the benefit of the beneficial owners of the Series Bonds to provide annually certain financial information and operating data relating to the Agency and to provide notices of the occurrence of certain enumerated events. The Continuing Disclosure Undertaking is approved substantially in the form submitted and is authorized to be signed on behalf of the Agency by an Authorized Officer.

**Section 3. Forms**.

(a) *Generally*. The Series Bonds shall be issuable only in the form of fully registered Bonds, subject to transfer, re-registration and exchange as provided in Article VI of the Bond Resolution. The Series Bonds shall be numbered serially and no Series Bonds, whether issued initially or upon re-registration, transfer or exchange, shall bear the same number as any other Series Bond of the same series which is contemporaneously outstanding.

(b) *Form of Series Bonds*. The Series Bonds shall be in substantially the form of Exhibit B hereto (which is hereby incorporated herein and made a part hereof), with such additions, deletions or modifications as are permitted or required by the Bond Resolution or this Series Resolution, including but not limited to changes required as a result of the sale of the Series Bonds in accordance with Section 2(e) and the spacing and rearrangement of the text to facilitate machine entry of data upon registration, transfer and exchange.

**Section 4. Terms of Series Bonds**.

(a) *Issue Date, Denominations and Interest Payment Dates*. The Issue Date of the Series Bonds shall be the date of original delivery of the Series Bonds or such other date as shall be approved by an Authorized Officer and as set forth in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof. The Series Bonds shall be issued in denominations of $5,000 principal amount or any integral multiple thereof, not exceeding the principal amount maturing on any maturity date. Interest on the Series Bonds shall be payable each February 1 and August 1, commencing February 1, 2018, or a subsequent February 1 or August 1 as set forth in the Official Statement of the Agency furnished to the Underwriter pursuant to Section 2(e) of this Series Resolution or the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof, as the case may be.

(b) *Maturities, Interest Rates and Redemption*. The Series Bonds shall mature on the date or dates and in the principal amounts, shall bear interest at the rate or rates per annum, and shall be subject to redemption as set forth in the Official Statement of the Agency furnished to the Underwriter pursuant to Section 2(e) of this Series Resolution or in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) hereof, as the case may be, all subject to the limitations in Section 2(e).

(c) *Procedure for Redemption*. All actions taken by the Agency and the Trustee in the redemption of Series Bonds shall conform to the provisions of Article VII of the Bond Resolution, save and except as otherwise expressly provided in this paragraph. Upon selection of a Series Bond or Bonds or portions thereof to be redeemed, the Trustee shall give notice, in the name of the Agency, of the redemption of such Bonds, which notice shall contain the information required by Section 702 of the Bond Resolution. The Trustee shall mail such notice, postage prepaid, not less than thirty (30) days before the redemption date, to the registered Holder of any Series Bond all or a portion of which is to be redeemed, at the Holder's last address appearing on the registry books as of the Record Date. Notice having been so mailed, the Series Bond or Bonds or portion thereof therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the Trustee so as to be available therefor, interest thereon shall cease to accrue, and such Series Bonds or portions thereof shall no longer be considered Outstanding under the Bond Resolution.

(d) *Trustee*. The principal amount of and interest and any redemption premium on the Series Bonds shall be payable in lawful money of the United States by check drawn to the order of the registered owner, or other agreed means of payment, by Wells Fargo Bank, National Association, in Minneapolis, Minnesota, the Trustee and Paying Agent under the Bond Resolution, or its successor, and shall be payable to the registered owner as shown on the registry books as of the Record Date. The principal amount of and any redemption premium on a Series Bond shall be payable only upon surrender of the Series Bond at the Principal Office of the Trustee (subject to the provisions of Section 607 of the Bond Resolution in the case of Bonds which are mutilated, destroyed, stolen or lost), except as otherwise provided in Section 5(b) herein.

(e) *Record Date*. For purposes of this Series Resolution, where the Trustee is required to establish a Record Date hereunder, said Record Date for (i) payment of principal of and interest on the Series Bonds shall be the fifteenth (15th) day (whether or not a business day) of the month immediately preceding the payment date and (ii) for purposes of giving notice of redemption or other notice pursuant to the provisions of the Bond Resolution or Series Resolution, the last business day of the month preceding the month in which such notice is mailed.

**Section 5. Issuance and Delivery**.

(a) *Preparation and Execution*. The Series Bonds shall be prepared in substantially the form incorporated herein, in denominations requested by the Purchaser, and shall be executed in the manner provided in Article VI of the Bond Resolution, by the facsimile signatures of the Chairman and Commissioner of the Agency and shall be authenticated by the Trustee by manual signature of an authorized representative and shall be delivered to the Purchaser after compliance with the conditions set forth in this Section and upon deposit of the proceeds with the Trustee.

(b) *Securities Depository*.

(i) For purposes of this section the following terms shall have the following meanings:

"Beneficial Owner" shall mean, whenever used with respect to a Series Bond, the person in whose name such Series Bond is recorded as the beneficial owner of such Series Bond by a Participant on the records of such Participant, or such person's subrogee.

"Cede & Co." shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Series Bonds.

"Participant" shall mean any broker-dealer, bank or other financial institution for which DTC holds Series Bonds as securities depository.

(ii) The Series Bonds shall be initially issued as separately authenticated fully registered bonds, and one Series Bond shall be issued in the principal amount of each stated maturity of the Series Bonds. Upon initial issuance, the ownership of the Series Bonds shall be registered in the bond register in the name of Cede & Co., as nominee of DTC. The Trustee and the Agency may treat DTC (or its nominee) as the sole and exclusive owner of the Series Bonds registered in its name for the purposes of payment of the principal of, premium, if any, and interest on the Series Bonds, selecting the Series Bonds or portions thereof to be redeemed, if any, giving any notice permitted or required to be given to registered owners of Series Bonds under the Bond Resolution or this Series Resolution, registering the transfer of Series Bonds, and for all other purposes whatsoever, and neither the Trustee nor the Agency shall be affected by any notice to the contrary. Neither the Trustee nor the Agency shall have any responsibility or obligation to any Participant, any person or entity claiming a

beneficial ownership interest in the Series Bonds under or through DTC or any Participant, or any other person or entity which is not shown on the bond register as being a registered owner of any Series Bonds, with respect to the accuracy of any records maintained by DTC or any Participant, with respect to the payment by DTC or any Participant of any amount with respect to the principal of, premium, if any, and interest on the Series Bonds, with respect to any notice which is permitted or required to be given to owners of Series Bonds under the Bond Resolution or this Series Resolution, with respect to the selection by DTC or any Participant of any person or entity to receive payment in the event of a partial redemption of the Series Bonds, or with respect to any consent given or other action taken by DTC as registered owner of the Series Bonds. So long as any Series Bond is registered in the name of Cede & Co., as nominee of DTC, the Trustee shall pay all principal of, premium, if any, and interest on such Series Bond, and shall give all notices with respect to such Series Bond, only to Cede & Co. in accordance with DTC's Operational Arrangements, and all such payments shall be valid and effective to fully satisfy and discharge the Agency's obligations with respect to the principal of, premium, if any, and interest on the Series Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the Series Bonds will be transferable to such new nominee in accordance with subsection (4) hereof.

(iii) In the event the Agency determines to discontinue the book-entry-only system through DTC with respect to the Series Bonds, the Agency may notify DTC and the Trustee, whereupon DTC shall notify the Participants of the availability through DTC of Series Bonds in the form of certificates. In such event, the Series Bonds will be transferable in accordance with subsection (iv) hereof. DTC may determine to discontinue providing its services with respect to the Series Bonds at any time by giving notice to the Agency and the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Series Bonds will be transferable in accordance with subsection (iv) hereof.

(iv) In the event that any transfer or exchange of Series Bonds is permitted under subsection (ii) or (iii) hereof, such transfer or exchange shall be accomplished upon receipt by the Trustee of the Series Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee in accordance with the provisions of the Bond Resolution and this Series Resolution. In the event Series Bonds in the form of certificates are issued to registered owners other than Cede & Co., its successor as nominee for DTC as registered owner of all the Series Bonds, or another securities depository as registered owner of all the Series Bonds, the provisions of the Bond Resolution and this Series Resolution shall also apply to all matters relating thereto, including, without limitation, the printing of such Series Bonds in the form of bond certificates and the method of payment of principal of, redemption premium, if any, and interest on such Series Bonds.

(c) *Opinion and Officer's Certification*. The Trustee has been furnished a copy of the Bond Resolution. Before delivery of the Series Bonds, the Agency shall furnish to the Trustee a certified copy of this Series Resolution, together with an Opinion of Counsel to the Agency and an Officer's Certificate executed by an Authorized Officer, in form and substance as required in Section 203 of the Bond Resolution and Sections 2(e), 4(a), 4(b) and 6 of this Series Resolution, and shall obtain from the Trustee the certification required in Section 203(C) of the Bond Resolution.

**Section 6. Application of Proceeds; Funds and Accounts**. Proceeds of the Series Bonds, and funds of the Agency, if required, shall be deposited to accounts in the Bond Fund relating to such Series Bonds, and to the Cost of Issuance Account and Project Account relating to such Series Bonds, or used to reimburse the Agency for funds it advances pursuant to Section 11, all as set forth in the Officer's Certificate delivered by an Authorized Officer pursuant to Section 5(c) of this Series Resolution.

**Section 7. General Tax Covenant**. The Agency will not take, or permit or cause to be taken, any action that would adversely affect the exclusion from federal gross income of the interest on any Series Bonds, nor otherwise omit to take or cause to be taken any action necessary to maintain such exclusion from gross income and, if it should take or permit, or omit to take or cause to be taken, as appropriate, any such action, the Agency shall take all lawful actions necessary to rescind or correct such actions or omissions promptly upon having knowledge thereof.

**Section 8. Specific Tax Covenants relating to the Development**. In fulfillment of the general covenant set forth in Section 7, the Agency represents as follows:

(a) The Development financed will be acquired and constructed for the purpose of providing multifamily residential rental property and will constitute a "qualified residential rental project," as such phrase is used in Sections 142(a)(7) and 142(d) of the Code.

(b) At least forty percent (40%) of the completed units in the Development shall be occupied (or treated as occupied) by Qualifying Tenants. "Qualifying Tenants" shall mean those persons and families (treating all occupants of a unit as a single family) who shall be determined from time to time by the Mortgagor to be eligible as "individuals whose income is sixty percent (60%) or less of area median gross income" within the meaning of Section 142(d)(2)(B) of the Code. The term of the foregoing restrictions shall commence on the date of issuance of the Series Bonds and shall end on the latest of the following: (i) the date which is 15 years after the date on which at least 50% of the units in the Development were first occupied; or (ii) the first day on which none of the Series Bonds are Outstanding; or (iii) the termination date of any Housing Assistance Payments Contract relating to the Development under Section 8 of the United States Housing Act of 1937, including the initial term and any renewal thereof.

(c) Each unit in the Development will be rented or available for rental to members of the general public on a continuous basis for the longer of (i) the period

during which any of the Series Bonds remain Outstanding or (ii) the term of the restrictions set forth in subsection (a) of this Section 8.

(d) At no time will either the Mortgagor or any related party be permitted to occupy a unit in the Development other than units occupied or to be occupied by agents, employees or representatives of the Mortgagor and reasonably required for the proper maintenance or management of the Development. In the event a unit within the Development is occupied by the Mortgagor, the Development will include no fewer than four units not occupied by the Mortgagor.

(e) The Development consists of a single "development" and, for this purpose, proximate buildings or structures are part of the same development only if owned for federal income tax purposes by the same person or entity and if the buildings are financed pursuant to a common plan; buildings or structures are proximate if they are all located on a single parcel of land or several parcels of land which are contiguous except for the interposition of a road, street, stream or similar property.

(f) None of the units in the Development will at any time be utilized on a transient basis, or used as a hotel, motel, dormitory, fraternity house, sorority house, rooming house, hospital, sanitarium or rest home.

(g) The Mortgagor shall not restrict Qualifying Tenants (as defined in the Loan Documents) from the enjoyment of unrestricted access to all common facilities and common areas of the Development.

(h) The Mortgagor shall not discriminate on the basis of race, creed, color, sex, or national origin in the lease, use or occupancy of the Development or in connection with the employment or application for employment of persons for the operation and management of the Development.

(i) No portion of the Development is presently used for purposes other than residential rental purposes and the Agency will not permit any other use unless it first obtains an opinion of bond counsel that such use will not impair the exclusion from federal gross income for interest payable on the Series Bonds.

**Section 9. Additional Federal Tax Covenants Relating to the Development Financed and the Series Bonds**. In furtherance of the general tax covenant made in Section 7 above, the Agency further represents as follows:

(a) All proceeds of the Series Bonds lent to the Mortgagor will be used to finance costs properly chargeable to the capital account of the Development within the meaning of Section 142(d) and functionally related and subordinate property thereto.

(b) No portion of the proceeds of the Series Bonds lent to the Mortgagor will be used to provide any airplane, skybox, or other private luxury box, health club facility, facility primarily used for gambling or liquor store.

(c) No portion of the proceeds of the Series Bonds lent to the Mortgagor will be used to acquire (i) property to be leased to the government of the United States of America or to any department, agency or instrumentality of the government of the United States of America, (ii) any property not part of the Development, or (iii) any private or commercial golf course, country club, massage parlor, tennis club, skating facility (including roller skating, skateboard and ice-skating), racquet sports facility (including any handball or racquetball court), hot tub facility, suntan facility or racetrack.

(d) No portion of the proceeds of the Series Bonds lent to the Mortgagor shall be used for the acquisition of land (or an interest therein) to be used for farming purposes, and less than twenty-five percent (25%) of the proceeds of the Series Bonds lent to the Mortgagor shall be used for the acquisition of land to be used for purposes other than farming purposes.

(e) [Reserved]

(f) The average reasonably expected economic life of the Development within the meaning of Section 147(b) of the Code is not less than 25 years.

(g) In order to qualify the Mortgage Note and Mortgage received from the Mortgagor as "program investments" within the meaning of Section 1.148-1(b) of the Treasury Regulations, the Agency will not permit the Mortgagor (or any "related person" thereto within the meaning of Section 147(a) of the Code) to take any action the effect of which would be to disqualify the Mortgage Note and Mortgage as part of a "program" under said Section 1.148-1(b), including, but not limited to, entering into any arrangement, formal or informal, with the Mortgagor or any related party to purchase bonds or notes of the Agency in an amount related to the amount of the Mortgage Note and Mortgage.

(h) In accordance with the requirements of Section 147(f) of the Code, the Agency has held a public hearing on the issuance of the Series Bonds after published notice as required by the Regulations and will obtain the approval of the Governor of the State for the issuance of the Series Bonds.

(i) Not more than 2% of the proceeds of the Series Bonds will be applied to the payment of Costs of Issuance, and all Costs of Issuance in excess of that amount, if any, will be paid by the Agency from funds other than proceeds of the Series Bonds.

(j) No obligations the interest on which is excludable from gross income for federal income tax purposes have been or will be issued which were sold at substantially the same time as the Issue, sold pursuant to the same plan of financing as the Issue and which are reasonably expected to be paid from substantially the same source of funds as the Issue.

(k) The Series Bonds will not be hedge bonds since the Agency reasonably expects to use at least 85% of the spendable proceeds of the Issue to make or purchase Mortgage Loan within three years after the date of issue of the Issue and not more than

50% of the proceeds of the Issue will be invested in nonpurpose investments having a substantially guaranteed yield for four years or more.

(l) The Series Bonds shall be counted against the unused volume cap of the Agency under the provisions of Section 146 of the Code and applicable state law carried forward from calendar year 2016. The Agency has unused volume cap in excess of the amount of the Series Bonds and shall take all necessary action to allocate the required portion of its unused volume cap to the Series Bonds.

(m) None of the proceeds of the Series Bonds will be used by the Agency to reimburse itself or a Mortgagor for any expenditure with respect to the Development which the Agency or the Mortgagor paid or will have paid more than 60 days prior to the issuance of the Series Bonds unless, with respect to such prior expenditures, the Agency shall have made a declaration of official intent which complies with the provisions of Section 1.150-2 of the Regulations; provided that this certification shall not apply (i) with respect to certain de minimis expenditures, if any, with respect to the Development meeting the requirements of Section 1.150-2(f)(1) of the Regulations, or (ii) with respect to "preliminary expenditures" for the Development as defined in Section 1.150-2(f)(2) of the Regulations, including engineering or architectural expenses and similar preparatory expenses, which in the aggregate do not exceed 20% of the "issue price" of the Series Bonds.

**Section 10. Arbitrage**. The Agency covenants that it will not use the proceeds of the Series Bonds in such a manner as to cause the Series Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code and applicable Treasury Regulations. The Agency will take all actions as may be prescribed in the future by regulations or rulings of the Internal Revenue Service to assure that the Series Bonds will meet the requirements of Section 148 of the Code relating to arbitrage, to-wit:

(a) The effective rate of interest on the Mortgage Loan purchased in whole or in part from the proceeds of the Series Bonds may not exceed the yield on the Issue, computed in accordance with Section 148 of the Code, by more than one and one-half percentage points.

(b) The Agency acknowledges that the Series Bonds are subject to the rebate requirements of Section 148(f) of the Code and applicable Regulations. The Agency agrees that it will retain such records, make such determinations, file such reports and documents and pay such amounts at such times as required under Section 148(f) of the Code and applicable Regulations to preserve the exclusion of interest on the Series Bonds from gross income for federal income tax purposes.

**Section 11. Advance of Agency Funds**. If the Mortgage Loan must be made before proceeds of the Series Bonds are available therefor, Agency funds legally available therefor shall be advanced by the Agency to fund the Mortgage Loan in anticipation of the issuance of the Series Bonds, and proceeds of the Series Bonds shall be used, to the extent required, to reimburse the Agency funds or accounts from which such advance was made.

**Section 12. Discretion of Authorized Officer**. Notwithstanding anything contained in the foregoing sections of this Series Resolution, if an Authorized Officer, upon consultation with the Chair and upon the advice of bond counsel or counsel to the Agency, determines that it is not in the best interests of the Agency to issue and sell the Series Bonds or any portion thereof (subject to any applicable provisions of any bond purchase agreement theretofore executed or the terms and conditions of the public sale of the Series Bonds following the award thereof), then such Series Bonds shall not be issued or sold in accordance with this Series Resolution.

[Remainder of page intentionally left blank]

Adopted by the Minnesota Housing Finance Agency this 22nd day of June, 2017.

By: _____
Chairman

Attest: _____
Commissioner

[Signature page to Resolution No. MHFA 17-014]

# EXHIBIT A

## DESCRIPTION OF MORTGAGOR AND DEVELOPMENT

| Mortgagor | Name | Location | Number of Units |
|---|---|---|---|
| CB Mankato Housing Limited Partnership | Dublin Crossing | Mankato, MN | 50 |

**EXHIBIT B**

**FORM OF SERIES BONDS**

No.____ $_____

UNITED STATES OF AMERICA - STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

RENTAL HOUSING BOND
[2017] SERIES __

| **Interest Rate** | **Maturity** | **Date of Original Issue** | **CUSIP** |
|---|---|---|---|

The Minnesota Housing Finance Agency, a public body corporate and politic organized and existing under the provisions of Minnesota Statutes, Chapter 462A, as amended, for value received promises to pay to

CEDE & CO.

or registered assigns, the principal sum of _____ DOLLARS

on the maturity date specified above, with interest thereon from the date hereof at the annual rate specified above (computed on the basis of a 360-day year composed of twelve 30-day months), payable on February 1 and August 1 in each year, commencing _____, until said principal amount is paid, subject to the provisions referred to herein with respect to the redemption of principal before maturity. The interest hereon and, upon presentation and surrender hereof, the principal and any redemption premium with respect to this Series Bond are payable in lawful money of the United States of America by check or draft, or other agreed means of payment, to the order of the registered owner hereof as shown on the registry books of the Trustee as of the Record Date by Wells Fargo Bank, National Association, in Minneapolis, Minnesota, Trustee under the Bond Resolution referred to below, or its successor. For the prompt and full payment thereof when due the full faith and credit of the Agency are irrevocably pledged. This Series Bond is a general obligation of the Agency, payable out of any of its moneys, assets or revenues, subject to the provisions of resolutions or indentures now or hereafter pledging particular moneys, assets or revenues to particular notes or bonds, and state laws heretofore or hereafter enacted appropriating particular funds for a specified purpose. The Agency has no taxing power. The State of Minnesota is not liable hereon, and this Series Bond is not a debt of the State.

This Series Bond is one of a duly authorized series of Rental Housing Bonds, [2017] Series __, issued in the original aggregate principal amount of $_____ (the "Series Bonds"), to provide funds needed to finance the acquisition and construction of a multifamily

housing development in Mankato, Minnesota (the "Development"). The Series Bonds are issued under and pursuant to the Agency's Bond Resolution, No. MHFA 88-12, dated February 25, 1988, as amended and supplemented, and its Series Resolution, No. MHFA 17-014, adopted June 22, 2017, to which resolutions, including all supplemental resolutions adopted pursuant to the provisions thereof, reference is made for a description of the revenues, money, securities, funds and accounts pledged to the Trustee for the security of the Holders of the Bonds, including the Series Bonds, the respective rights thereunder of the Agency, the Trustee and other fiduciaries and the Holders of the Bonds, including the Series Bonds, and the terms upon which the Bonds, including the Series Bonds, are issued, delivered and secured.

The Series Bonds are issuable only in fully registered form and comprise current interest bonds of a single stated maturity. The Series Bonds are issued in denominations of $5,000 principal amount or integral multiples thereof not exceeding the principal amount maturing in any year.

The Series Bonds are subject to special redemption at the option of the Agency, in whole or in part, on any date, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption, without premium, (i) from unexpended proceeds of the Series Bonds not used to finance the Development, together with allocable amounts on deposit in the Debt Service Reserve Fund, if any; or (ii) from Recovery Payments (as defined in Section 103 of the Bond Resolution) relating to the Development allocable to the Series Bonds. If said Recovery Payments allocable to the Series Bonds are not sufficient to redeem all Outstanding Series Bonds, the Agency may apply other funds to the special redemption of the Series Bonds in addition to the allocable amount of Recovery Payments.

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

Upon any redemption of the Series Bonds or portions thereof, the Trustee will select them in a manner specified by the Agency. Upon partial redemption of the Series Bonds, a new Series Bond will be delivered to the Holder without charge, representing the remaining principal amount outstanding.

Notice of any redemption of Series Bonds will be mailed to the registered Holders of the Series Bonds (or portions thereof) to be redeemed, at their last addresses on the registry books as of the Record Date, not less than thirty (30) days before the redemption date, stating (i) the principal amount to be redeemed, (ii) the maturities of the Series Bonds to be redeemed, (iii) that on the redemption date the redemption price of the Series Bonds or portions thereof to be redeemed will be payable, with accrued interest, and (iv) that thereafter interest will cease to accrue or be payable thereon. No failure to give such notice or defect in the notice shall affect the validity of the proceedings for the redemption of Series Bonds not affected by such failure or defect. Notice having been so mailed, the Series Bonds or portions of Series Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the Trustee so as to be available therefor, interest thereon shall cease to accrue, and such Series Bonds or portions thereof shall no longer be considered Outstanding under the Bond Resolution.

The Agency has issued Bonds and the Bond Resolution also authorizes additional Series of Bonds to be issued and secured by the pledge made and security interest granted therein, all of which, regardless of the times of issue or maturity, will be of equal rank with Outstanding Bonds without preference, priority or distinction of any Bond of any series over any other except as expressly provided or permitted in the Bond Resolution, subject to conditions specified in the Bond Resolution, including conditions (a) that after each such issuance there will be scheduled payments of principal and interest on Mortgage Loans then held by the Agency or to be made or purchased by the Agency from the proceeds of such Series of Bonds (or from the proceeds of notes paid or to be paid from the proceeds of the Bonds) which, with any other legally enforceable payments with respect to such Mortgage Loans, and with interest or other income estimated by the Agency to be derived from the investment or deposit of money available therefor in all funds and accounts created by the Bond Resolution, will be sufficient to pay the principal installments of and interest on the Bonds then Outstanding and the additional Series of Bonds; and (b) that the balance in the Debt Service Reserve Fund immediately prior to the issuance of such Bonds is not less than the Debt Service Reserve Requirement computed with reference to the Outstanding Bonds (except Outstanding Bonds which are to be refunded by such additional Bonds) and shall be increased, if necessary, by the deposit of Bond proceeds or other funds to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

The Bond Resolution permits, with certain exceptions, the modification or amendment thereof and of the rights and obligations of the Agency and of the Holders of the Bonds thereunder, by a supplemental bond resolution adopted with the written consent, filed with the Trustee, of the Holders of at least a majority in principal amount of the Bonds Outstanding at the time the consent is given. Any such resolution shall be binding upon the Agency and all fiduciaries and Holders of Bonds at the expiration of thirty days after filing with the Trustee of proof of mailing of notice that the required consent has been given. Supplemental resolutions may also be adopted, effective immediately, for the purpose of adding restrictions on or covenants by or surrendering privileges of the Agency, authorizing additional Bonds, or making provisions affecting only Bonds not yet issued, and may also be adopted, effective upon consent of the Trustee, for the purpose of curing or correcting an ambiguity, omission, defect or inconsistency, or inserting provisions not inconsistent with the Bond Resolution, clarifying matters or questions arising under it. Every Holder hereof is deemed by purchase and retention of this Series Bond to consent to be bound by every supplemental resolution and every modification and amendment adopted in accordance with the provisions of the Bond Resolution, whether or not noted or endorsed hereon or incorporated herein.

No Holder of any Bond may institute any suit, action or proceeding in equity or at law for the enforcement of any provision of the Bond Resolution or for the execution of any trust thereunder or for any other remedy thereunder except upon the conditions therein provided, but nothing therein shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on each Bond, or the obligation of the Agency to pay the same at the time and place expressed in the Bond.

IT IS CERTIFIED AND RECITED that all acts, conditions and things required by the Constitution and laws of the State of Minnesota to exist, to happen and to be performed precedent to and in the issuance of this Series Bond in order to make it a valid and binding general obligation of the Agency in accordance with its terms do exist, have happened and have been performed in due form, time and manner as so required; and that the issuance of this Series Bond does not cause the indebtedness of the Agency to exceed any constitutional or statutory limitation.

As provided in the Bond Resolution and subject to certain limitations set forth therein, this Series Bond is transferable upon the books of the Minnesota Housing Finance Agency at the principal corporate trust office of Wells Fargo Bank, National Association, in Minneapolis, Minnesota, the Trustee thereunder, by the registered owner hereof in person or by the owner's attorney duly authorized in writing, upon surrender hereof together with a written instrument of transfer satisfactory to the Trustee, duly executed by the registered owner or the owner's duly authorized attorney. Upon such transfer the Agency will issue in the name of the transferee a new Series Bond or Bonds of the same aggregate principal amount, Series, interest rate and maturity as the surrendered Series Bond, subject to reimbursement for any tax, fee or governmental charge required to be paid by the Agency or the Trustee with respect to such transfer.

The Agency and the Trustee under the Bond Resolution may deem and treat the person in whose name this Series Bond is registered upon the books of the Agency as the absolute owner hereof, whether this Series Bond is overdue or not, for the purpose of receiving payment of or on account of the principal, redemption price or interest and for all other purposes, and all such payments so made to the registered owner or upon the owner's order shall be valid and effectual to satisfy and discharge the liability upon this Series Bond to the extent of the sum or sums so paid, and neither the Agency nor the Trustee shall be affected by any notice to the contrary.

Notwithstanding any other provisions of this Series Bond, so long as this Series Bond is registered in the name of Cede & Co., as nominee of The Depository Trust Company, or in the name of any other nominee of The Depository Trust Company or other securities depository, the Trustee shall pay all principal of, premium, if any, and interest on this Series Bond, and shall give all notices with respect to this Series Bond, only to Cede & Co. or other nominee in accordance with the operational arrangements of The Depository Trust Company or other securities depository as agreed to by the Agency.

[Remainder of page intentionally left blank]

Unless the Trustee's Certificate hereon has been manually executed by or on behalf of the Trustee, this Series Bond shall not be entitled to any benefit under the Bond and Series Resolutions or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Agency has caused this Series Bond to be executed by the facsimile signatures of its Chairman and Commissioner, the Agency having no corporate seal, and has caused this Series Bond to be dated as of the date set forth below.

Date of Authentication: _____

Trustee's Certificate

This is one of the Series Bonds delivered pursuant to the Bond and Series Resolutions mentioned within.

WELLS FARGO BANK, NATIONAL ASSOCIATION, Minneapolis, Minnesota, as trustee

By:_____
Authorized Representative

MINNESOTA HOUSING FINANCE AGENCY

By: _____
Chairman (Facsimile Signature)

Attest: _____
Commissioner (Facsimile Signature)

_____

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

_____
(please print or type name and address of transferee)

the within Bond and all rights thereunder and does hereby irrevocably constitute and appoint _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated:_____ _____

NOTICE: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever

Signature Guaranteed:_____
Signature(s) must be guaranteed by an "eligible guarantor institution" meeting the requirements of the Trustee, which requirements include membership or participation in STAMP or such other "signature guaranty program" as may be determined by the Trustee in addition to or in substitution for STAMP, all in accordance with the Securities Exchange Act of 1934, as amended.

Please insert social security or other identifying number of assignee:

_____

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**Board Agenda Item:** 7.B
**Date: 6/22/2017**

**Item:** Approval, Selection/Commitment, Housing Trust Fund – Rental Assistance for Exploited Families Pilot

**Staff Contact(s):**
Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us
Joel Salzer, 651.296.9828, joel.salzer@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Staff requests approval for the selection, commitment and funding of $210,000 from the state appropriated Housing Trust Fund to Hmong American Partnership (HAP) for the Rental Assistance for Exploited Families Pilot. In collaboration with Asian Women United of Minnesota (AWUM) and SEWA-AIFW (Asian Indian Family Wellness), HAP will provide rental assistance and support services to up to 10 households experiencing housing instability and who have a family member who has been a victim of gender-based violence.

**Fiscal Impact:**
This activity was budgeted under the 2017 Affordable Housing Plan.

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

**Attachments:**
- Background
- Resolution

**Background**

The 2016 Minnesota legislature established the Rental Assistance for Exploited Families Pilot under the Housing Trust Fund (HTF) to serve individuals or families from emerging communities who are at risk of being homeless and who have been victims of gender-based violence, including but not limited to, domestic violence, sexual assault, trafficking, international abusive marriage or forced marriage. For this purpose, the term "emerging communities" is defined as communities that are unfamiliar with mainstream government services and that have limited English proficiency. The one-time appropriation of $500,000 is not subject to renewal.

The concept for this pilot was developed and advocated for by the Council on Asian Pacific Minnesotans (CAPM), with some of its constituent members offering various types of support during the legislative process. As such, Minnesota Housing staff met with CAPM staff to more deeply understand the intent of the legislation, this particular subpopulation, and their unique strengths and needs relative to a rental assistance pilot program.

Minnesota Housing staff also met with representatives from the Department of Human Services - Office of Economic Opportunity (DHS-OEO) and the Department of Public Safety (DPS), as both have experience contracting with Asian Pacific Minnesotan organizations as well as organizations providing services for victims of domestic violence and who could offer insights and guidance on how to create a pilot program that might best serve this subpopulation. Once the pilot framework was created, Minnesota Housing staff hosted a meeting for interested stakeholders, including potential applicants, to share the purpose of this funding, the intended goals and the proposed pilot concept, and to gain more insight about how to structure the pilot to best serve the intended population.

Upon conclusion of the input gathering process, staff proposed that the Exploited Families Pilot would provide up to two years of rental assistance to serve individuals or families from emerging communities who are at risk of being homeless and who have been victims of gender-based violence. Minnesota Housing staff also proposed that access to case management be a required component of the pilot, as participants may not be well connected to mainstream services and therefore likely to need housing supports to obtain permanent housing and become stabilized.

While this funding cannot be used to pay for services, staff from both DHS-OEO and DPS indicated that several of their funding sources may be used for these types of support services. Furthermore, DHS-OEO staff stated that in May 2017, they would be issuing an RFP for their Transitional Housing Program (THP) funding, a resource that could be used to pay for eligible support services. They agreed to give consideration to THP applicants who indicated they were also applying for the Exploited Families Pilot.

Staff developed the following scoring criteria to use during the applications review phase of the Request for Proposals (RFP):

**Program Design (50 points)**

- Meets the purpose of this RFP
- Proposes a viable outreach plan for the defined population

- Proposes a viable transition plan, enabling participants to positively exit from the rental assistance program within the maximum assistance term of 24 months
- Provides evidence of a plan for collaboration between partners, if a partnership is proposed
- Provides evidence of access to eligible housing within a proposed service area
- Incorporates evidence-based best practices and appropriate services
- Outlines a plan to collect and provide program evaluation data including, but not limited to: participant income, length of stay and exit data

**Leveraged Resources (15 points)**

- Incorporates other resources and service funding into the project
- Has a viable plan to access additional service funding resources, if required
    - This may include submission of application for DHS-OEO Transitional Housing Program funding for housing support services

**Reasonableness of Budget and Utilization Proposal (10 points)**

- Housing costs are within local payment standards
- Subsidy projections are reasonable
- Utilization timeline is reasonable

**Applicant Experience (25 points)**

- Demonstrates experience and the ability in the administration of HTF or similar rental assistance programs or proposes partnership with an organization that has this experience
- Demonstrates experience and ability to provide culturally and linguistically appropriate services to the defined population or proposes partnership with an organization that has this experience

The Exploited Families Pilot RFP was published on December 19, 2016. Because this RFP would be targeted to applicants who may be unfamiliar with Minnesota Housing's RFP process and therefore need more time to develop an application, staff set the due date for February 27, 2017. Additionally, on January 12, 2017, staff held a Question & Answer session for potential applicants.

Minnesota Housing received one application, from HAP, requesting $210,500. Staff from Minnesota Housing, DHS-OEO and DPS reviewed, scored and provided input on the application. HAP proposed to partner with AWUM and SEWA-AIFW to provide referrals and support services. This partnership deepens the opportunity to further reach the various ethnic populations who may be experiencing gender-based violence and who are likely unconnected with mainstream services. The partnership offers assistance to engage potential participants, and to help them search for, secure and maintain stable housing.

In the application, HAP did not adequately describe either their capacity to administer a similar rental assistance program nor a sustainable service funding source. Consequently, Minnesota Housing staff informed HAP of these determinations and offered an opportunity for them to remedy these deficiencies. On May 19, 2017, HAP provided information that satisfied the threshold criteria. To demonstrate capacity to administer a rental assistance program, HAP will partner with Neighborhood

House, a current HTF rental assistance administer, to fulfill these duties. To address the service funding concerns, HAP submitted an application to DHS-OEO for their THP funding. DHS-OEO will be making THP funding decision by the end of this month. Should they be unsuccessful in securing THP funding, HAP has guaranteed to fund the required services via other organizational resources.

As the population to be served will include victims of domestic violence, client data will not be entered into Minnesota's Homeless Management Information System (HMIS), thereby limiting the amount and types of client information available for analysis. However, HAP will be required to provide certain non-identifiable client data as well as data on program development, implementation and operations. These combined data elements will afford Minnesota Housing staff the ability to evaluate the program upon completion.

Any uncommitted funds from the original $500,000 appropriation may be made available at a later date. Both the target audience and selection criteria may need to be refined so that the funds may still be used for the intended purpose

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

**RESOLUTION NO. MHFA 17- XXX**

**RESOLUTION APPROVING SELECTION/COMMITMENT TO FUND THE HOUSING TRUST FUND (HTF) EXPLOITED FAMILIES RENTAL ASSISTANCE PILOT**

WHEREAS, the Minnesota Housing Finance Agency (Minnesota Housing) has received a request to provide funds for a pilot program for households experiencing housing instability and who have a family member who has been a victim of gender-based violence; and

WHEREAS, Minnesota Housing staff has reviewed the request 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 Minnesota Housing 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. Minnesota Housing staff shall review and approve the grantee and the total recommended as indicated;

| Exploited Families Grantee | D Number | Award | Target Number of Households | Grant Term |
|---|---|---|---|---|
| Hmong American Partnership | D7982 | $210,000 | 10 | October 1, 2017 to September 30, 2020 |

2. The issuance of a grant agreement in form and substance acceptable to the Minnesota Housing 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, as Minnesota Housing, in its sole discretion, deems necessary.

Adopted this 22nd day of June 2017

_____
CHAIRMAN

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**Board Agenda Item:** 8.A
**Date: 6/22/2017**

**Item:** Developing the 2018 Affordable Housing Plan – Initial Thoughts and Feedback

**Staff Contact(s):**
John Patterson, 651.296.0763, john.patterson@state.mn.us

**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☒ Discussion
☐ Information

**Summary of Request:**
Staff has started developing the 2018 Affordable Housing Plan (AHP). At his early stage, we want to get the Board's initial feedback and thoughts. Attached for your review is an initial brainstorming list of possible program, policy, and operational initiatives for 2018, along with several background documents. The list is a very rough draft that needs to be vetted and refined.

We will provide the Board a draft of the AHP in August for review and the final AHP in September for 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):**
- Potential Initiatives for the 2018 AHP - Initial Brainstorming List
- Background documents:
    - 2017 Key Trends for Affordable Housing
    - Initial Partner and Stakeholder Input Survey for 2018 AHP
    - Major Themes from Targeted AHP Outreach
    - Major Themes from Housing and Community Dialogues

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*Equal Opportunity Housing and Equal Opportunity Employment*

# MEMO

**To:** Minnesota Housing Board
**From:** John Patterson, Director of Planning, Research and Evaluations
**Date:** June 15, 2017
**Subject:** Potential Initiatives for the 2018 AHP - Initial Brainstorming List

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After reviewing the attached background documents regarding affordable housing trends, needs, and barriers, staff developed the following list of potential initiatives for the 2018 AHP. This is an initial working draft that will be vetted and refined. As a first step, we would like the Board's feedback and thoughts.

Any initiatives that we decide to pursue will be on top of or enhance our core work, which includes:

- Promoting and supporting successful homeownership
- Financing new affordable rental opportunities
- Preserving the existing housing stock
- Providing housing resources to support community and economic development
- Leading, collaborating and taking action on critical housing issues
- Strengthening the financial and organizational capacity of the Agency

All this work will be carried out in an environment that includes:

- A limited supply of affordable homes for sale and apartments for rent, which is leading to rising home prices and rents
- Scarcity of tax-exempt bonding authority
- Uncertainty about federal funding
- Declining pricing for housing tax credits
- Changing demographics – the retirement of Baby Boomers, the rising importance of Millennials, and increasing diversity

## Potential Initiatives

All of the potential initiatives address disparities, barriers and gaps. We are already doing a significant amount of work in these areas. The suggested initiatives have the potential to enhance, expand, and/or improve what we are already doing.

- **Address Racial and Ethnic Disparities**
  - Homeownership:
    - Keep doing what we are doing but continue to improve (households of color account for roughly 1/3 of new mortgages that we support, which is nearly 3 times greater than the overall mortgage industry)
    - Make case for others in the mortgage market to increase their efforts to close the gap (Minnesota Housing is only 5% of the mortgage market in Minnesota)
  - Rental:
    - Increase attention and explore options (see "Address Barriers to Rental Housing" below)
      - The homeless population is disproportionately of color
      - People of color disproportionately face barriers to rental housing – criminal records, evictions, etc.

- **Address Barriers (debt, wealth gap, desires and lack of available housing) to Homeownership for Millennials and Other Groups**
  - Identify and research best practices
  - If applicable, implement in Minnesota

- **Address Barriers to Rental Housing (criminal records, evictions, use of Housing Choice Vouchers for payment, tenants with disabilities, large families, etc.)**
  - Investigate additional strategies beyond what we have already started, which includes guidance on tenant selection criteria, piloting a landlord risk mitigation fund, funding priorities in RFP process, and other specialized programs, such as Bridges and Section 811
  - Identify where Minnesota Housing could most effectively deploy its time and resources

- **Serve the Lowest-Income Renters (deep affordability)**
  - Focus on 30% of AMI and below, but potentially up to 50%
    - The Twin Cities metro area and Rochester have high AMIs and high maximum rents under the tax credit program, which is not affordable to the lowest-income tenants
    - The growing population of extremely-low-income seniors will need affordable housing
    - We generally serve the lowest-income tenants with rent assistance or large gap financing, primarily from Housing Infrastructure Bonds (HIB)
  - Strongly advocate for HIB

- **Address Homelessness**
  - Continue serving as a lead agency in implementing the Plan to Prevent and End Homelessness and work on a revised statewide plan
  - Ensure that Coordinated Entry (the processing for referring people entering the homeless system to the right supports and services at the right time) is well implemented and integrated into our programs

  - Implement the Homework Starts with Home pilot, which is a continuation of and improvement to the existing rent assistance pilot for homeless and highly-mobile families with children
  - Evaluate and improve the Operating Subsidies program (financial support for some supportive housing developments)

- **Improve the Rural Delivery Network**
  - Assess strength, capacity, and gaps of the network and identify strategies to improve:
    - Mortgage and home improvement/rehabilitation lenders
    - Developers and contractors (single family and multifamily, particularly Impact Fund and Rental Rehabilitation Deferred Loan program)
    - Program administrators
  - Support Tribal housing programs through technical assistance and capacity building

- **Address Difficulty of Constructing and Rehabilitating Small-Scale Single Family and Multifamily Housing Developments in Rural Minnesota**
  - Hold community and housing dialogue on the issue with local stakeholders, experts, and developers who are able to do it today
  - Identify new strategies

- **Preserve Housing Assets in Communities**
  - Preserve unsubsidized affordable rental housing (naturally occurring)
  - Proactively address rental preservation and rehabilitation
    - Address preservation and rehabilitation needs before they become critical
    - Integrate pipeline funding into our funding processes
  - Evaluate and improve the Rental Rehabilitation Deferred Loan (RRDL) program
  - Explore options to support local efforts

- **Address Workforce Housing**
  - Implement the DEED program that the Legislature transferred to us
  - Focus our existing multifamily resource (Challenge) on affordable workforce housing in very tight rental markets
  - Use the Impact Fund to address workforce housing through homeownership (ensure adequate delivery network)
  - Explore opportunities with manufactured housing related to both preservation and new construction

- **Improve Minnesota Housing's Operations**
  - Continue to improve our information technology systems so that we can more effectively and efficiently work with our partners and customers
  - Create navigation tools (or support, promote, and enhance existing tools) so that communities, homebuyers, and tenants can better understand and more easily access the full array of housing resources available to them

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Planning, Research & Evaluation

# 2017 Key Trends for Affordable Housing

**April 2017**

Minnesota Housing Finance Agency

**Introduction**

As Minnesota Housing prepares its 2018 Affordable Housing Plan (AHP), the Agency needs to consider the environment in which it is working. How will demographic, economic, market, community, and resource trends affect the Agency's work over the next year or two?

This report highlights eleven broad themes and trends:


| | Page |
|---|---|
| 1. Minnesota Needs More Affordable Housing | 7 |
| 2. The Economy is Expected to Grow Modestly | 14 |
| 3. Housing Costs Will Likely Continue to Increase with a Limited Supply Available, but Rent Increases May Slow | 18 |
| 4. With Modest Economic Growth, Incomes May Struggle to Keep Pace with Expected Housing Cost Increases | 29 |
| 5. Millennials' Decision to Own or Rent will be a Key Driver of the Housing Market | 31 |
| 6. Affordable Housing is Needed in Areas with a Growing Workforce | 37 |
| 7. Minnesota is Becoming More Diverse, and Disparities in Homeownership are Significant | 40 |
| 8. The Number of People Experiencing Homelessness is Declining, but More Work is Needed | 45 |
| 9. The Aging Baby Boom Generation will Create New Housing Needs and Challenges | 48 |
| 10. Minnesota Has a Large Stock of Affordable Rental Housing that Needs to be Preserved | 57 |
| 11. New Resource Constraints are Emerging | 60 |


These themes are largely the same as previous years, but with some new developments:

- Rental vacancies may start to increase with recent construction and a slowdown in the decline in homeownership.
- Median incomes are finally experiencing sustained increases after a decade of consistent decreases, but the future is uncertain with modest economic growth and unemployment not improving.
- The Plan to Prevent and End Homelessness is gaining traction with two consecutive years of declines in the number of people experiencing homelessness.
- We are facing the prospect of new resource constraints related to federal funding, tax credit pricing, and the availability of tax-exempt bonding authority.

This report is structured as a chart book – largely graphs and maps that present issues and trends with some explanatory notes, which have two sections. The *Key Points* highlight the "what" or key takeaways from the information, and the *Implications* identify the "so what" and explain why this information is important. The 2018 AHP will articulate the "now what" or how we will address these issues.

Because the report provides a lot of information and data, the first five pages provide a preview of the key themes and trends that will be covered.

# Preview: Key Themes & Trends

1. **Minnesota needs more affordable housing.**

   **The number households that are cost burdened by their housing payments has increased since the year 2000.**

2

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**Minnesota needs more affordable housing.**

- The number of Minnesota households that are cost burdened by their housing payment increased by 63%, from 350,000 in 2000 to 570,000 in 2015.
- Households are cost burdened if they spend more than 30% of their income on housing.
- In 2015, 463,000 lower-income households were cost burdened, accounting for 57% of that population. This assessment only includes households with annual incomes less than $50,000.
- The need for affordable housing has increased as median incomes have declined and housing costs have increased over the long run.
- In 2016, we assisted nearly 67,000 households, which is an impressive number, but falls well short of the need reflected by the 463,000 cost-burdened lower-income households.

# Key Theme & Trends (continued)

2. **The economy is expected to grow modestly.**

3. **Housing costs will likely continue to increase with a limited supply available, but rent increases may slow.**

3

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**The economy is expect to grow modestly.**

- The U.S. economy is expected to grow by roughly 2.5% annually for the next few years.
- The unemployment rate in Minnesota declined from 8.1% in June 2009 to 3.7% in March of 2015, but it then inched up to 4.0% over the last two years. On the positive side, it fell to 3.8% in March 2017.

**Housing costs will likely continue to increase with a limited supply available, but rent increases may slow.**

- Median home prices (inflation adjusted) in the Twin Cities metro area increased from $175,000 in June of 2011 to $245,000 in June of 2016 (a 40% increase).
- The months supply of homes for sale (a measure of inventory relative to the pace of sales) is currently well below five months in the metro area and statewide, reflecting a limited supply and the likelihood of rising prices.
- Inflation adjusted rents in the Twin Cities metro area increased from $986 in the 3rd quarter of 2011 to $1,123 at the end of 2015 (a 14% increase), and the vacancy rate is currently in the 3% to 4% range.
- Statewide, the overall vacancy rate is still relatively low; however, it may increase. Multifamily construction has picked up, approaching the levels seen in 2002-04; and the decline in the homeownership rate (reflecting more renters) seems to be slowing with the rate leveling off. An increase in the vacancy rate will reduce the upward pressure in rents.

**With modest economic growth, incomes may struggle to keep pace with expected housing cost increases.**

- As already stated, economic growth is expected to be modest at 2.5% for the next few years, and unemployment has not improved over the last two years.
- Without a stronger demand for workers, incomes may not significantly increase and keep pace with housing costs.

**Millennials' decision to own or rent will be a key driver of the housing market.**

- The leading edge of the large Millennial generation is in the prime first-time homebuyer age of 25 to 34, but some may not want to be tied down by a mortgage so that they have the freedom to change jobs and locations. Also, they may not have the resources to become homeowners.
- In support of homeownership, buying a home is now less expensive than it was in 2006; but costs are increasing, and issues like student debt are barriers for Millennials.
- The decline in homeownership and increase in renting since 2006 has been one of the drivers of the low vacancy rates. Will this trend continue?

**Affordable housing is needed in areas with a growing workforce.**

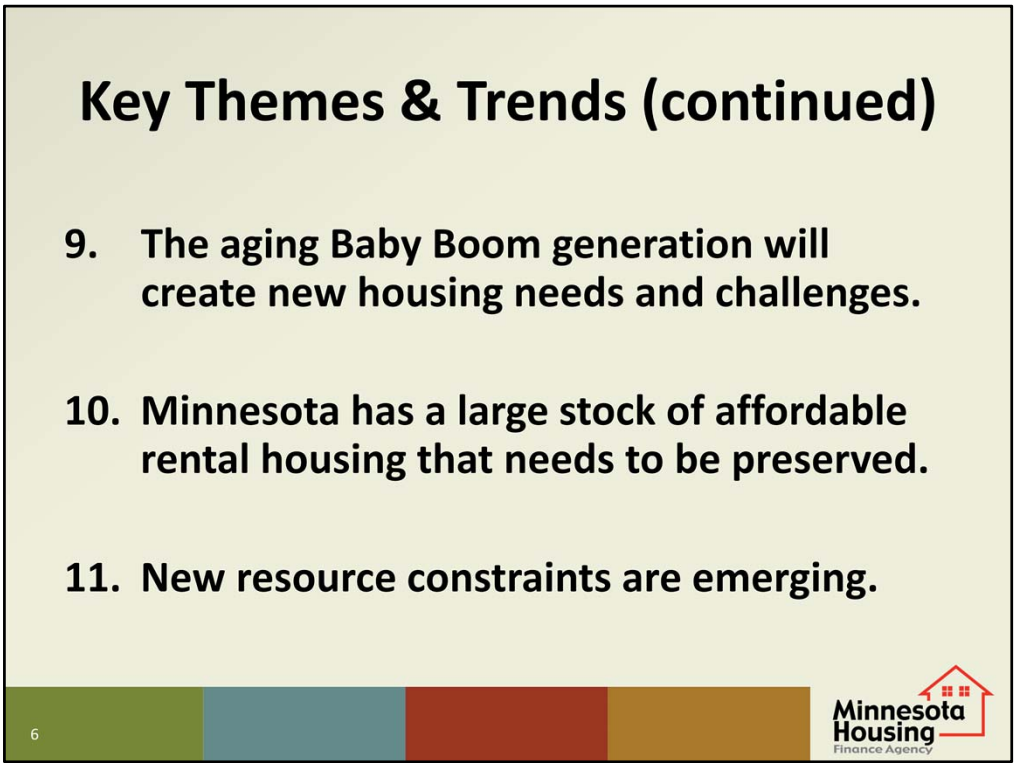
- The rental vacancy rate for the 60 Greater Minnesota communities that added more than 100 jobs in the last five years declined steadily from 2004 through 2015.

**Minnesota is becoming more diverse, and disparities in homeownership are significant.**

- The share of Minnesotans who are of color or Hispanic ethnicity is expect to grow from about 19% to 25% by 2035.
- Minnesota's 36.9 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the largest in the country.
- Reducing the disparity is one of our strategic priorities. In 2015, 32% of our first-time homebuyers were households of color or Hispanic ethnicity, which is a lending rate nearly three times the industry average.

**The number of people experiencing homelessness is declining, but more work is needed.**

- A worst-case scenario resulting from a lack of affordable housing is homelessness.
- Preventing and ending homelessness is one of our strategic priorities.
- Through the Interagency Council on Homelessness, Minnesota has a Plan to Prevent and End Homelessness.
- After 20 years of increases, the number of people experiencing homelessness declined by about 10% in 2015. In 2016, there was another decline. However, over 7,000 Minnesotans experience homelessness each night.




**The aging baby boom generation will create new housing needs and challenges.**

- A major demographic trend is the aging and retirement of the Baby Boom generation.
- With fixed incomes and higher rates of disabilities, seniors have unique affordable housing needs. Initially, assisting lower-income baby boomers who are homeowners will be important.
  - Most low-income seniors are homeowners.
  - Most seniors remain homeowners through age 75-84.
  - The largest group of baby boomers is still under age 60, indicating that most will be homeowners for at least another 15+ years.
- Nevertheless, the state will see a dramatic increase in senior renters in the future, for which we need to plan carefully.

**Minnesota has a large stock of affordable rental housing that needs to be preserved.**

- While additional affordable housing is needed, the state needs to preserve what it already has. Minnesota's nearly 36,000 rental units with project-based rent assistance (limiting a tenant's share of rent to 30% of their income) are particularly important to preserve.

**New resource constraints are emerging.**

- Political changes are creating uncertainty about funding for affordable housing.
- Discussions about federal tax reform and lower corporate tax rates have lowered expected tax credit pricing, which would produce lower equity investments.
- Increases in the demand for tax-exempt bonding for housing has made it a scarcer resource.

# Theme/Trend #1

# Minnesota Needs More Affordable Housing

7

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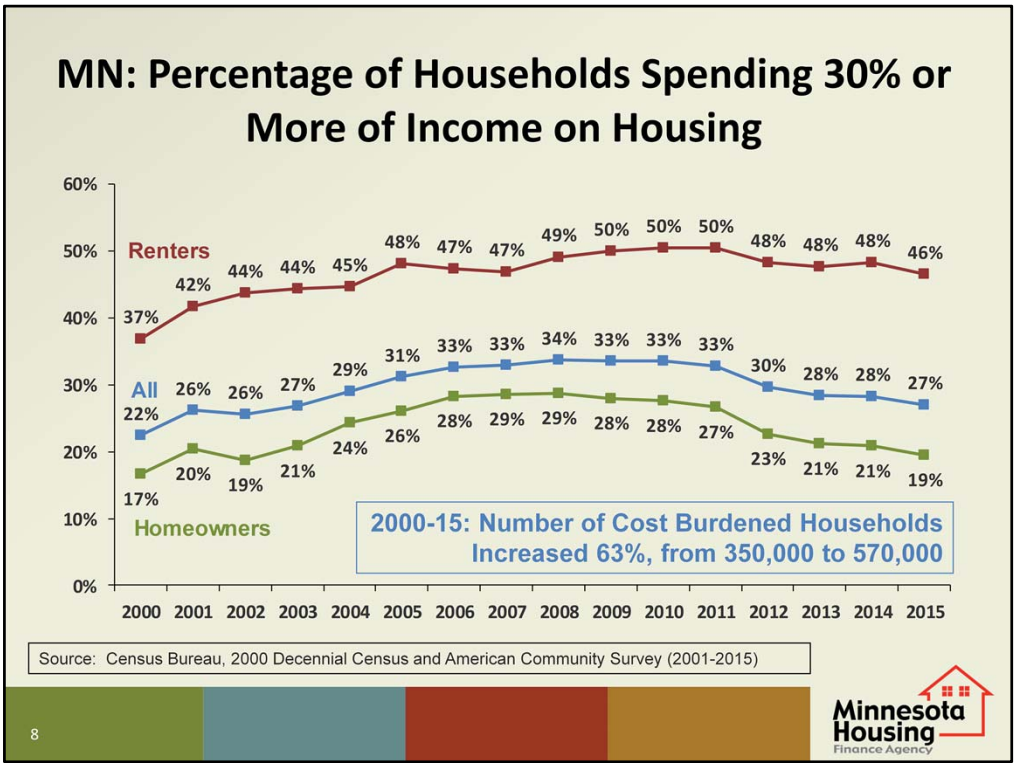


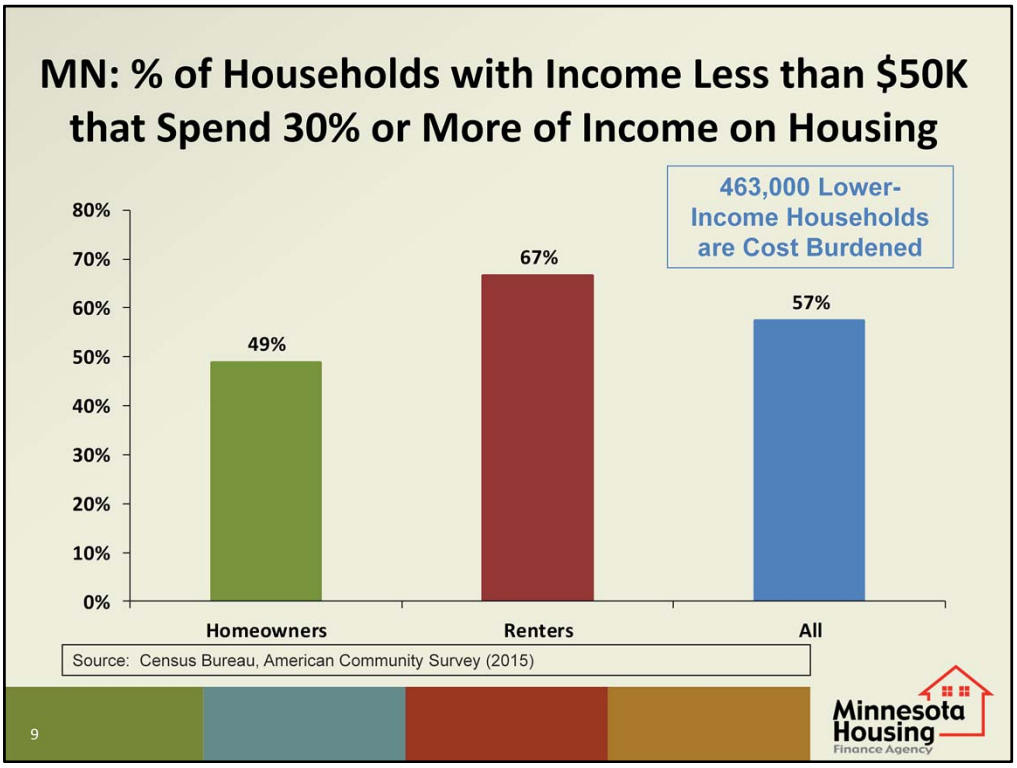

This graph shows the percentage of Minnesota households that were cost burdened over the last 16 years (spending more than 30% of their income on housing). Being cost burdened indicates that a household lacks affordable housing.

**Key Points:**

- The number of cost burdened households increased 63%, from 350,000 in 2000 to 570,000 in 2015.
- The share of <u>all</u> households that are cost burdened (middle blue line) increased from 22% to 27%.
- The share of <u>renters</u> (top maroon line) increased from 37% to 46%.
- The share of <u>homeowners</u> (bottom green line) increased from 17% to 19%.
- After 2011, there was a noticeable improvement. As the following pages will show:
  - Incomes rose in 2012 through 2015.
  - With respect to homeownership, lower home prices and interest rates after the housing collapse helped alleviate the situation significantly. New homeowners benefited from lower home prices, but existing homeowners also had the opportunity to refinance to lower interest rates and reduce their housing payments.

**Implications:**

- Since 2000, the need for more affordable housing has increased overall.
- The cost-burden situation is more severe for renters.
- As we assess the affordable housing landscape, there are a few key questions. Will the recent improvement continue? Will incomes for households in the bottom half of the income spectrum rise with the improving economy? Will incomes keep pace with rising housing costs?



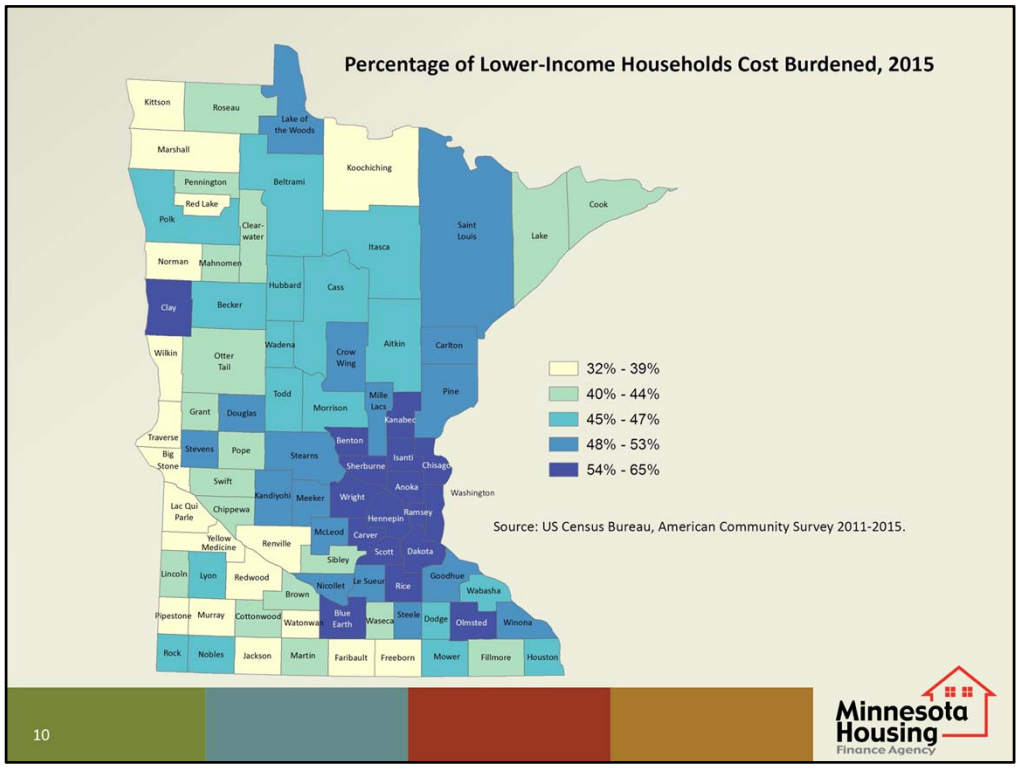

While the previous graph showed the percentage of all households that were cost burdened, this graph shows the percentage of lower-income households that were cost burdened in 2015. For this assessment, we define lower-income as households with an income less than $50,000, which is roughly 60% to 100% of the area median income (AMI) depending on the county.

**Key Points:**

- The need for more affordable housing is very large, especially for lower-income households.
- 463,000 lower-income households are cost burdened, which is 57% of that group.

**Implications:**

- In 2016, we assisted over 67,000 households. While this is a large and impressive number, it is not large enough to reach all the cost-burdened lower-income households.



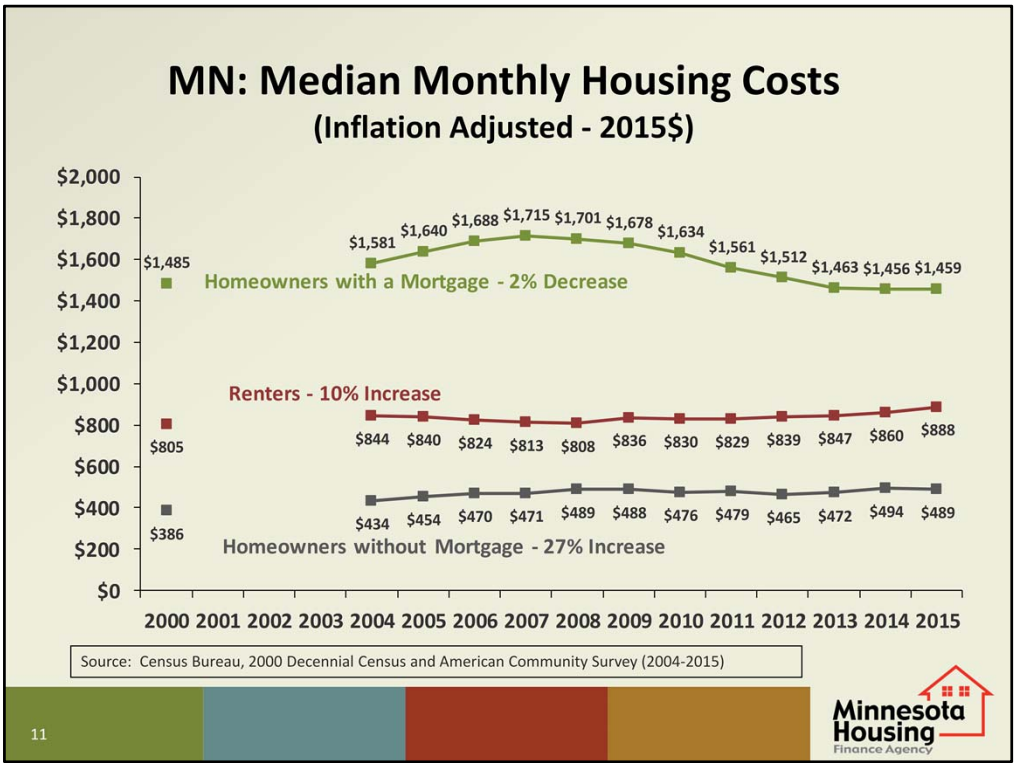

This map shows the percentage of lower-income households (annual income less than $50,000) that are cost burdened by county.

**Key Points:**

- The percentage varies from 32% to 65%.
- The highest percentages are generally in the metro area and surrounding communities, and the lowest percentages are generally in the western part of the state.
- Even the county with the lowest percentage has 32% of its lower-income households with housing costs that are unaffordable.

**Implications:**

- While the need for more affordable housing is substantial across the entire state, the level varies.




Cost burden is a function of a household's housing costs in relation to its income. To understand trends in the cost-burden percentages, we need to understand the trends in each component. This graph shows the median monthly housing costs for renters and homeowners.

**Key Points:**

- Renters' costs increased by 10% since 2000 (after controlling for inflation). This masks shorter-term trends during that period. Statewide, the median rent rose from $805 per month in 2000 to $844 in 2004, fell to $808 in 2008, and has since risen to $888. The consistent increase in rents since 2008 is an area for concern.

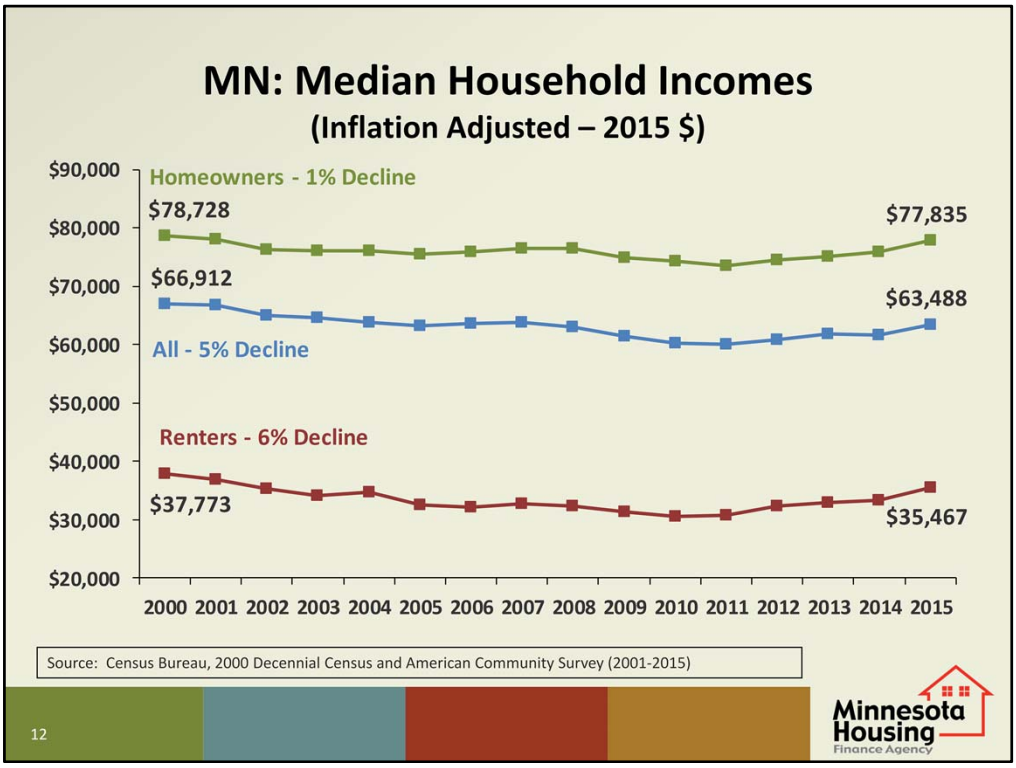
- Costs for homeowners with a mortgage decreased by just 2%. Again, this masks an even more dramatic shift during that period. The median monthly cost increased from $1,485 in 2000 to $1,715 in 2007 and then fell to $1,456 by 2014. This trend mirrors a decline in home sale prices and interest rates, which we'll examine later. As a preview, home sales prices are now increasing after bottoming out in 2011/12. Interest rates are still near historic lows.

- Costs for homeowners without a mortgage increased the most (27%). These higher costs reflect higher property taxes and insurance premiums. Many of these homeowners are seniors who have paid off their mortgages, which is an important point to keep in mind when examining housing for seniors.

**Implications:**

What can we do to reduce housing costs? Options include, but are not limited to:

- Offering mortgages at the lowest interest rates possible, with down-payment assistance.
- Increasing the supply of affordable rental housing.




Falling incomes over the long term are a key contributor to the rising rate of cost-burdened households.

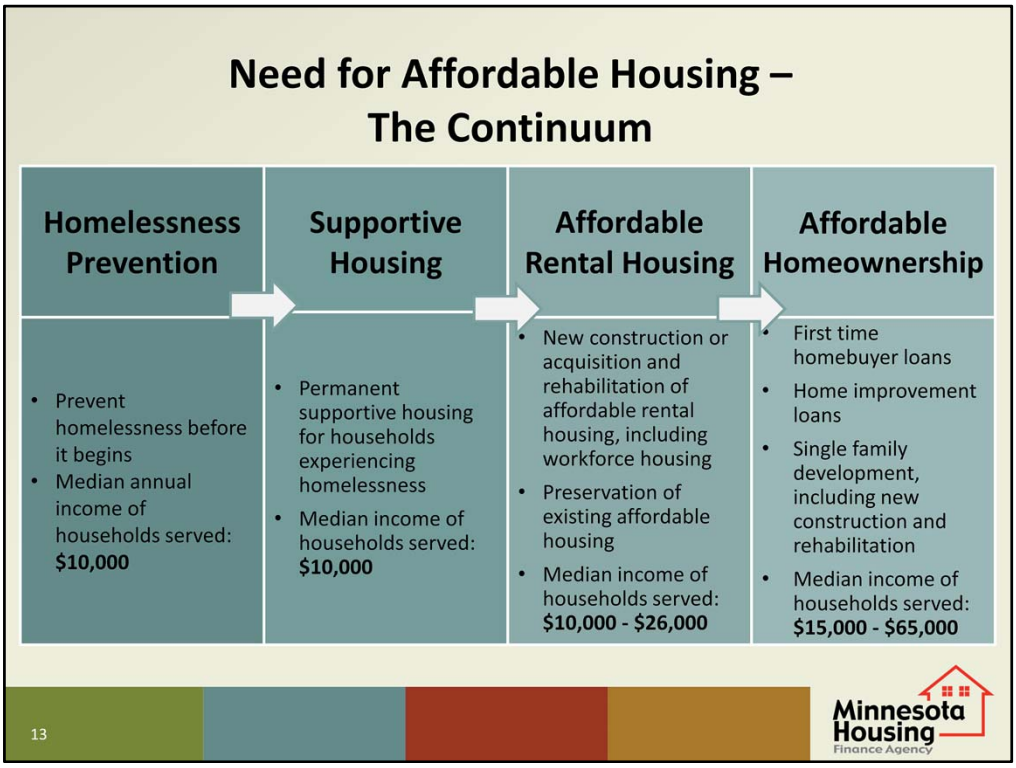
This graph shows the median household incomes over the past 16 years.

**Key Points:**

- Renter incomes fell 6% after controlling for inflation.
- Homeowner incomes fell just 1%.
- With the strengthening economy, incomes have increased since 2011, which is an encouraging sign.

**Implications:**

- While we are not an employment agency tasked with increasing household incomes, falling incomes play a key role in the environment in which we finance affordable housing, adding challenges to our task.
- Stable and affordable housing in location-efficient communities (providing access to transit, jobs, services, amenities, good schools, etc.) can contribute to the economic success of low- and moderate-income households.
- A key question is whether incomes will increase in the future and keep pace with housing costs. If there is a an increase, will it be wide spread and benefit lower-income and other disadvantaged households?




As we assess the need for affordable housing, we must examine the continuum of needs that range from homeless prevention and supportive housing to affordable homeownership and home improvement loans.

We have programs to support the full continuum.

- In 2016, we provided financing that supported over 67,000 households. The highlights included:
  - 6,500 households receiving homeless prevention assistance
  - 30,000 households receiving rent assistance through our administration project-based Section 8 units
  - 5,100 rental units constructed or rehabilitated
  - 14,600 households receiving homeownership education
  - 4,100 home mortgages
  - 1,000 home improvement loans

Our homebuyer lending in 2015 and 2016 was near historically high levels. We purchased nearly 4,100 mortgages each year.

# Theme/Trend #2

# The Economy will Likely Continue to Grow Modestly

14

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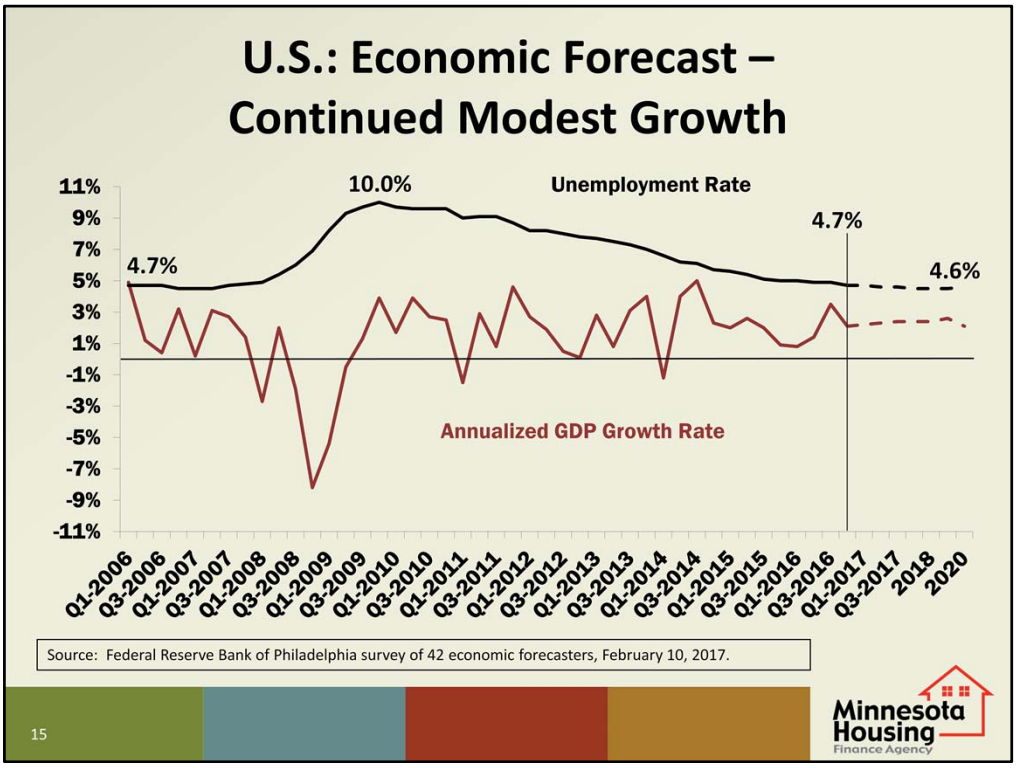


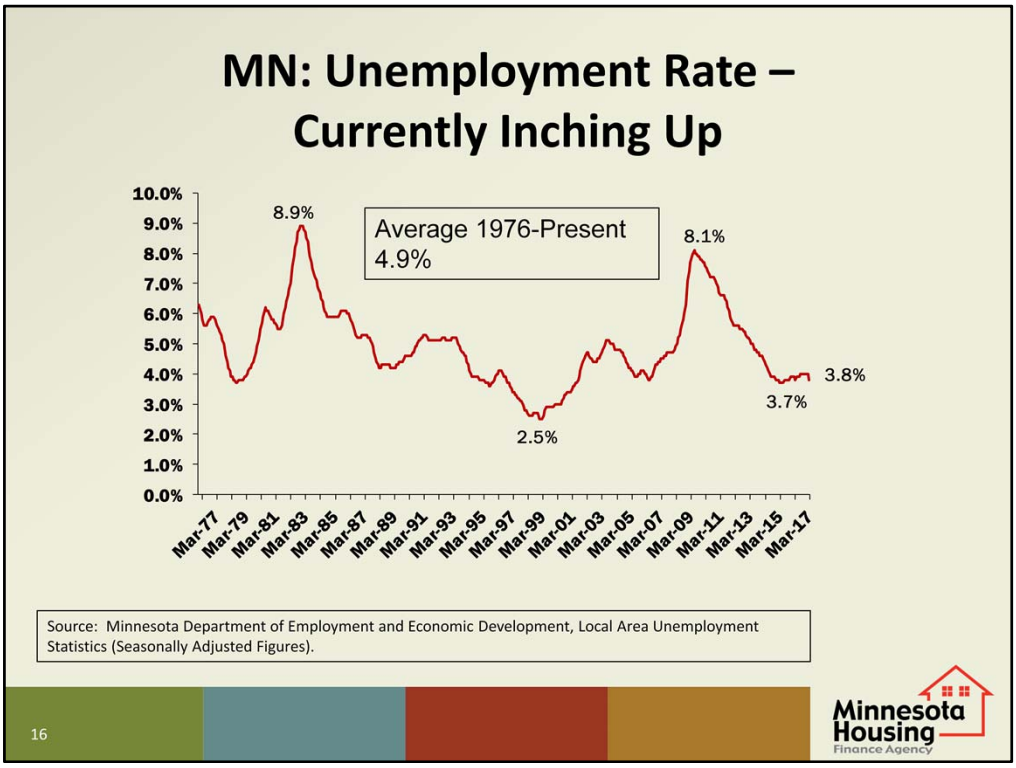

The state of the economy plays a key role in the housing market. This graph shows the growth rate of the U.S. economy (as measured by Gross Domestic Product or GDP) and the unemployment rate. The solid lines on the left side are actual rates through the 4th quarter of 2016. The dashed lines on the right reflect a forecast based on a survey by the Philadelphia Federal Reserve Bank of 42 economic forecasters.

**Key Points:**

- The GDP bottomed out during the 4th quarter of 2008 with an annualized decline of 8.2%, which led to an unemployment rate reaching 10% in 2009.
- Since World War II, the average growth rate in GDP in the year following the end of a recession has been 6.8%. After the end of this most recent recession, the growth rate was only 2.7%, which was insufficient to quickly bring back the lost jobs. In addition, there has been inconsistent growth. Thus, the country had a slow recovery in employment.
- The forecast indicates that the economy will grow at about 2.5% and the national unemployment rate will level off around 4.6%.

**Implications:**

- The economy should continue to grow modestly.
- A stronger economy typically (1) increases incomes, (2) increases the number of households being formed with less doubling up, and (3) reduces rental vacancy rates and months supply of homes for sale as additional households form, which leads to higher housing prices.
- A key question is whether economic growth will be strong and widespread enough to benefit lower-income households.



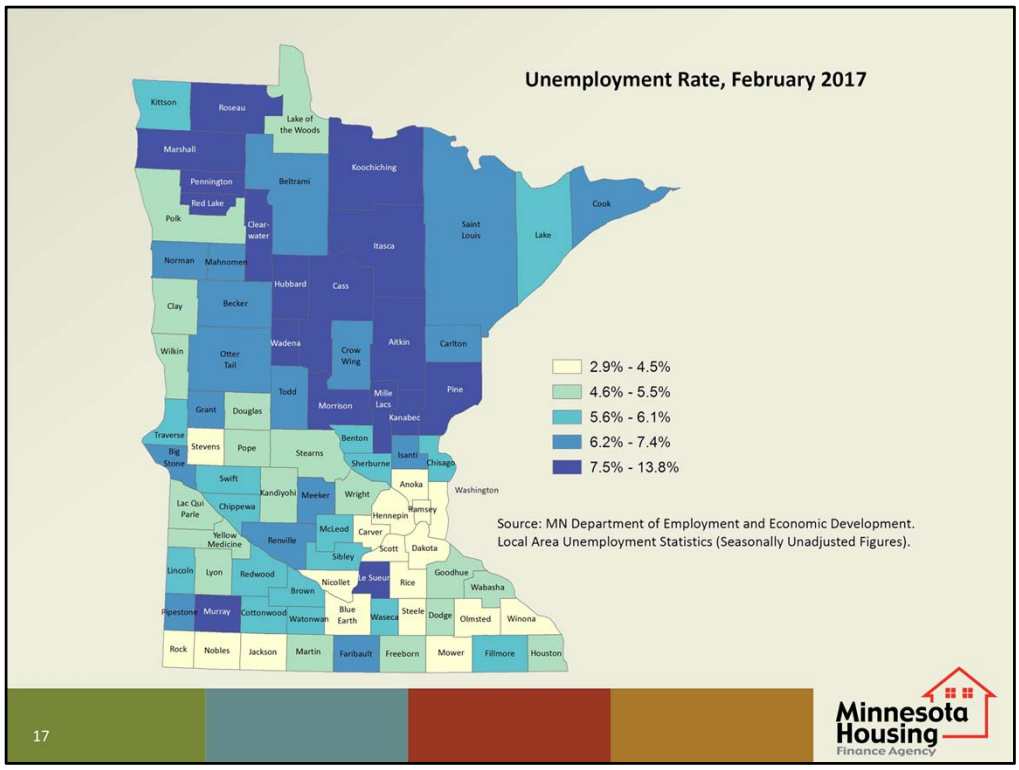

This graph shows the unemployment rate in Minnesota.

**Key Points:**

- The employment situation is a little better in Minnesota than nationally (3.8% versus 4.7%)
- While the peak during the Great Recession was 8.1%, the current rate is down to 3.8%, which is below the historical average.
- However, unemployment has not improved over the last couple of years. The rate inched up from 3.7% to 4.0% over the last two years but dropped to 3.8% in March.

**Implications:**

- How will income growth in Minnesota be affected by the state's unemployment rate? Typically, job growth and a low unemployment lead to higher incomes, but we saw declining incomes (after controlling for inflation) between 2000 and 2007, a period when the unemployment rate was 2.9% to 5.0%.




This map shows the unemployment rate in each county.

**Key Points:**

- The unemployment picture varies quite dramatically around the state – ranging from 2.9% to 13.8%, with the highest rates in north central and northwest Minnesota and the lowest in the metro area and southern Minnesota.

**Implications:**

- Minnesota is not monolithic. Different parts of the state have very different economic conditions and housing needs.
- Some parts of the state have significant room for improvement.

# Theme/Trend #3

## Housing Costs Will Likely Continue to Increase with a Limited Supply Available, but Rent Increases May Slow

18

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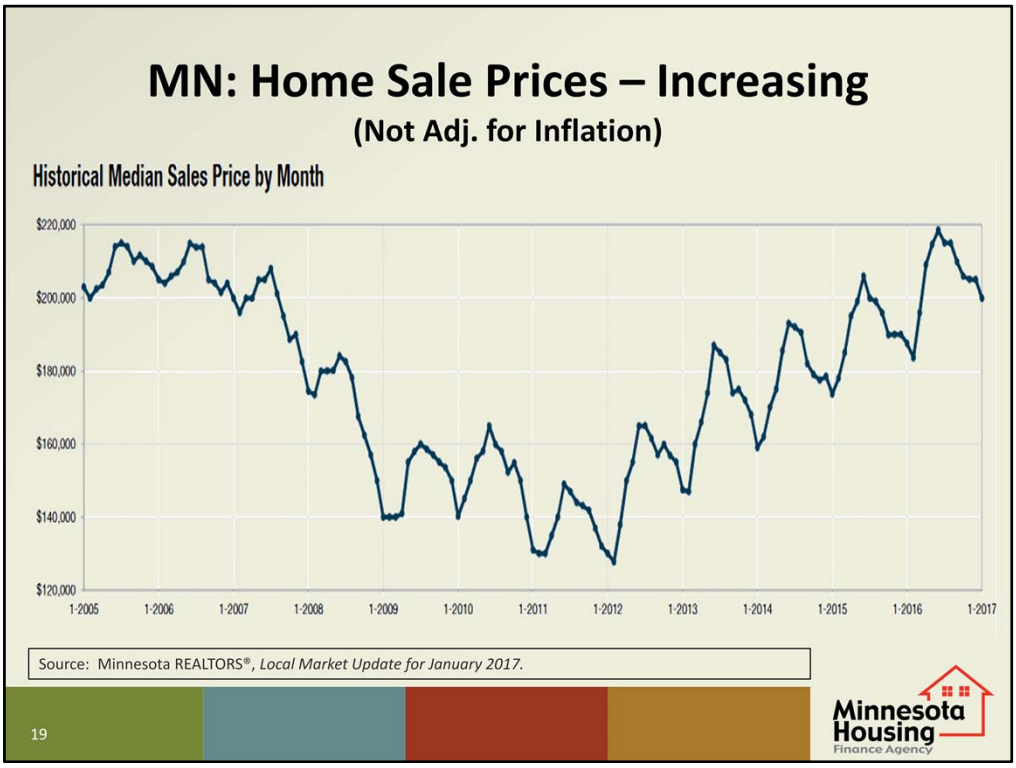


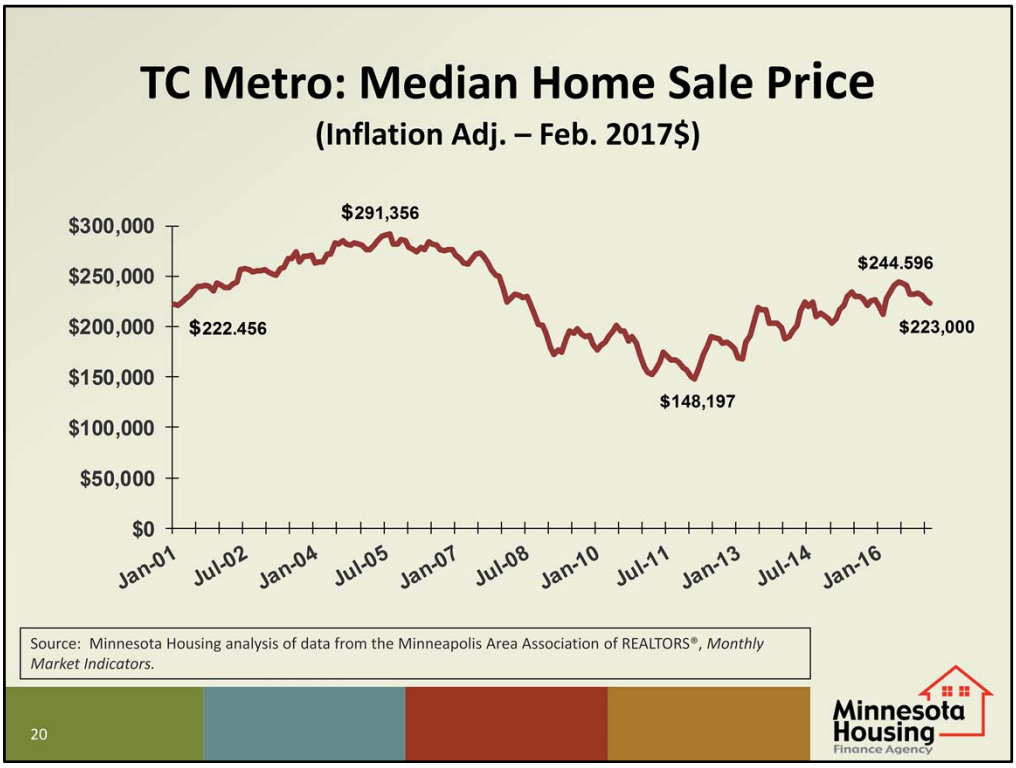

This graph shows the median sales price for homes in the entire state, not controlling for inflation.

**Key Points:**

- Statewide, prices dropped significantly from 2006 through 2009 and struggled through 2011, when they bottomed out.
- Prices have been increasing since early 2012.

**Implications:**

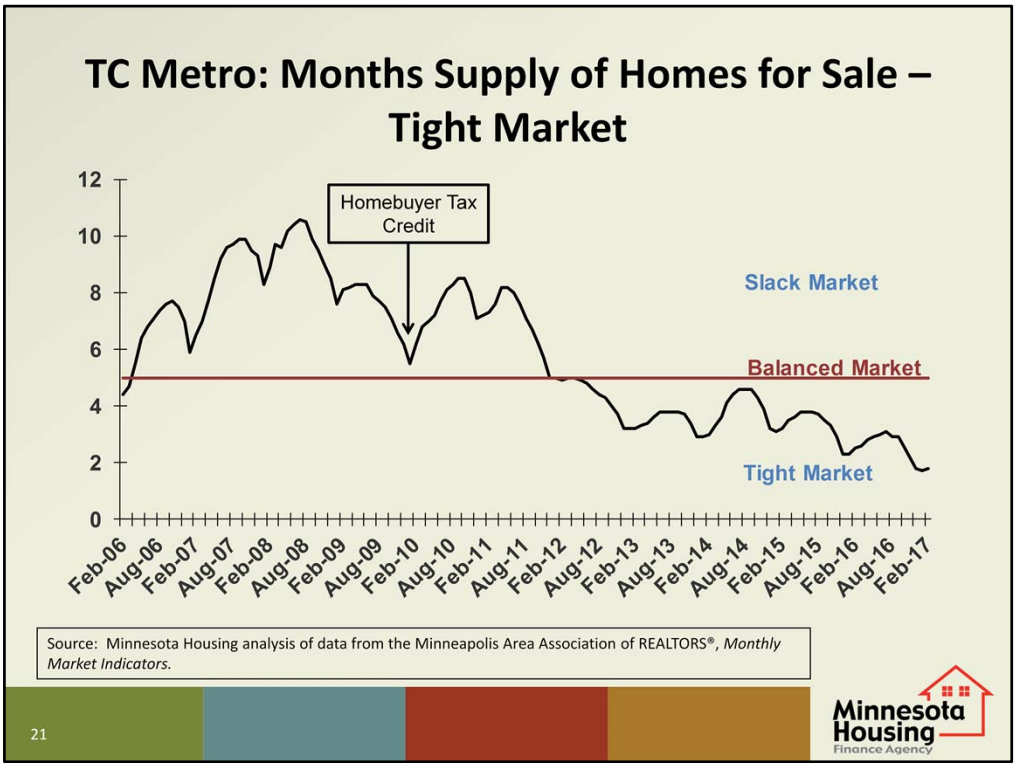
- On the one hand, rising property values help existing homeowners because they add equity and create wealth. This is particularly important for lower-income homeowners because their homes are often their primary asset.
- On the other hand, rising property values makes housing less affordable for people moving into homeownership.




This graph shows the median sales price for homes in the Twin Cities metro area. It is included as a separate graph because we have access to historical and electronic data from the Minneapolis Area Association of REALTORS. This allows us to carry out more detailed analyses, including controlling for inflation.

**Key Points:**

- The pattern in the Twin Cities metro area is similar to the statewide pattern.
- The data available for the metro area also shows the rapid increase in prices that created the housing bubble, and the rapid decline after the bubble burst.
- By controlling for inflation, this graph shows the longer way the market has to go before returning to 2006 prices when factoring in the declining value of money over time.




As shown in the previous slide, home prices bottomed out in 2011 and started to rise in 2012. One of the best indicators of home price trends is the months supply of homes for sale, which is a combination of the current inventory and how fast homes are selling. It measures how long it would take to clear the current inventory of homes for sale. Generally, if the inventory is more than five months, it is a slack or buyer's market with prices declining; if the inventory is less than five months, it is a tight or seller's market with prices rising.

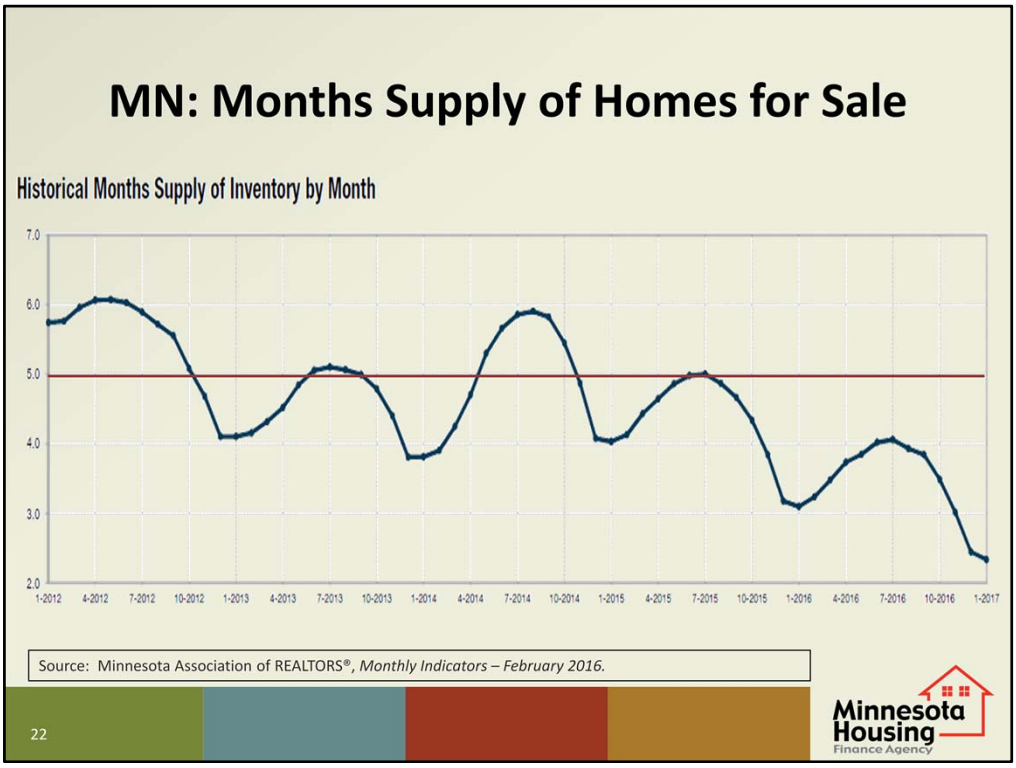
This graph shows the months supply of homes for sale since 2006 in the Twin Cities metro area.

**Key Points:**

- This graph starts when the housing market started to decline (prices peaked in 2006). In the first part of the graph, the months supply of homes for sale is above five.
- In January 2010, the inventory approached five months with the homebuyer tax credit (part of the federal government's stimulus plan to jump start the housing market).
- The inventory has been below five months since May of 2012, indicating a tight seller's market and rising prices.

**Implications:**

- An upcoming page will show that single family home construction is picking up but has been limited through 2015.
- As long as the inventory stays below five months, prices should continue to rise.
- In addition, the median estimate from the Federal Reserve Bank of Philadelphia's survey of professional forecasters for the S&P/Case-Schiller home price index is a 5.0% increase in 2017 and 4.3% increase in 2018. (Quarter 1 - 2017 forecast)



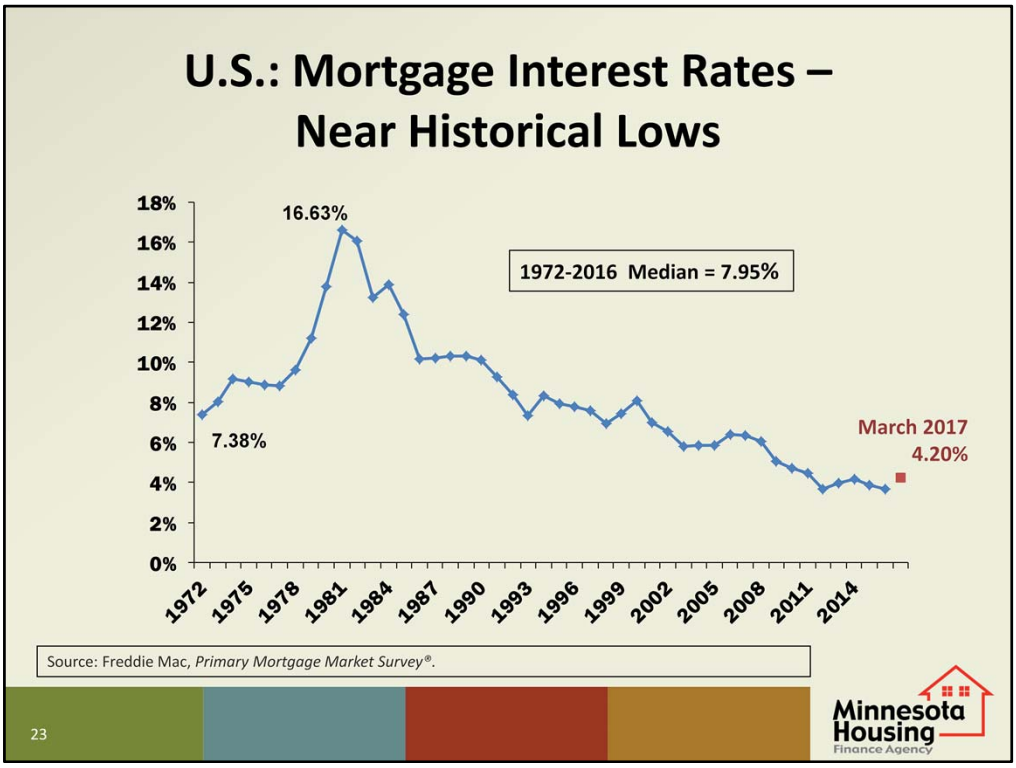

This graph is the same as the previous slide, but covers the entire state.

**Key Points:**

- Statewide, the inventory has been closer to five months but is currently well below that.

**Implications:**

- In aggregate, Greater Minnesota may not see home price increases as large as the metro area, but there will be differences in individual markets.




Interest rates also play a key role in housing costs and affordability. The very low interest rates over the last several years have increased affordability and helped the housing market recover by encouraging home buying.

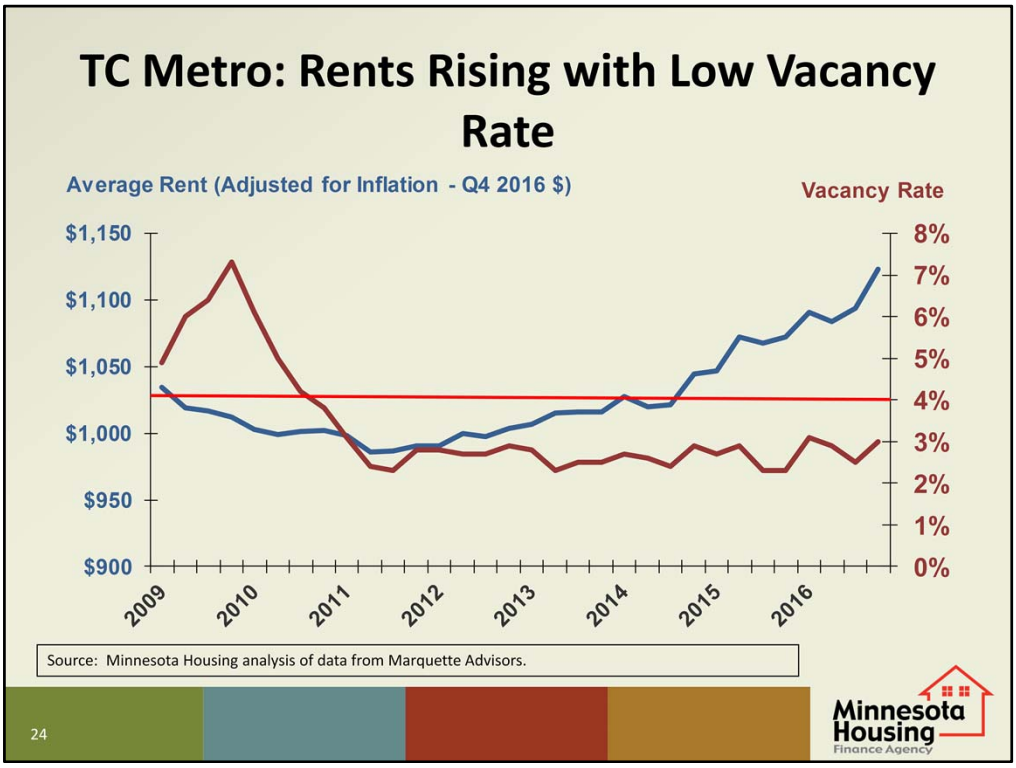
This graph shows mortgage interest rates since 1972.

**Key Points:**

- During this period, the median rate was 7.95%.
- The peak rate occurred in 1981 (16.63%).
- In recent years, the rates have reached their lowest levels, near or below 4%.

**Implications:**

- The current rates, which are very low in historical terms, have made homeownership more affordable than it would otherwise be.
- A key question is whether rates will remain low?
- Last fall, mortgage rates jumped from about 3.5% to 4.25%.
- The Federal Reserve Bank has taken small steps (three times in the last year and a half) to increase its target for the federal funds rate, which is the interest rate that financial institutions lend reserves to each other overnight. The increases have a more direct effect on short-term interest rates than longer-term mortgage rates.
- In addition, the Federal Reserve Bank may start to shrink its balances sheet. Between 2008 and 2014, the Fed expanded its balance sheet from $0.9 trillion to $4.5 trillion by buying Treasury securities, mortgage backed securities, and other assets to keep interest rates low and stimulate the economy. Since then, they have kept the size of the balance sheet constant, but there is now discussion that they may start to shrink it soon.




Switching to the rental market, this graph shows the relationship between vacancy rates and rents. Low vacancy rates drive up rents. This data just applies to the Twin Cities metro area.

**Key Points**:

- When the vacancy rate (maroon line) is consistently below 4% (red horizontal line), rents (blue line) generally rise because the supply is limited relative to demand.
- When the vacancy rate is consistently above 6%, rents generally fall because there is extra supply relative to demand.
- Since 2011, vacancies have been consistently below 4%, and rents have increased.

**Implications:**

- As long as vacancy rates stay below 4%, rents will likely rise.
- As we will discuss in the next few slides, the vacancy rate will depend on the strength of the continuing economic recovery and job/household growth, the numbers of rental units added through new construction, and the homeownership rate (people renting versus owning).

## Statewide Vacancy Rates and Rents

| Area | Vacancy Rate | 2 BR Average Rent |
|---|---|---|
| Northwest | 5.0% | $737 |
| West Central | 6.6% | $781 |
| Southwest | 6.2% | $631 |
| Northeast | 7.2% | $999 |
| Central | 5.0% | $826 |
| Metro | 4.4% | $1,225 |
| Southeast | 8.0% | $836 |
| Statewide | 4.9% | $1,138 |

Source: Minnesota Housing analysis of data from CoStar. Data accessed on April 7, 2017.

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But first, we'll look at vacancy rates across the state, not just the metro area.

This data comes from CoStar, which is a new source for Minnesota Housing, and the rates are a little higher than shown on the previous page, which comes from Marquette Advisors. For the metro, Marquette reports a vacancy rate of 3.0%, while CoStar reports 4.4%. The Marquette data captures properties with 10 or more units, while the CoStar data captures properties with 4 or more units, which may explain some of the difference. We are still assessing the differences.

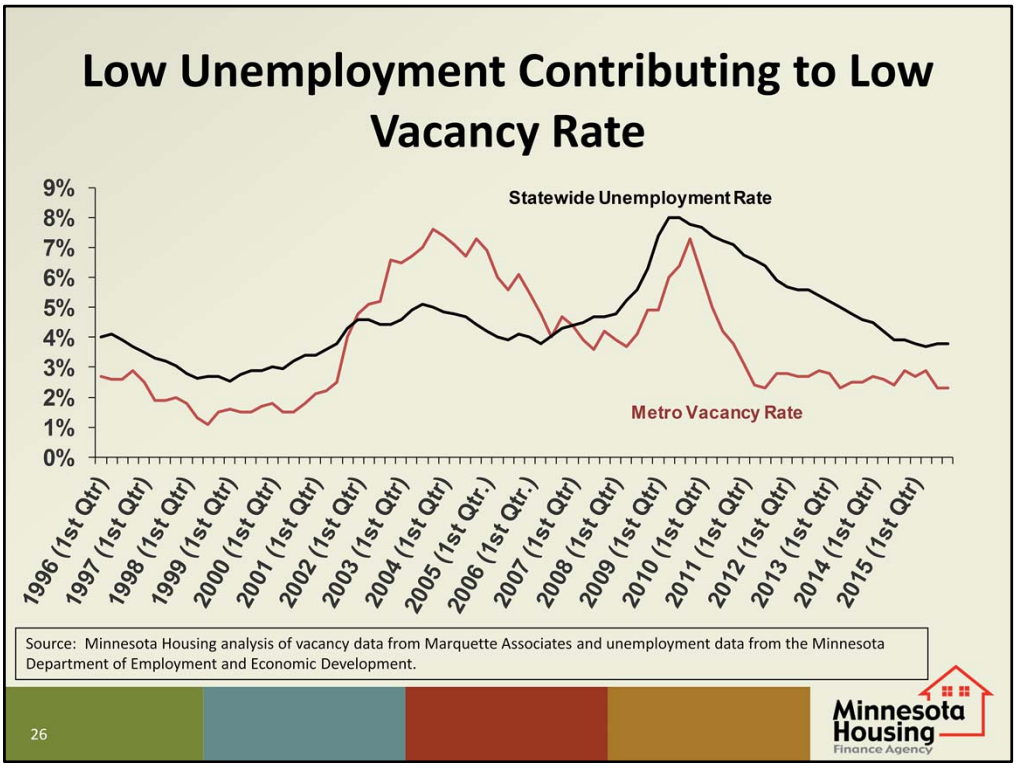
The CoStar data captures information from over 8,000 rental properties and 330,000 units in Minnesota. While this is not a complete inventory of rental housing in Minnesota, it is the most complete database we have seen.

**Key Points**:

- The statewide vacancy rate is 4.9%.
- The metro area has the lowest rate.
- Greater Minnesota generally has rates at or above 5.0%.
- The rates apply to an entire region, and individual markets within these regions may have very different vacancy rates.

**Implications:**

- Statewide, there appears to be less upward pressure on rents with higher vacancy rates.



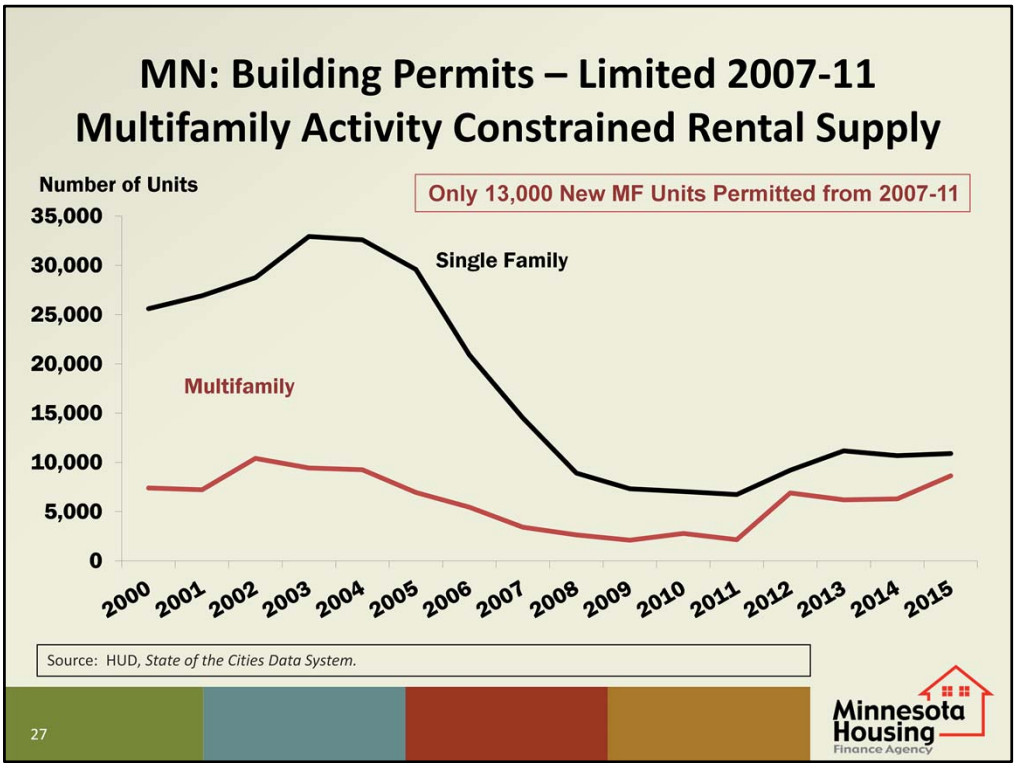

This graph shows the relationship between unemployment and rental vacancy rates.

**Key Points:**

- When the unemployment rate is low, the vacancy rate is low. When unemployment is high, the vacancy rate is high. With employment struggles, we tend to see households doubling up and young adults staying home with their parents.
- The recession initially led to high vacancy rates in 2009. However, in 2010 and 2011, the rate rapidly declined when unemployment was still above 6%. Two factors contributed to this divergence.
    - There was very little multifamily construction from 2007 through 2011, which limited the supply and decreased vacancies.
    - The homeownership rate declined between 2006 and 2015, which increased the demand for rentals and decreased vacancies.

**Implications:**

- Looking into the future, vacancy rates may start to increase.
    - With low vacancy rates, developers are now building more units (see page 28), which will increase the supply and vacancies.
    - While the homeownership rate had been declining (reflecting more renters), it appears to leveling off a bit at 71%, putting less downward pressure on the vacancy rate. (See page 29.)



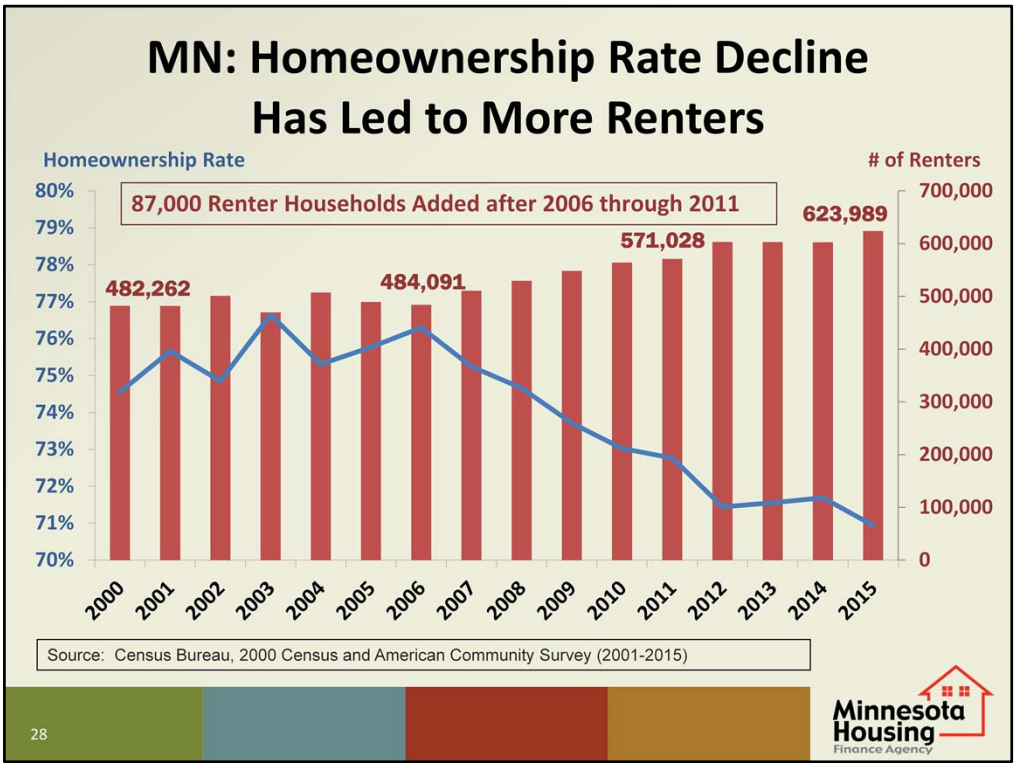

With the Great Recession and financial crisis, there was very little housing construction.

**Key Points:**

- The annual number of multifamily permits dropped from 9,000-10,000 to 2,000-3,000 units. It has since increased to about 8,600 units in 2015. Data for 2016 is not yet available.
- The decline in single-family permits was even larger, with a very modest recovery. This has contributed to the lack of homes for sale.

**Implications:**

- The low level of multifamily construction between 2007 and 2011 limited the number of units that are currently available, which decreased the rental vacancy rate.
    - In the 2007-11 period, permits for 13,000 multifamily units were issued. In contrast, as shown on the next page, 87,000 new renter households were added. The mismatch resulted in a dramatic decline in the vacancy rate. Some of the increase in demand could also have been met through single-family homes that had previously been owner-occupied and became rentals.
- With the low vacancy rates and increased demand for new units, multifamily construction has picked up and is back near the 2002-04 levels. Thus, vacancy rates may increase, relieving some of the upward pressure on rents.




This graph shows the homeownership rate in Minnesota (blue line), and the number of renter households (maroon bars).

**Key Points:**

- As the homeownership rate dropped after 2006, the number of renter households increased significantly from 484,091 in 2006 to 623,989 in 2015.
- A large share of the increase occurred after 2006 and through 2011, adding 87,000 renter households. As discussed in the previous page, only 13,000 multifamily units were added during the period, resulting in a large mismatch between new demand and supply.

**Implications:**

- The number of renters and homeownership rate seemed to level off in 2012 through 2014, but renting increased again in 2015. A key question for both the homeownership and rental markets is whether the homeownership rate is leveling off or will continue to decline. This will be discussed in more detail under Theme/Trend #5.

# Theme/Trend #4

## With Modest Economic Growth, Incomes will Likely Struggle to Keep Pace with Expected Housing Cost Increases

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## Incomes Will Struggle to Keep Pace with Housing Costs

- Rents and home prices are currently rising, which should continue with the tight market
  - Rental vacancy rates below 5% in many markets
  - Months supply of homes for sale below 3 months
- Median incomes may struggle to keep pace with housing costs:
  - Modest economic growth
  - Unemployment rate leveling off just below 4%

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As the previous two sections have shown:

- With the stronger economy and tighter housing market, rents and home prices are likely to continue rising. The rental vacancy rate is approaching 5% statewide (signifying a more balanced market) but is well below that in many markets, and the months supply of homes for sale is below 3 months.

- With the strong economy, incomes have increased in recent years. However, this expansion needs to be strong and wide-spread enough to benefit low- and moderate-income households, not just higher-income households. With the modest economic forecasts and unemployment in Minnesota not improving, incomes may struggle to keep pace with housing costs.

- The number of cost-burdened households in the future will depend on the strengths of these trends. If incomes do not keep pace with costs, the number of cost-burdened households will increase.

# Theme/Trend #5

## Millennials' Decision to Own or Rent will be a Key Driver of the Housing Market

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# Renting vs. Owning

- More Owning:
  - Homeownership is more affordable than in 2006 (but costs are increasing)
  - Generation Y (Millennials) is larger than Generation X and moving into the home buying phase of life
- More Renting:
  - People more cautious about homeownership
  - Generation Y likely to change jobs and locations – not tied down by homeownership
  - Tighter underwriting standards
  - Increasing levels of student debt

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What factors influence the homeownership rate?

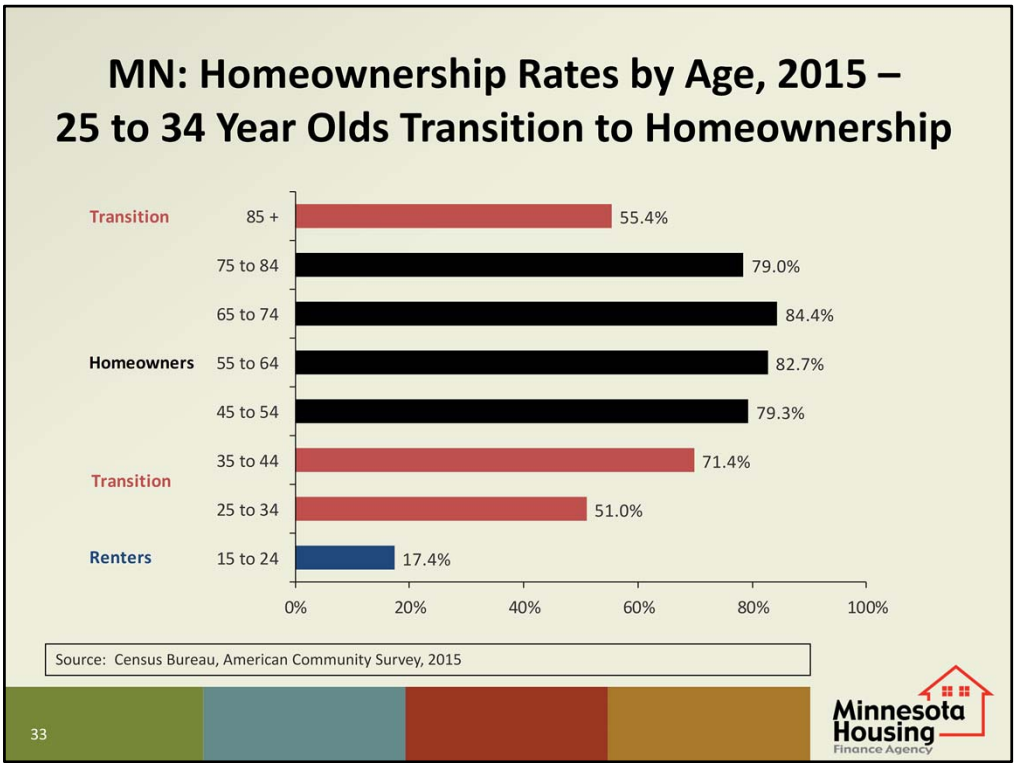
**More Owning**:

- Generation Y (Millennials) is large and starting to transition into the phase of life where people become homeowners.
- Homes are more affordable today than in 2006. While home prices are increasing from the lows of 2011, interest rates are still near historically low levels.

**More Renting**:

- After the housing and foreclosure crisis, people are more cautious about homeownership.
- Even though Generation Y is starting to move into the traditional home-buying age group, they may delay this step. They may want the flexibility to change jobs and locations and not be tied down by ownership.
- Tighter underwriting standards are limiting homeownership.
- Student debt levels are limiting homeownership. Underwriting standards include stricter debt-to-income requirements to qualify for a mortgage. For example, debt payments (including mortgage, student loans, car loans etc.) typically cannot exceed 43% of income.

We will look at several of these factors in more detail in the following slides.

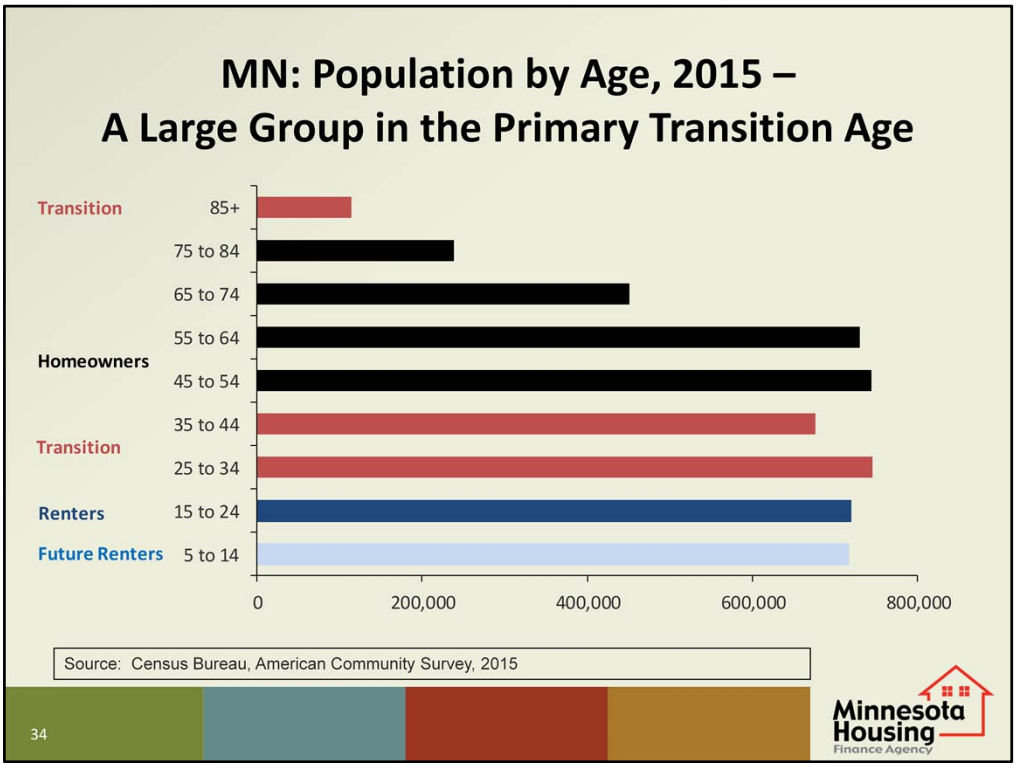



A person's stage in life (often reflected by his or her age) plays another key role in the decision to buy a home.

This graph shows the homeownership rate by age.

**Key Points:**

- Young single people who are in the less-stable and early stages of their careers and lives typically rent for affordability and flexibility reasons. (See ages 15-24 in this graph.)
- As families form and careers are established, households look for stability and transition to homeownership. (See ages 25 to 44 in this graph. The transition primarily occurs for 25 to 34 year olds, when the homeownership rate jumps from 17.4% to 51.0%. A smaller transition occurs for 35 to 44 year olds, with the rate increasing to 71.4%. Millennials may be delaying the transition. The median age of Minnesota Housing's first-time homebuyers increased from 27 in 2005 to 31 in 2016.
- From ages 45 to 84, the vast majority of Minnesota households are in the homeownership stage of life.
- After households go through the initial phase of retirement, age and start to face the struggles of independent living, they start to transition back to renting.




This graph shows the break out of Minnesota's 2015 population by age and the renter/owner phases.

**Key Points:**

- Demographics plays a role in the homeownership rate.
  - The smallest working-age cohort is 35-44 year olds (largely representing Generation X). Over the last 10 years, this group moved through the initial and primary home-buying phase of life, and its small size limited the growth in homeownership.
  - The largest age cohort is 25 to 34 year olds (largely representing Generation Y or Millennials). This large group is at the prime age for first-time homebuyers, which should help increase homeownership in the coming years.

**Implications:**

- Understanding the home-buying needs of the Millennial generation will be a critical strategy going forward.

# TC Metro: Owning More Affordable than in 2006

| | |
|---|---|
| **June, 2006:** | |
| Median sale price | $236,850 |
| Market interest rate | 6.68% |
| Monthly housing payments (PITI) | $2,006 |
| Average monthly rent | $860 |
| **June 2011:** | |
| Median sale price | $162,217 |
| Market interest rate | 4.51% |
| Monthly housing payments (PITI) | $1,160 |
| Average monthly rent | $921 |
| **June 2016:** | |
| Median sale price | $242,000 |
| Market Interest rate | 3.57% |
| Monthly housing payments (PITI) | $1,603 |
| Average monthly rent | $1,078 |

Source: Minnesota Housing based on data from the Minnesota Association of REALTORS®, Freddie Mac, Minnesota Taxpayers Association, and U.S. Census Bureau. Figures are not adjusted for inflations

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The affordability of owning a home is a key factor that influences the homeownership rate.

This slide shows the housing payment (principal, interest, taxes & insurance) for the median priced home in June of 2006, 2011 and 2016 in the Twin Cities metro area. (The analysis examines the same month in each year because home sale prices fluctuate with the time of year, and we wanted consistency in the comparison. In addition, June is a prime home-buying month.)

**Key Points:**

- In 2006, the housing payment on a median priced home was $2,006 – more than $1,000 above the average rent for an apartment ($860). The cost differential probably contributed to the decline in the homeownership rate.
- By 2011 (with much lower prices and interest rates), the housing payment on a median priced home was down to $1,160 – just a couple hundred dollars more than the average rent ($921). The smaller differential probably contributed to the leveling off of the homeownership rate.
- By 2016 (with higher prices but lower interest rates), the housing payment was up to $1,603 – about $525 more than the average rent ($1,078).

**Implications:**

- While buying a home is still more affordable than it was in 2006, the rising costs may be inhibiting home buying.

## Successful Homeownership Is Beneficial to Society

- Research[a] has found that:
  - Each year of homeownership, increases household wealth by $9,500 on average.
  - Renters do not generally experience gains in wealth.
- Additional homeownership frees up rental units, effectively increasing the supply.

a. Christopher E. Hebert, Daniel T. McCue, and Rocio Sanchez-Moyano, *Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? Was it Ever?* (Harvard University, Joint Center on Housing Studies, HBTL-06, September 2013) pp. 2 and 45-47. The results are from 1999 to 2009, which was a less-than-ideal period involving a housing boom and bust.

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**Homeownership is a powerful tool.**

- While research has found that renters generally have very limited gains in wealth, successful homeowners have seen large increases in their wealth, even in the less-than-ideal time of 1999 to 2009, which included a housing boom and bust.
- For many lower-income homeowners, their home is their primary source of wealth.
- In addition, transitioning low- and moderate-income households to successful homeownership frees up affordable rental units. As discussed on pages 25 to 29, the decline in Minnesota's homeownership rate contributed to our low vacancy rates and increasing rents.

**Implications**

- Promoting and supporting successful homeownership supports not only homeowners, but also renters.

# Theme/Trend #6

## Affordable Housing is Needed in Areas with a Growing Workforce

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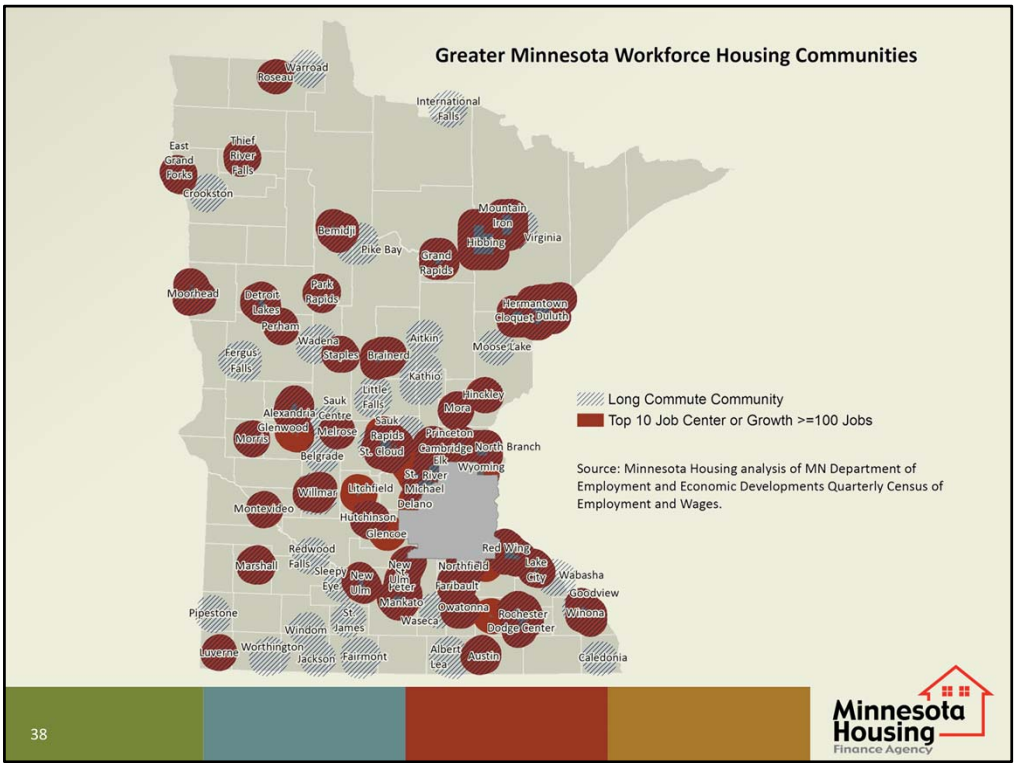



With a growing economy, workforce housing has become an issue. Is there enough affordable rental housing to accommodate the growing workforce?

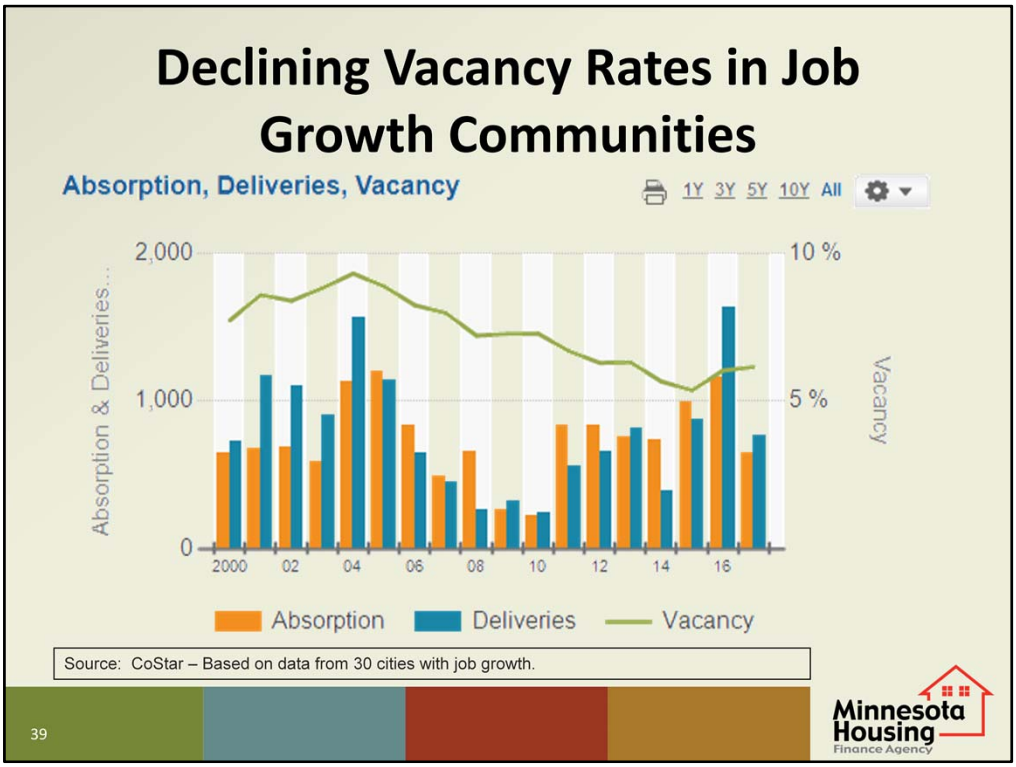
This map shows the communities that we have identified as potentially needing workforce housing.

**Key Points:**

- The cities/townships in maroon have at least 2,000 jobs and at least 100 additional jobs in the last five years. To accommodate this growth, additional housing is needed.
- The cities/townships with the hashed lines have at least 15% of the workforce commuting at least 30 miles into their community for their jobs. The long commute may signify a lack of workforce housing in these communities.

**Implications:**

- As the map shows, workforce housing communities are spread across the state.




This graph shows the rental vacancy rates, deliveries and absorption since 2000 for the 60 communities in Greater Minnesota that had job growth of at least 100 new jobs in the last five years. These are the communities with a maroon circle in the previous map.

This is CoStar data, which reports higher vacancy rates than we have seen from other sources.

**Key Points:**

- The green line shows the vacancy rate, which declined from 2004 through 2015, but increased in 2016.
- The blue bars show "deliveries", which are new rental units open for occupancy. In 2016, these communities experienced the first significant increase in deliveries since 2004.
- The orange bars show "absorption", which are newly occupied rental units. When absorption exceeds deliveries, the vacancy rate drops – more units are being newly occupied than delivered.
- The reported deliveries and absorption in 2017 only cover the first three and a half months of the year.

**Implications**

- From 2005 through 2015, these communities had a shrinking supply of available rental units (reflected by a declining vacancy rate). Absorption exceeded deliveries in 8 of the 11 years because the growing demand was greater than new units coming online.
- The large number of deliveries in 2016, which significantly exceeded absorption, is starting to address the issue.
- According to the CoStar data, the vacancy rate in these communities is now 6%, possibly indicating a balanced market and less need for new units in these communities. However, we've just starting to use this data and are still assessing how a 6% vacancy rate reported by CoStar compares with vacancy rates measured by other sources. In addition, with so many cost burdened renters in Minnesota, there is always a need for more affordable housing.

# Theme/Trend #7

## Minnesota is Becoming More Diverse, and Disparities in Homeownership are Significant



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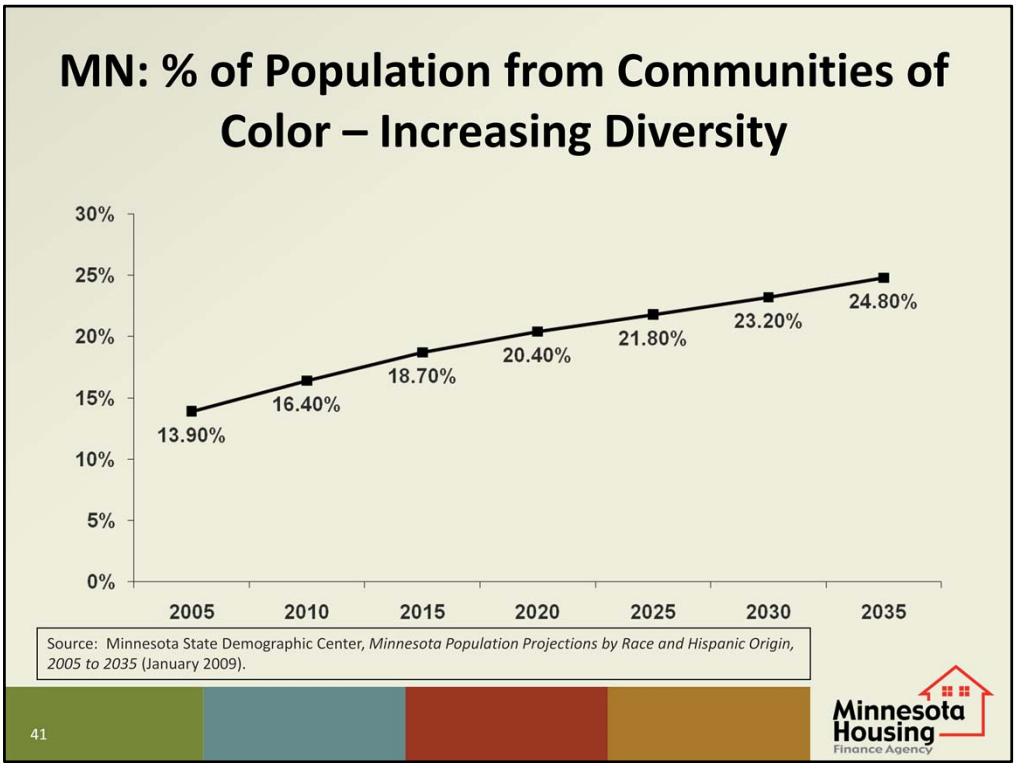


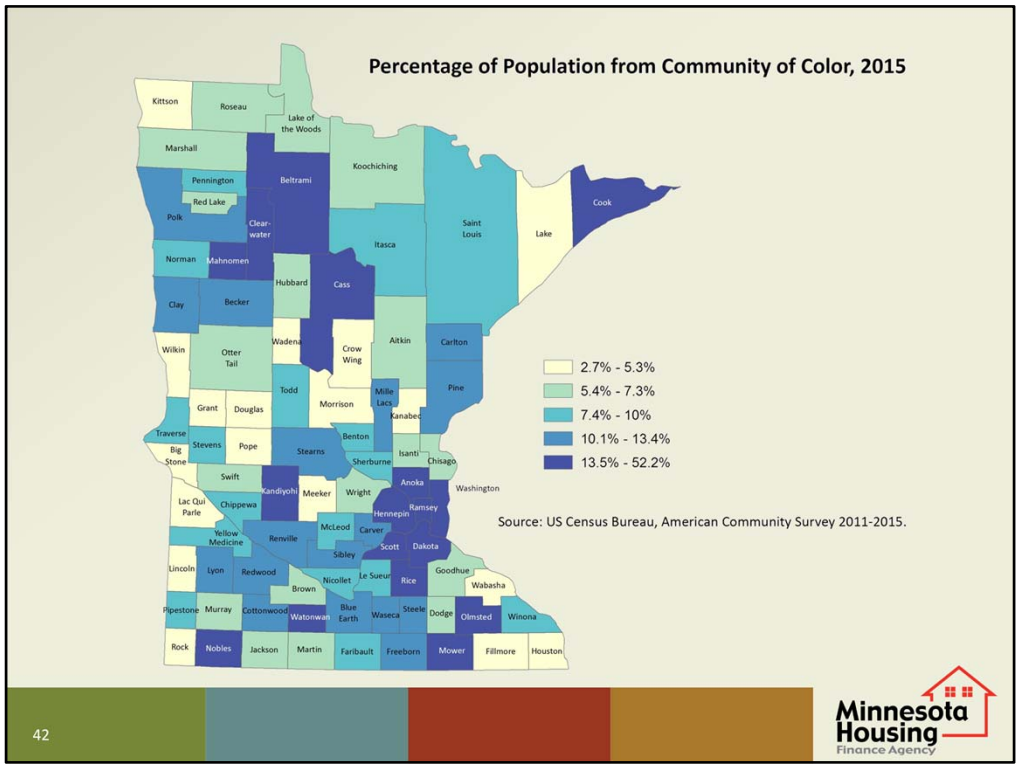

This graph shows a projection from the State Demographer's Office about the increasing share of the state's population that is from a community of color or of Hispanic ethnicity.

**Key Points:**

- By 2035, roughly 25% of the state's population will be of color or Hispanic ethnicity.

**Implications:**

- The housing needs of people of color or Hispanic ethnicity will become more predominant as they will account for a larger share of the population.



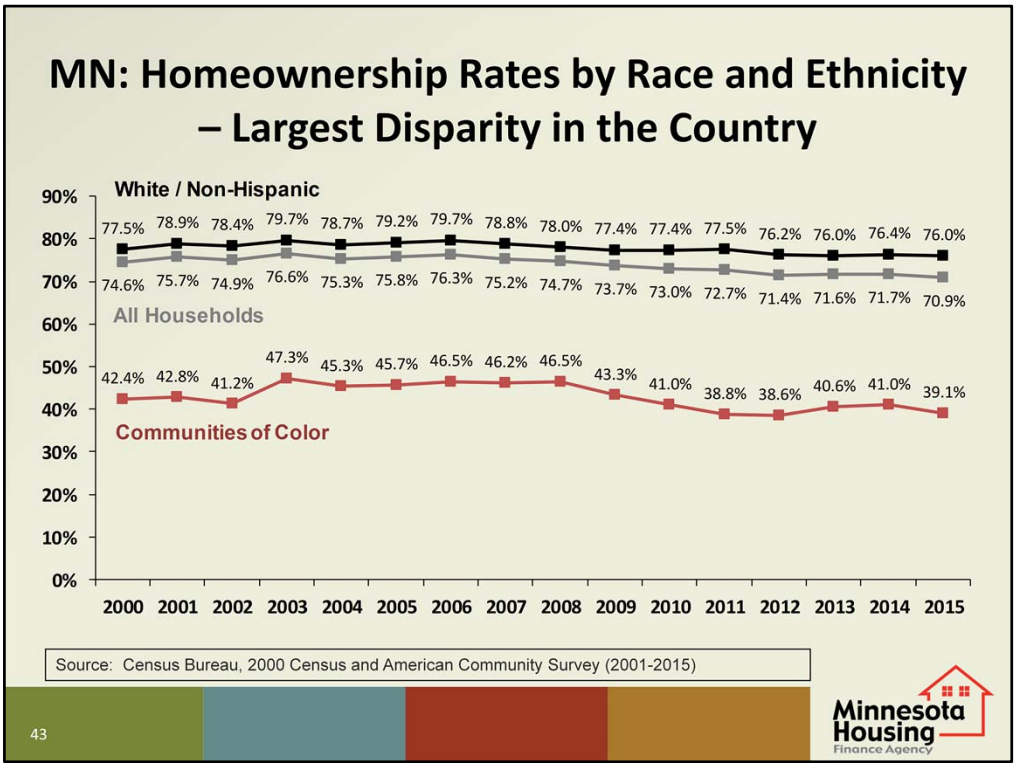

As shown in the map, people of color or Hispanic ethnicity are not evenly distributed across the state.

**Key Points:**

- The percentage in each county varies from 2.7% to 52.2% of the population.

**Implications:**

- The housing needs of people from communities of color play a critical role in some counties and will play an increasing role across the state.



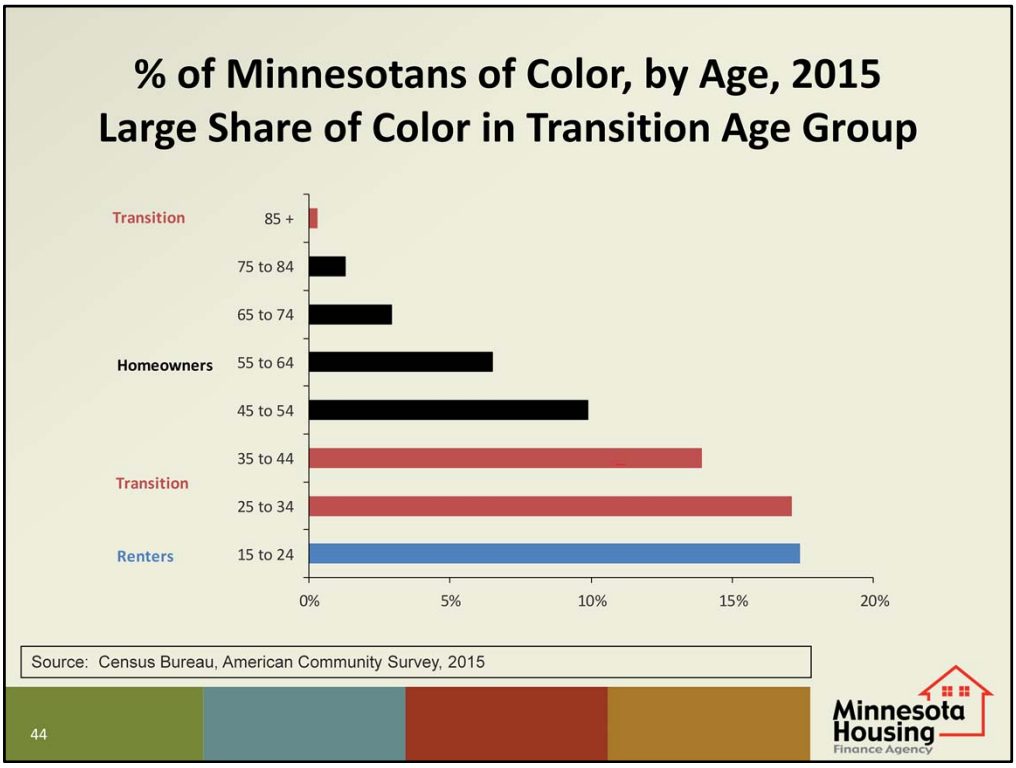

This graph compares the homeownership rates of households of color or Hispanic ethnicity with white/non-Hispanic households.

**Key Points:**

- Minnesota's 36.9 percentage point disparity in homeownership rates between white/non-Hispanic households and households of color is the largest in the country.

**Implications:**

- We have estimated that over 25% of renter households that are income eligible for our mortgage programs are of color or Hispanic ethnicity. If we want to address the homeownership gap, the share of our loans going to households of color or Hispanic ethnicity should be in this range. This is an imperfect standard because it does not take into account people who may or may not be eligible for a mortgage because of low credit scores, high debt-to-income ratios, or other underwriting criteria. Nevertheless, it is an informative benchmark.
- Between 2009 and 2016, our actual percentage has been between 23% and 33%.
- For the first two quarters of federal fiscal year 2017, 33.5% of our START UP loans for first-time homebuyers went to households of color or Hispanic ethnicity.
- In contrast, the share of mortgages in the overall Minnesota market going to households of color or Hispanic ethnicity ranged between 9% and 12% during that time.




This graph shows the share of the Minnesotans of color or Hispanic ethnicity in each age groups. In addition, the bars are color coded to reflect the housing phase of each age group (renter, transition, and homeowner).

**Key Points:**

- The largest age group for people of color is under age 25 – renters and future renters (see the solid blue bar).
- The second largest age group for people of color is 25 to 34 year olds, which is the prime first-time homebuyer age (see the bottom solid maroon bar). The size of each older age group gets smaller and smaller.

**Implications:**

- While households of color or Hispanic ethnicity are far more likely to be renters, they comprise 24.0% of all 25 to 34 year olds, making them a significant portion of the potential first-time homebuyer market.
- Focusing on households of color or Hispanic ethnicity is one of our strategic priorities.

# Theme/Trend #8

## The Number of People Experiencing Homelessness is Declining, but A Lot More Work is Needed



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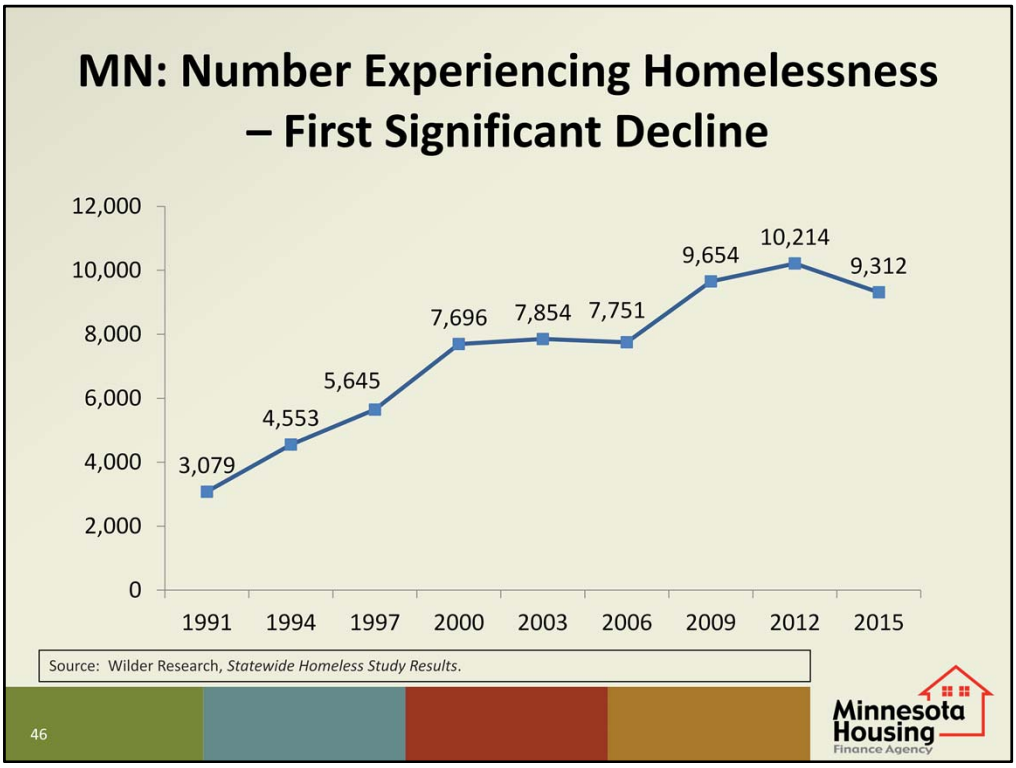



This graph shows the number of homeless on a given night in Minnesota.

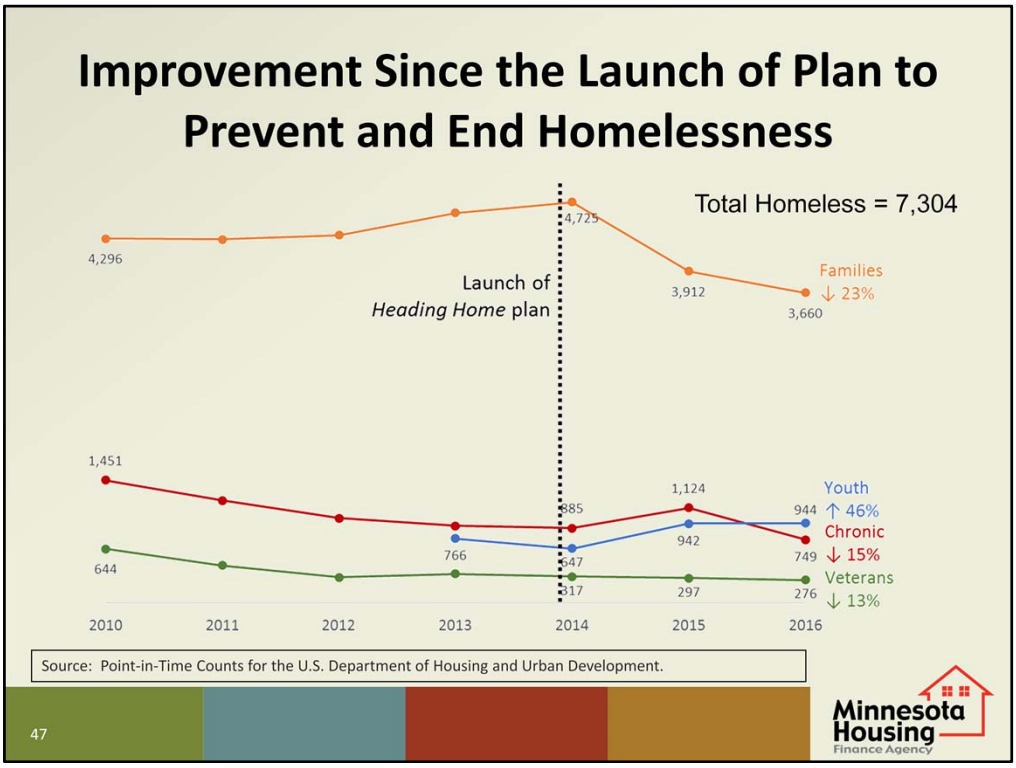
**Key Points:**

- After increasing for two decades, the number of people experiencing homelessness had its first significant decline in 2015.
- After leveling off in 2003 and 2006, the state experienced a large increase with the Great Recession.

**Implications:**

We have done significant work to address homelessness.

- We played a lead role in completing the state's Business Plan to End Long-Term Homelessness, which financed over 4,000 supportive housing opportunities for households experiencing long-term homelessness.
- We have played a lead role in reconstituting the Minnesota Interagency Council on Homelessness (11 state agencies) and developing the state's current Plan to Prevent and End Homelessness.
- The current plan has the goal of creating 5,000 new affordable housing opportunities by 2020.




This graph shows trends in the number of people experiencing homelessness by sub-populations, before and after launching the Plan to Prevent and End Homelessness. These numbers come from HUD's Point-in-Time count, which is a different source and provides slightly lower numbers than the Wilder Research estimates in the previous graph. These numbers have the advantage of being produced annually.

**Key Points:**

- Families: Because over half of people experiencing homelessness are in families with children, this trend line largely drives the overall trend.
- Chronic: The number of people who experience chronic homelessness declined for the last several years, but increased in 2015. It dropped again in 2016 to a new low.
- Youth: The number has increased, but this may just reflect better counting.
- Veterans: The number of veterans experiencing homeless is on a clear downward trajectory.

**Implications:**

- The state Plan to Prevent and End Homelessness will address all types of homelessness, with the goal of bending the trend line for all the graphs significantly downward. A lot more work is needed. In 2016, over 7,000 Minnesotans experienced homelessness on a given night.

# Theme/Trend #9

## The Aging Baby Boom Generation will Create New Housing Needs and Challenges

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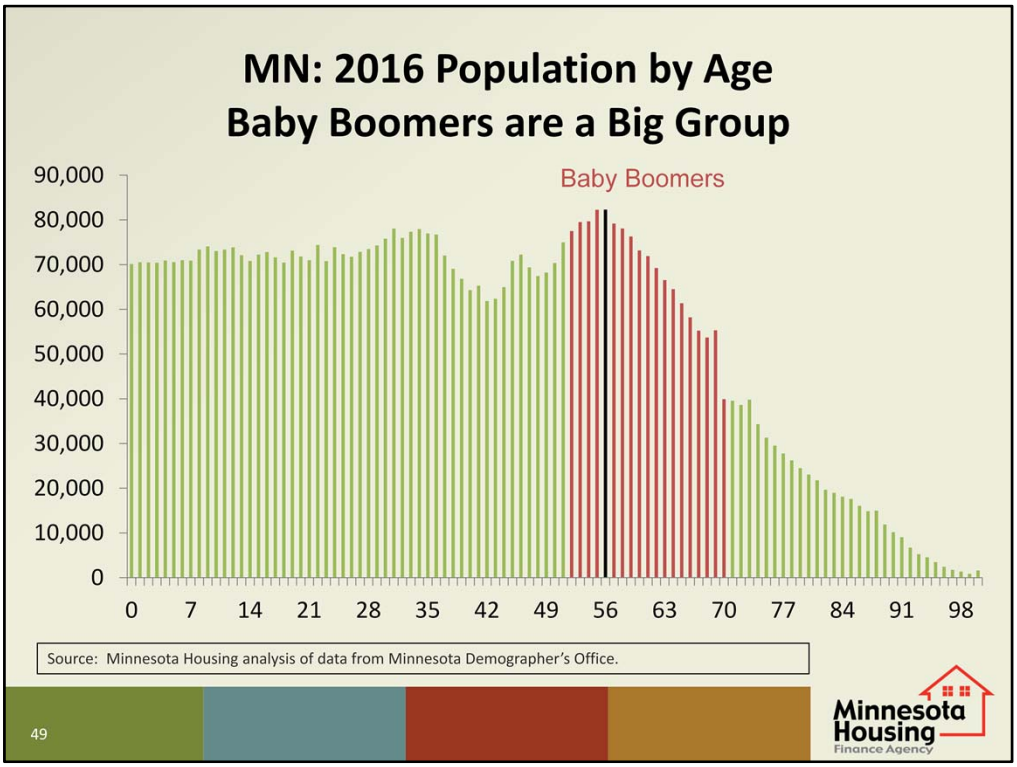


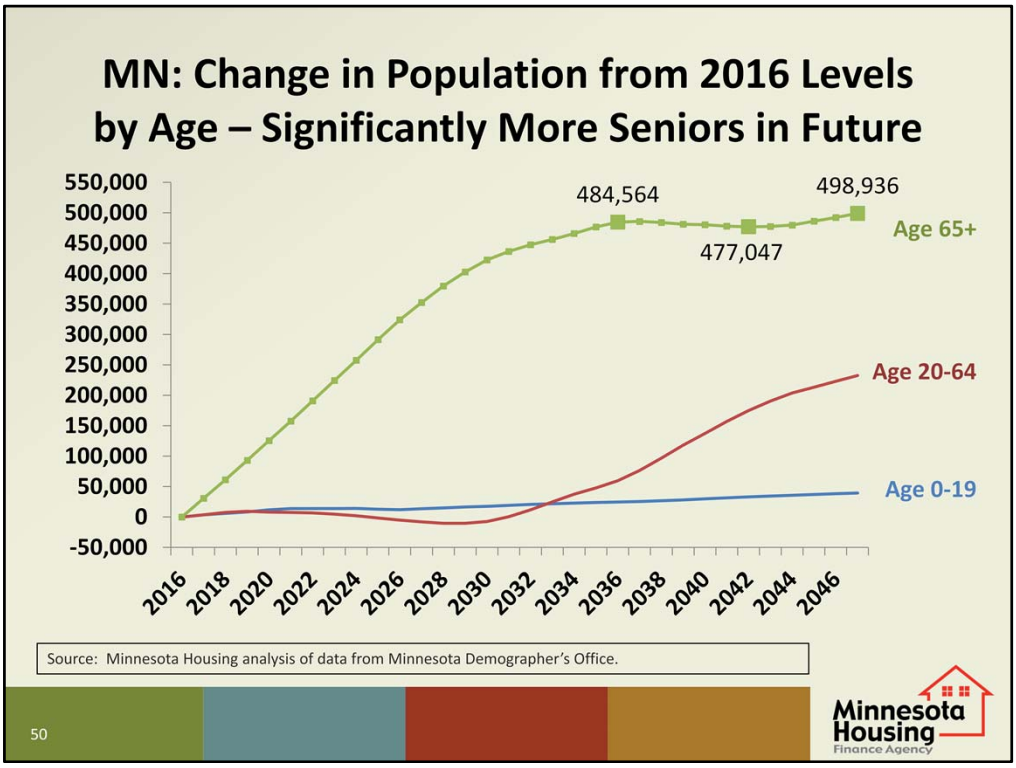

This graphs shows the number of Minnesotans by age. The Baby Boomer generation is shown with the maroon bars.

**Key Points:**

- Baby Boomers are a large generation that is retiring, or will retire over the next decade.
- Most Baby Boomers are on the younger half of the generation, with 56 year olds as the largest group (see black bar).

**Implications:**

- The changing housing needs of the Baby Boomers as they retire and age will present new challenges for Minnesota Housing.




This graph shows the number of additional people in each age group over the next 30 years. The number for each year is the increase from the base year of 2016. For example, the Demographer's Office is forecasting 484,564 more seniors in 2036 than there were in 2016.

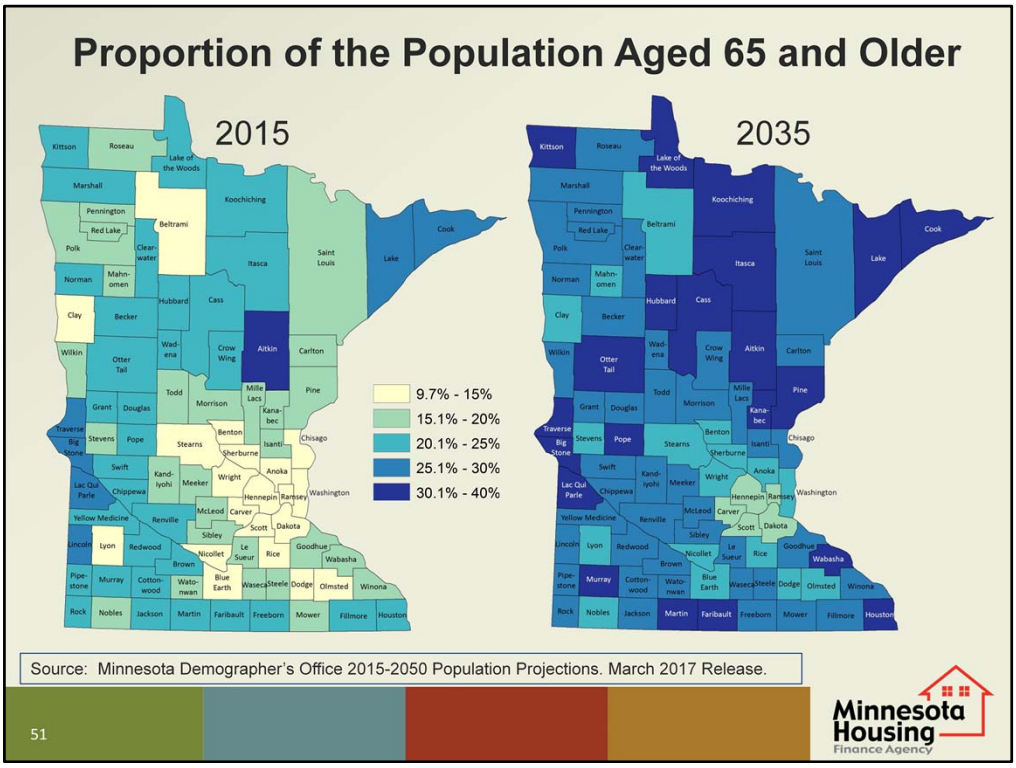
As a point of reference, there were about 840,000 Minnesotans age 65 or older in 2016.

**Key Points:**

- The senior population is increasing rapidly.

**Implications:**

- With limited resources, how do we address the affordable housing needs of this growing population and also address the needs of families with children and working-age adults without children?




This slide shows how the percentage of Minnesotans who are age 65+ in each county will change between 2015 and 2035.

**Key Points:**

- In 2035, seniors will account for more than 30% of the population in many counties, particularly in north central Minnesota and some the border counties around the state.
- Seniors will account for less than 20% of the population only in the metro area.

## Key Findings for Baby Boomers

- Will play key role in dictating housing needs over the next few decades
- Healthier and more energetic than current seniors
- Pushing back retirement and entering in life care facilities
- Want to stay in their communities
- Wants and needs:
  - Housing that is senior friendly, not necessarily senior housing
  - Access to services (e.g. health care and support) and amenities

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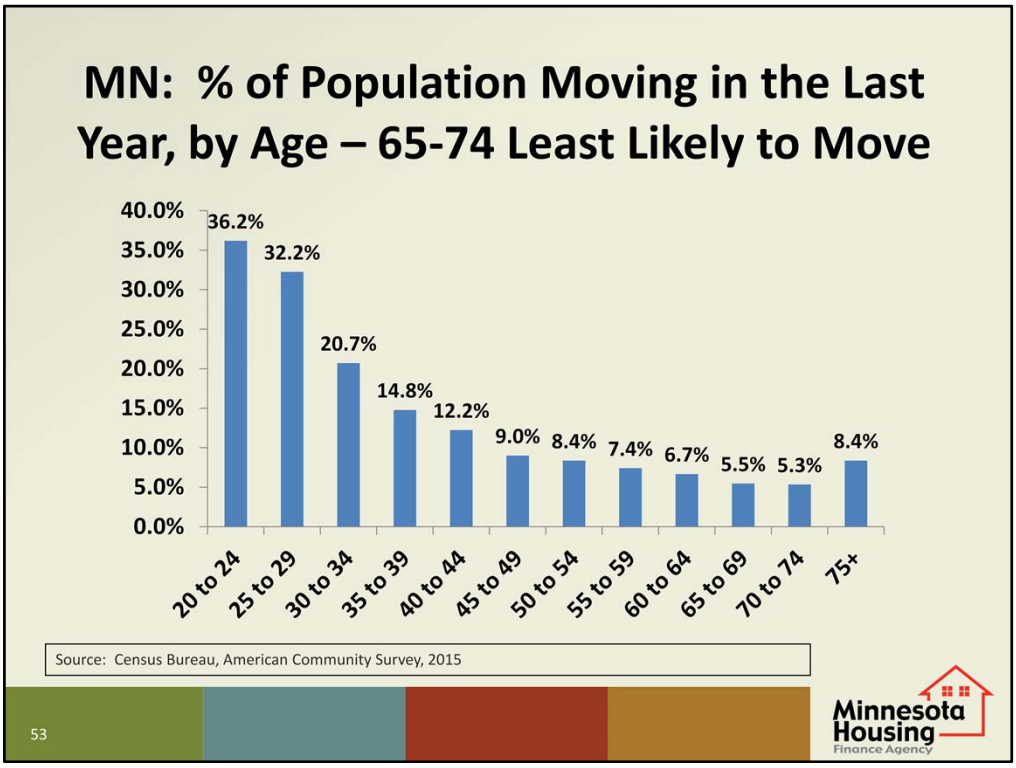
This slide summarizes some the key findings in the literature about housing for seniors.

**Implications:**

- Minnesota will face challenges in providing housing to seniors that is: (1) affordable, (2) keeps them in the community as long as possible, and (3) provides adequate access to care, services, and amenities.

- This will be particularly challenging in rural areas.



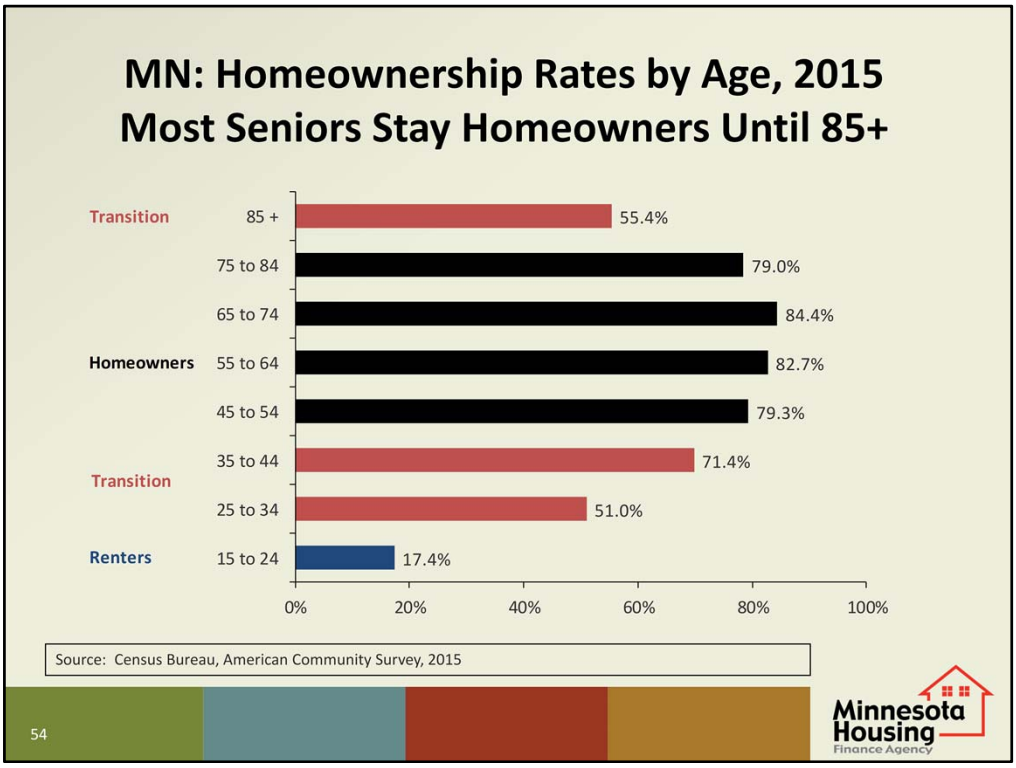

This slide shows the percentage of people by age group that moved in the last year.

**Key Points:**

- People age 65 to 74 are the least likely to move, only 5.3% to 5.5% move each year.
- Moving picks up after age 74.

**Implications:**

- In initial retirement, seniors are very likely to stay where they are currently living.
- Serving Baby Boomers in their current housing should be our initial priority.




This graph of the homeownership rate by age is a repeat from an earlier graph, but this time we are focusing on the transition out of homeownership by older Minnesotans, rather than the initial transition into it by young adults.

**Key Points:**

- While there is a slight decrease in homeownership after age 74, a large decline occurs at age 85+.

**Implications:**

- This is consistent with the data on moving rates. People start to move after age 74, but most seniors do not transition out of homeownership until age 85 or later, which is consistent with increasing rates of disability among older seniors and the inability to live independently.

## MN: Lower-Income Homeownership Rates – Majority of Low-Income Seniors are Homeowners

| | Homeownership Rate for Households with Income <= 50% of Statewide Median (adj. for household size) | Homeownership Rate for Households with Income <= 30% of Statewide Median (adj. for household size) |
|---|---|---|
| Senior Households | 64% | 53% |
| Non-Senior Households w/o Children | 34% | 26% |
| Non-Senior Households with Children | 29% | 21% |

Source: Minnesota Housing analysis of data from Census Bureau, American Community Survey, 2012, Public Use Microdata Sample (PUMS). Median income data from HUD.

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At Minnesota Housing, we serve low- and moderate-income households, and this table shows homeownership rates for households with incomes at or below 50% of the statewide median income, and also at or below 30%.

**Key Points:**

- 53% of senior households with income at or below 30% of the statewide median are homeowners.

**Implications:**

- As this table and the previous graphs show, homeownership should be our initial priority:
    - Most seniors (including low-income) are homeowners,
    - Most seniors remain homeowners until at least ages 75 to 84, and
    - The largest group of baby boomers are under age 60.

- If current living patterns continue, the largest group of Baby Boomers won't be transitioning from homeownership to renting for at least another 15 to 25 years. What will be the housing needs of these lower-income homeowners? Will it be home repair and maintenance? Will it be the installation of accessibility features to the home? Will it be access to home and community based services?

- Nevertheless, the number of senior renters will also be increasing each year. Rental housing with services will become more and more important over time.

## Rehabilitation Needs of Extremely-Low-Income Senior Homeowners in MN

- 16,400 households have home rehabilitation needs to remain in their homes for the next five years – For example:
  - New water heater 27%
  - New windows 25%
  - New roof 21%
  - Grab bars or hand rail 21%
  - Shower at floor level 20%
- On average, nearly $16,000 of work per home
- $250 million of rehabilitation needs over the next five years (or $50 million annually)
- 12,000 of these household also have unmet home and community based service needs

Source: Wilder Research, *An Assessment of Home Renovation and Rehabilitation Needs of Older Adult Homeowners in Minnesota*, December 2016

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Last year, we worked with Wilder Research to assess the rehabilitation needs of senior homeowners with incomes at or below 30% of the area median income, who are a primary customer of our Rehabilitation Loan program.

**Key Points:**

- There are roughly 16,400 extremely-low-income senior homeowner households that have rehabilitation needs to stay in their home for the next five years.
- About $50 million is needed annually to meet these needs.

**Implications:**

- Like most affordable housing needs, there are insufficient resources. The Rehabilitation Loan Program has an annual budget of $8.6 million.
- Without home rehabilitation and adequate services, seniors may have to choose more expensive housing options, such as assisted living or nursing homes

# Theme/Trend #10

## Minnesota Has a Large Stock of Affordable Rental Housing that Needs to be Preserved

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## Preserving Federally Subsidized Rental Housing

- Minnesota has nearly 36,000 federally subsidized rental units, including:
  - 30,000 project-based Section 8, and
  - 6,000 USDA Rural Development Section 515.
- These properties were generally developed in the 1970s and early 1980s.
- Many have capital improvement needs and limited reserves to pay for them.
- With their rent subsidies, Minnesota Housing has made the preservation of federally subsidized units a priority.

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**Implications:**

- While the State of Minnesota needs to preserve all types of affordable housing, preserving federally subsidized rental units is one of our strategic priorities. The rent subsidies provided for these project-based units ensure that tenants pay no more than 30% of their income on rent.

## Preserving Other Affordable Housing

- In total, Minnesota has roughly 300,000 rental units that are affordable to households with incomes at or below 50% of AMI
- Of those:
  - About 36,000 have federal rent subsidies
  - About 20,000 are public housing
  - Another 40,000 are affordable through other income or rent restrictions
  - Roughly 200,000 are naturally affordable, which are typically affordable because they are dated, lack modern amenities, and/or need significant repairs or rehabilitation

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Preservation of other rental units also needs to be addressed.

**Key Points:**

- While project-based rental subsidies are key because they provide the deepest subsidies, preserving other affordable units is also important.
- Of Minnesota's roughly 300,000 rental units that are affordable for households with incomes at or below 50% of AMI:
  - Just over 35,000 are affordable through project-based rent subsidies.
  - About 20,000 are public housing
  - Another 40,000 are affordable through other income or rent limits.
  - Roughly 200,000 are naturally affordable without income or rent limits.
- Many of the naturally affordable units are affordable because they are dated, lack modern amenities, and/or need significant repairs or rehabilitation. In markets with low vacancy rates and rising rents, these properties are at risk of being upgraded and have their rents increases so they are no longer affordable.

# Theme/Trend #11

# Additional Resource Constraints



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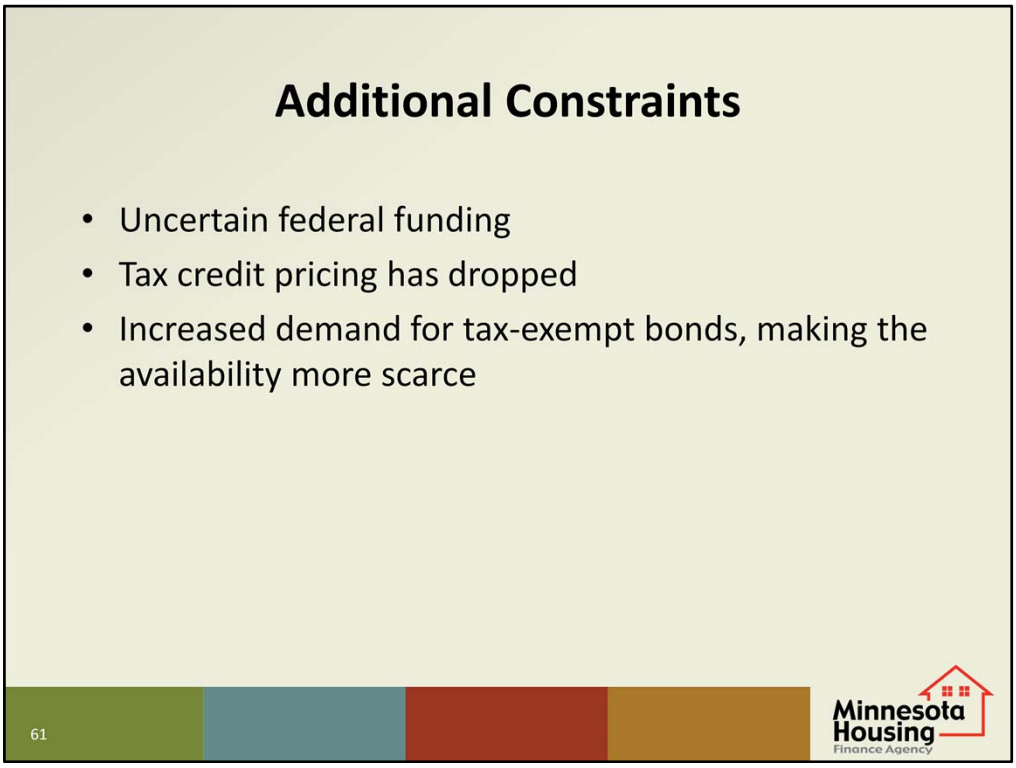



With Minnesota's large need for more affordable housing, resource constraints are a reality of our work. For example, applications for Low-Income Housing Tax Credits are typically three times greater than the credits available. However, for the upcoming year, we will face additional constraints.

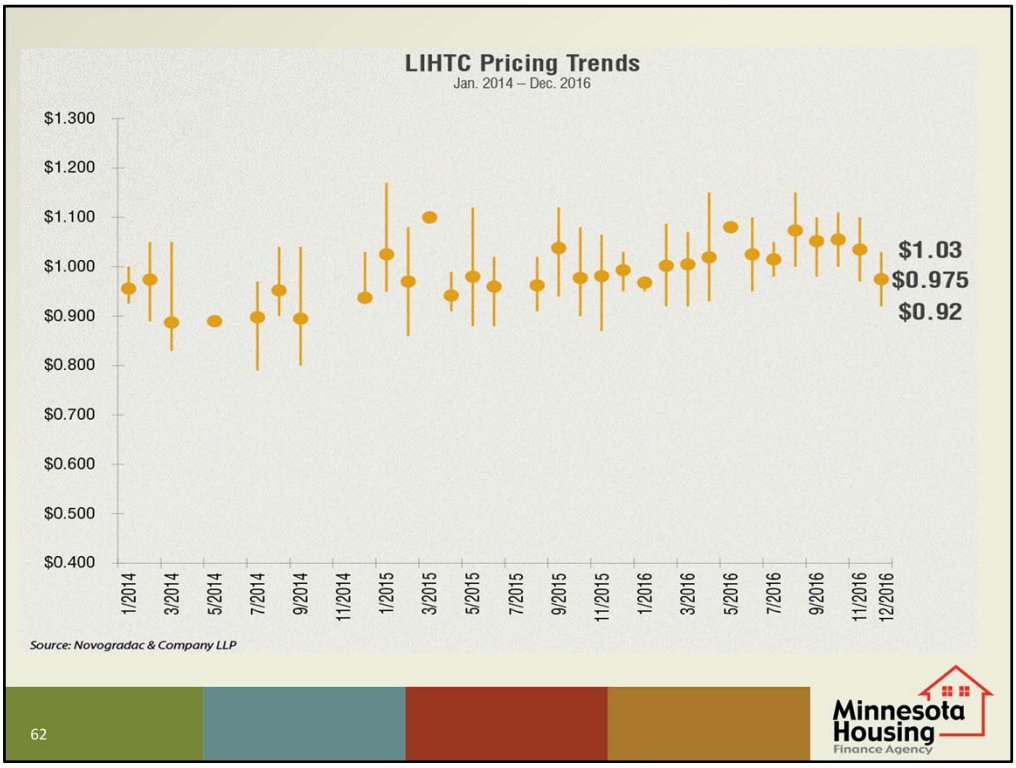
**Key Points:**

- While funding from the federal government is always somewhat uncertain, the political changes in Washington and policy discussions related to tax reform, HOME funding, and other housing issues make the current situation particularly uncertain.
- With tax reform discussions and the possibility of lower corporate tax rates, the value of Low-Income Housing Tax Credits is dropping. The tax credits are our primary tool for financing multifamily developments.
- Across the state, there is increased demand for tax-exempt-bond financing for housing, making the availability of this capped resource more scarce.

**Implications:**

- These changes (or potential changes) place additional constraints on how we finance affordable housing.
- Maximizing and effectively using our flexibility and creativity will be critical in these changing and uncertain times.

The following two pages provide more details about the tax-credit and bonding issues.




This graph shows the national pricing of Low-Income Housing Tax Credits (LIHTC) over the last couple of years. These are actual prices, not prospective prices.

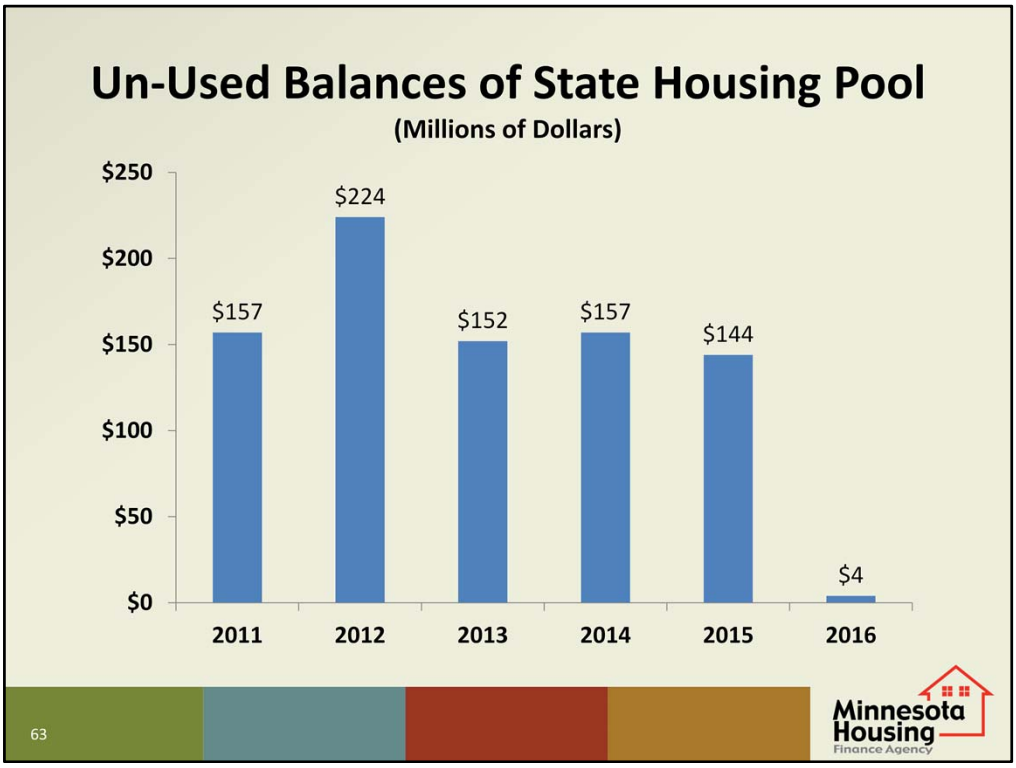
Investors buy the tax credits upfront and then receive the tax reductions for ten years. The proceeds from the sale are invested in the affordable housing. Because of the time value of money and uncertainty, $1 of credits typically sells for less than $1.

**Key Points:**

- Over the last two years, $1 of tax credits typically sold for $0.90 to $1.00.
- A lot of factors drive the value of the credits, including corporate profits and the tax rate.
- In the depths of the Great Recession, when corporate profits were low and demand for credits was down, they sold for less than $0.70 on the dollar.
- With the possibility of tax reform and lower corporate tax rates, we have been hearing about credit prices as low as $0.88 for recently selected projects. Because the credits apply to future tax liability, tax credit investors assess not only what the tax rate is today but what they think it will be in the future. The prospect of lower tax rates makes the credits less valuable and reduces the price.

**Implications:**

- With pricing at $0.95, Minnesota Housing's typical tax credit allocation would generate $90 million of equity for affordable housing each year. At $0.88, the equity would drop to $84 million.




Each year, Minnesota receives an allocation of tax-exempt bonding authority, which can be used for housing or other activities. A portion of the state's allocation is divided among a few entitlement jurisdictions, which includes Minnesota Housing, Dakota County, and the cities of Minneapolis and St. Paul. (Minnesota Housing's allocation is just used for housing.) Minnesota Management and Budget (MMB) administers the rest of the allocation and takes applications for tax-exempt bonding from non-entitlement jurisdictions from across the state for various activities, including housing. At the end of each year, MMB's unused authority is transferred to Minnesota Housing.

This graph shows the unused balances of MMB's bonding authority that was allocated for housing activities over the past six years.

**Key Points:**

- As demand for tax-exempt bonding for housing has increased, MMB's unused balances have declined.

**Implications:**

- The reduction in bonding authority going to Minnesota Housing constrains our financing options and ability to finance housing with the most favorable terms.

## Summary: Key Themes & Trends

1. Minnesota needs more affordable housing.
2. The economy is expected to grow modestly.
3. Housing costs will likely continue to increase with a limited supply available, but rent increases may slow.
4. With modest economic growth, incomes may struggle to keep pace with expected housing cost increases.
5. Millennials' decision to own or rent will be a key driver of the housing market.

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In closing and summary, this slide and the following one just restate the 11 key theme and trends.

## Summary: Key Themes & Trends

6. Affordable housing is needed in areas with a growing workforce.
7. Minnesota is becoming more diverse, but disparities in homeownership are significant.
8. The number of people experiencing homelessness is declining, but more work is needed.
9. The aging Baby Boom generation will create new housing needs and challenges.
10. Minnesota has a large stock of affordable housing that needs to be preserved.
11. New resource constraints are emerging.



Minnesota Housing Finance Agency

# For More Information

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# MEMO

To: Minnesota Housing Board
From: John Patterson and Kirby Pitman
Date: June 15, 2017
Subject: Initial Partner and Stakeholder Input Survey for 2018 AHP

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## Overview

Between May 1 to May 19, 2017, we conducted a survey of our partners and stakeholders seeking input on the issues we should address and the actions we should take in the 2018 Affordable Housing Plan. We received 69 responses.

## General Observations

- There were numerous suggestions about allocating all our tax-exempt bonding authority to multifamily rental housing (and none to home mortgages) in order to access 4% Low-Income Housing Credits and address a wide range of rental housing issues, including preservation, homelessness, senior housing, large-family housing, and low rental vacancy rates.

- The following housing related issues were repeated across the survey questions:
    - People with criminal records, evictions, and other issues struggle to find housing
    - It is difficult in develop and rehabilitate affordable housing in rural Minnesota

## Survey Questions and Summary of Responses

The following summarizes the responses to the survey questions, which are organized around our strategic priorities.

**Question 1:** What ideas or suggestions do you have for program enhancements or new initiatives within the following issue areas beyond what Minnesota Housing is already doing?

- **Preserving housing with federal project-based rent assistance**
    - Need to find new owners for projects that are at-risk of conversion
    - Create a state housing tax credit to support preservation activities
    - Need a loan product to quickly finance smaller RD 515 and HUD HAP projects (8-24 units) because they don't compete well in the RFP process; also, it is a challenge to access first mortgages unless the buyer has 20% down

- More resources for purchase and rehabilitation
- Serve as a 8bb match maker (transferring unused Section 8 assistance in properties with high vacancies to properties were the assistance will be used)
- Support people who are able to move out of project-based rental units, which will free up the units for others
- Don't penalize owners who manage their properties well because their needs will not be as critical as poorly managed properties
- Question whether preservation of USDA Rural Development Section 515 units is really needed in declining markets
- Don't forget about new construction

- **Reducing Minnesota's racial and ethnic homeownership disparity**
  - Address disparities holistically – disparities in income, education, health, etc.
  - Support the creation of trusted advisors who support homebuyers of color
  - Increase funding for down-payment assistance and homebuyer education and counseling
  - Help people fix credit scores
  - Support the creation of Affordable Housing Trust Funds at the county or municipal level
  - Invest in community land trusts
  - Fund a contract-for-deed program
  - Fund a rent-to-own program
  - Buy and rehabilitate distressed homes in communities with affordable home prices
  - Address student debt creating a barrier to homeownership

- **Preventing and ending homelessness**
  - Direct more points under the QAP (plan for allocating housing tax credits) to homeless units
  - Create policies and programs that promote a two-generation approach – supporting parents and children together and holistically, rather than in siloed and disconnected programs
  - Spread homeless units throughout the state; when they are concentrated in a few places, it doesn't provide people with a lot of choices; rural areas need more units
  - Use tax exempt bonds with 4% tax credits (possibly Housing Infrastructure Bonds) to support Phase II of the Dorothy Day Center
  - Help the rapidly growing elderly homeless population
  - Create more housing and support services for foster kids transitioning out of care
  - Create more housing and services for those coming out of correctional facilities
  - Work with DEED on employment barriers
  - Make sure affordable child care is available
  - Focus on eviction prevention because evictions and poor rental histories are so damaging
  - Coordinate support for tenant-landlord mediation services
  - Relax tenant selection criteria, ensure the landlord risk mitigation fund is accessible and adequate, and fund a landlord helpline staffed by tenancy support specialists
  - Communicate with owners so they know of potential resources for supporting tenants and helping them stay in housing

- Increase the availability of support services
- Make sure "housing first" is accompanied with services
- Stop spreading long-term homeless (LTH) units throughout tax-credit developments; fund properties just for LTH; some LTH tenants are disruptive; require LTH tenants to accept services as a condition of occupancy
- Don't require coordinated-entry referrals for homeless units, or make sure the property managers have a say in the tenants they house (coordinated-entry is a system for connecting people entering the homeless system with the right resources at the right time)
- Don't forget about non-long-term and non-chronic homeless
- Support financial counseling
- Fold Regional Treatment Center Bridges into the regular Bridges program because people coming out of institutions are now the program priority (Bridges is rent assistance for people with a serious mental illness)
- Use the Homeless Management Information System (HMIS) to better to track individuals and outcomes

- **Financing housing responsive to Minnesota's changing demographics, such as housing for large immigrant families, low-income seniors, and others**
  - Stop ignoring senior housing (which has happened for 20 years)
  - Allow senior housing developments to access 9% housing tax credits
  - Allow age-restricted developments to get bonds from Minnesota Management and Budget (MMB) in January, rather than waiting until May, when the bonding authority will be gone
  - Increase supply of Section 202 senior housing
  - Increase the supply of senior rental housing, which allows seniors to leave their modestly-priced homes and frees up homes for young families to buy; there is a critical shortage of affordable homes for sale
  - Support aging in place
  - Invest in housing for seniors without medical needs
  - Need senior housing with memory care and assisted living; can't rely just on home-and-community-based services provided through Medicaid's Elderly Waiver
  - Increase supply of rural senior housing
  - Increase supply of rental units larger than 3 bedrooms; finding them is nearly impossible
  - Increase incentives to build 4-5 bedroom units; current income and rent limits prevent the financing from working
  - Change QAP pointing so that rehabilitation of properties with large units score better
  - Focus on the suburbs, which have a growing immigrant population
  - Support local efforts to reduce regulations that impede the development two to six unit buildings - these can be good for housing large multi-generational families
  - Question the need for large units in the long-run; it is only a temporary need; the next generation of these immigrant families will have smaller households
  - Do not base assistance on immigrant status; don't support undocumented residents

  - Focus on people: (1) with mental illness, (3) who have experienced chronic homeless, or (2) who are a Native American; they should not lose out to seniors and immigrants
  - Look at manufactured homes as a solution; there are 2,000 vacant pads in parks

- **Addressing specific and critical local housing needs, such as workforce housing, community revitalization, and others**
  - Advocate for Congress to increase funding for Low-Income Housing Tax Credits
  - Advocate for a state housing tax credit
  - Promote local control; don't take a top-down approach in funding
  - Educate local officials about the benefits of affordable housing
  - Ensure that communities are actually engaged and housing development isn't driven by developers alone
  - Increase supply of market-rate housing for teachers and hospital workers who don't qualify for government-assisted properties
  - Provide funding for rental units serving household with incomes at 80% to 100% of the area median income (AMI); there is a funding gap but no resources
  - Increase workforce housing along transit lines and in the suburbs
  - Broaden the concept of workforce housing; most workforce housing proposals are geared toward smaller "company towns" and do not recognize the needs of workers in urbanized communities in Greater Minnesota, such as Moorhead; they are not aligned with the needs of the entry-level workforce
  - Increase supply of entry-level workforce housing
  - Require affordable units in every workforce housing development
  - Support the creation of live/work units
  - Focus on workforce housing in communities with a growing workforce; de-emphasize community revitalization because housing doesn't revitalize communities
  - Address the deteriorating condition of housing in many communities (often rural)
  - Provide young families with rehabilitation funds for recently purchased homes
  - Support increased coordination at the local level – it can take several years to get housing funded, and there is often overlapping and competing proposals in the same community
  - Provide technical assistance to non-profits or businesses entering the housing development world, which is extremely complicated
  - Provide more technical assistance to Tribal Directors

- **Financing housing that allows people with disabilities to live and work in the community, rather than in segregated or institutional settings**
  - Increase inventory of affordable rental housing, which is needed to phase out group homes
  - Award RFP points to projects that set aside units for people with disabilities
  - Continue to roll out Section 811 – rent assistance for people with disabilities
  - Create more options to use Group Residential Housing (GRH) as a payment method for housing

  - Focus on chronic mental illness, vision, and hearing impairments; physical impairments do not seem to be underserved
  - Support shared living units and co-operative living units, using small multi-unit buildings
  - Increase income limits on the Rehabilitation Loan Program for persons with disabilities
  - Keep in mind that designating housing that responds to particular needs is not the same as "institutional"
  - Acknowledge that accommodating these special needs can: (1) be excessive, (2) sometimes require significant time and resources, and (3) be a burden on owners/managers
  - Balance the needs of people with disabilities against the needs created by the huge growth in families that are severely cost burdened

- **Addressing critical housing issues that are not identified in the previous questions**
  - Increase cooperation with tax credit sub-allocators
  - Develop stronger partnerships with Tribes to address off-reservation home ownership
  - Allow developers to use Development Cost Escrow (DCE) funds for equity in new projects
  - Make sure housing is healthy and energy efficient
  - Support the development of market-rate housing through accelerated depreciation rates
  - Lobby Congress for more tax-exempt bonding authority
  - Increase funding for rental assistance
  - Require forced savings accounts for Minnesota Housing's home mortgage borrowers

**Question 2:** What housing and community development issues do you see emerging in the near future?

- Talk of reducing corporate tax rates is depressing tax credit pricing
- Scarcity of tax-exempt bonding authority
- The need to set-aside tax-exempt bonding authority for cities that agree to provide TIF
- The need for multi-use buildings and live/work units along transit corridors
- Technical assistance for communities who are now seeing the need for affordable housing
- Housing for felons
- Affordable senior housing
- Affordable workforce housing
- Workforce housing in fully developed suburbs
- Increasing the role of employers - expect them to put funds into the development of affordable housing that their employees need
- Lack of assistance for those with incomes just above income limits
- The need for the Rental Rehabilitation Deferred Loan (RRDL) program to provide moderate to substantial rehabilitation for naturally-occurring affordable rental housing and smaller USDA Rural Development properties
- Discrimination against low-income renters and renters of color
- The inability Housing Choice Vouchers holders to find housing that will accept the vouchers
- Housing for large immigrant families
- Millennials are less interested in homeownership

- Old and unattractive homes in rural areas
- Seniors in Greater Minnesota staying in their homes too long, which is delaying the rehabilitation and replacement of the single-family housing stock
- Need for more service funding because tenants with disabilities place a burden on current owners
- Poor condition of manufactures homes and parks
- Overregulation of developers

**Question 3:** Are any of Minnesota Housing's programs not operating as effectively as they should be? If yes, which ones? How can the agency improve these programs?

- Decrease oversight of Section 8 Project Based programs
- Improve internal coordination; for example, don't require a property to go through separate inspections for housing tax credits, deferred loans, and Section 8
- Increase training for Tribes on how to use programs when integrated with Desktop Underwriter. They have not been able to use Minnesota Housing for this reason.
- Support transitional housing programs
- Expand homebuyer education
- Increase funding for down-payment assistance
- Hold landlords accountable for timely repairs
- Provide training to owners and managers of HUD properties to ensure that they are in compliance with program regulations
- Make programs less complicated and easier to navigate
- Make the multifamily first-mortgage lending programs less burdensome
- Make Rehabilitation Loans easier
- Make RRDL less burdensome; it is more burdensome than the old HOME Rental Rehab program
- Increase communication between Minnesota Housing staff and developers / program administrators – it is hard to get staff to answer questions
- Help MMB with its communication around private activity bonds – they need help with customer service
- Improve Minnesota Housing programs that require coordinated entry, and/or provide technical assistance for coordinated-entry systems
- Create one set of legal documents that can be used for all loans
- Support a state housing tax credit program
- Audit for-profit owners and management companies to ensure that they are not abusing the system
- Become more involved in public housing

**Question 4:** Is there anything else we should know or consider as we prepare the 2018 AHP that you have not already identified in your responses to the previous questions?

- Create side-by-side housing for low-income families and their elderly relatives

NOTE: Other comments are redundant with previous comments and suggestions

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# MEMO

**To:** Minnesota Housing Board
**From:** Margaret Kaplan, Director of Community Development
**Date:** June 15, 2017
**Subject:** Major Themes from Targeted AHP Outreach

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In preparation for the AHP, and as part of our ongoing responsibility to engage with historically underrepresented communities, I interviewed 16 organizations in both Greater Minnesota and the Minneapolis/Saint Paul Metro area to gather information about community priorities, challenges, and needs.

The questions were framed using the priorities in the strategic plan. The focus was on how, within those priorities, we could do a stronger job of addressing the unique needs of community of color, immigrant communities, and other historically under-resourced populations.

This does not and cannot capture the needs of every community. Not every concern or challenge is an accurate reflection of what our programs and policies do – it is instead the impression by people trying to navigate multiple systems to meet community needs. It is a small part of understanding how we can be a better resource to the communities we serve.

Overall people were happy to have the opportunity to provide information. Although some organizations did not have a great deal of familiarity with Minnesota Housing, they were supportive of the strategic priorities and saw clear connections between their work and our work.

**Addressing specific community needs and changing demographics**
An acute shortage of rental housing that is affordable to low income families is the primary concern raised by people regardless of community or organization type. While people are aware that resources constraints drive a lack of rental housing production, there is a concern that the cost of current strategies and the decision to focus new rental housing production in higher income areas is leaving many communities and constituencies without access to safe rental housing. The overriding sense is that the efforts to create affordable housing are insufficient to ever meet the needs and that there is more that could be done on both the state and local level to better match the most pressing community needs with activities and resources.

From a practical standpoint, there is a concern that even where there is available rental housing, it is either not affordable or not accessible to the people who need it most. The barriers are particularly severe for immigrant communities both from a practical standpoint (small units and high costs) and due to a perceived increase in discrimination against Somali and Latino immigrants in the current political environment. There are significant language barriers that are preventing people from accessing housing, and in Greater Minnesota, there is a perception that there are no (or, at best, limited) resources to

address the language barriers. Without navigators, landlords with choices about to whom to rent are not inclined to go out of their way to navigate language barriers and do not return phone calls or, when people show up to look at apartments, the apartments are no longer available. On a positive note, education and training for renters and landlords appears to be succeeding in overcoming some of the barriers that renters are experiencing.

In Greater Minnesota, there is a continued need for resources to be accessible to meet the needs of smaller communities. There is an impression that housing only gets developed in larger communities and that there are no resources to help families in smaller towns where there are good jobs forcing people to commute long distances or leading families to separate during the work week to take advantage of job opportunities. There is an impression that the type of unskilled jobs available in the Twin Cities metro area are primarily low wage service sector jobs while the unskilled food processing jobs in rural areas pay enough of a differential that even with increased family stress of living separately it is worth it for people to travel long distances for work.

In the Metro area, there is a disconnect between low income household needs and the cost of rental housing that is affordable under state and federal programs. The impression is that new rental housing development is “not for us” and is intended to move higher income households into lower income neighborhoods while lower income renters remain relegated to poorly managed and maintained single family and small scale rental housing owned by a small number of property owners. Increased fear of ICE enforcement is preventing some renters from addressing substandard housing conditions. The loss of unsubsidized rental housing that is affordable is seen as a major problem, particularly since many of these rental opportunities are cheaper than new “affordable” housing and frequently have less stringent rental criteria. However, these properties are now experiencing rent increases.

There is also a perception that the housing system is not inclusive or responsive and that decision making and development are dominated by established and predominately white organizations. From a workforce development standpoint, there is a strong desire to see more people of color working on building projects that are occurring in the Twin Cities.

There also remains a perception that some communities that have a need for rental housing are not supporting the development of rental housing both in greater Minnesota and in parts of the metro area. There are a number of communities where the need and desire for more rental housing to serve lower income households is pushing against efforts to limit or eliminate rental housing. While people are aware that this is something that is not directly under the control of Minnesota Housing, there is a fear that the state response will be to further disinvest in deeply affordable housing in areas that have historically experienced disinvestment. One a positive note, some efforts underway to create support for more affordable housing development are gaining traction.

**Homeownership Disparities**

The primary concerns for single family homeownership are increased costs, lack of information about resources, and tight standards preventing people who are paying high rents from taking advantage of the lower costs of homeownership.

Overall, people were very supportive of Minnesota Housing’s efforts to close the disparity gap and thought that Minnesota Housing efforts to successfully create homeownership opportunities for households of color should be expanded and replicated if possible. There is, however, a sense that even if someone wanted to be a homeowner the barriers to becoming a homeowner are very high,

particularly for people who think they might have low credit scores. Incomes continue to be a barrier to accessing homeownership because it is difficult for large families to find a home with a sufficient number of bedrooms with a mortgage for which they can qualify, but many people are reluctant to explore homeownership to begin with.

In North Minneapolis, among other communities, there is a sense that current strategies are likely to serve higher income households at the expense of opportunities for lower income households. The increase in home prices coupled with an infill strategy that does not feel affordable to current residents is causing concern that there are deliberate gentrification efforts.

The cost of developing single family homes is creating challenges for communities with a low supply and increasing home prices. There is a strong interest in creating more career pathways for kids in the construction trades, with a potential eye toward lowering the cost of construction. There is concern that state regulation and building codes is preventing communities for creating more homeownership opportunities.

There is still an interest in exploring Sharia compliant lending opportunities and, in particular, an interest by Greater Minnesota organizations to connect to efforts in the Twin Cities metro area.

**Preventing and ending homelessness**

Homelessness continues to be a concern in both rural and urban areas. There is increasing frustration about the impact that increased fear of ICE enforcement is having people who are undocumented, in unstable housing situations, and not able to access permanent housing programs. Some people are hesitant to access even temporary shelter.

People outside of the housing field are also struggling to understand how coordinated entry works and what it means for their communities.

Overall, low wages, employment barriers, and higher housing costs are creating concerns that more people will become homeless. The role of evictions in very tight housing markets is creating a population of people who cannot be housed. The use of evictions as a punitive measure without cause is still a major concern and has been a barrier for households experiencing substandard living conditions.

Overlaying the concerns about the increased risk of homelessness is a sense that targeted efforts to address it are unlikely to succeed in funding processes where funders have an increased focus on costs, data-driven decision making does not give organizations the opportunity to explain the particular needs of their community, and there are limited opportunities for public engagement and involvement.

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Minnesota Housing Finance Agency

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*Equal Opportunity Housing and Equal Opportunity Employment*

# MEMO

**To:** Minnesota Housing Board
**From:** Margaret Kaplan, Community Development Director
**Date:** June 15, 2017
**Subject:** Major Themes from Housing and Community Dialogues

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Each year, we hold housing dialogues in communities across the state. Drawing from the 2016 and 2017 dialogues, as well housing summits in Northwest and Southeast Minnesota, there are a number of areas of common interest and concern across the state.

**Rental Housing Needs**
A primary issues at every Housing and Community Dialogue, community convening, or housing summit is the chronic shortage of affordable rental housing.

There continue to be concerns about workforce housing, but more recently the definition appears to be shifting in the direction of more deeply affordable rental housing for lower wage workers. In Mankato, market rate rental housing development has been robust, and people recognize that they need to focus on affordable housing development. Likewise at the Southeast housing summit, the primary focus was on affordable rental housing for lower wage workers as opposed to market rate workforce housing development.

Another interesting and useful shift is that local communities are beginning to view state resources as just one part of the solution to meeting local housing needs and taking on more local responsibility for financing and supporting housing development. While there is still an interest in ensuring that local jurisdictions can compete for funding; there is also a strong push to develop local housing resources.

The pace of affordable housing development is not keeping pace with demand, and even in areas where we have supported the development of affordable rental housing, there is a frustration that resources are insufficient to consistently support the development of more affordable rental housing opportunities.

**Supportive Housing and Homelessness**

An acute shortage of rental housing of any type is continuing to create challenges for organization trying to address homelessness. The people and organizations focused on preventing and ending homelessness are deeply committed but typically under-resourced. While there is a general sense that issues related to homelessness are important, they tend to get less attention than broader housing development issues, particularly in areas where “workforce housing” gets a great deal of attention.

Organizations working on addressing homelessness are still having a problem with securing sufficient service

dollars. Another problem is the there are different definitions of homelessness for different programs. There are also continuing concerns about the challenge of navigating the system of services and programs.

**Homeownership**

Access to good financing continues to be a concern in communities around the state, particularly in communities where wages are low and people have low credit scores. However, increasingly, the larger concern is about a lack of available affordable homeownership opportunities.

In both Mankato and Cook County as well as at the Southeast Housing Summit, people consistently raised concerns about a lack of homes that were affordable for local workers. Underlying this concern is a lack of skilled construction labor to produce new single family homes. One possible solution is encouraging young people to enter the construction trades.

There is also continued interest in homeownership as a way to meet the housing needs of larger families. In Marshall and Mankato, people mentioned that housing that is affordable for lower income households tends to be either too small to meet family needs, or is in distressed condition.

**Housing Rehabilitation**

Rehabilitation of both single family homes and multifamily rental properties is a high priority in communities where new construction opportunities are limited. People expressed a need for more assistance in navigating the variety of programs for single family rehabilitation. There is also an interest in creating more education and support for inexperienced first-time home owners who purchase less expensive homes.

Distressed single-family rental housing continues to be a challenge for communities, particularly in areas with larger families and limited multifamily housing options.

For communities with a large number of seniors, single family rehab needs to address accessibility issues and ensure that the housing is sufficiently maintained to retain its value and provide housing opportunities for future homeowners.

**Information Needs**

There is overall a need for more high quality information about programs and resources that is accessible for non-expert audiences. Additionally, people are craving examples from peer organizations and communities about what is working that can be replicated in their own community.

**Item:** Single Family and Multifamily Divisional Staff Update

**Staff Contact(s):**
Kasey Kier, 651.297.3137, kasey.kier@state.mn.us
Wes Butler, 651.296.3028, wes.butler@state.mn.us
Diana Lund, 651.284.3173, diana.lund@state.mn.us
Ashley Oliver, 651.296.7991, ashley.oliver@state.mn.us

**Request Type:**

☐ Approval
- ☐ Motion
- ☐ Resolution

☒ No Action Needed
- ☒ Discussion
- ☐ Information

**Summary of Request:**
The Multifamily and Single Family divisions have recently made staffing changes prompted by critical business needs and to increase alignment between teams in each division. Staff will provide a summary of these changes and will highlight new staff and new roles.

**Fiscal Impact:**
Staffing changes are incorporated into divisional budgets.

**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):**
- To be provided at the meeting

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**Board Agenda Item:** 8.C
**Date: 6/22/2017**

**Item:** Fiscal 2018 Administrative Budget

**Staff Contact(s):**
Barb Sporlein, 651.297.3125, barb.sporlein@state.mn.us
Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☒ Discussion
☐ Information

**Summary of Request:**
The Agency's administrative budget is presented to the Board each June. Presentation of the administrative budget is informational and no action by the Board is required.

**Fiscal Impact:**
The Agency funds its administrative budget with earnings from loans and other investments and with fees from service activities. The same revenue-generating activities also provide funding for programs; thus it is necessary for the agency to weigh administrative budget proposals against its desire to provide additional program funding. The fiscal 2018 administrative budget represents the funding necessary to support the level of program activity to which the Agency is committed.

**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
- Administrative Budget FY 2018
- Administrative Budget History
- Administrative Expenditures as % of Assistance Provided
- FY 2018 and FY2-17 Budgets with One-Time Expenses

Staff has prepared the FY 2018 administrative budget for the operating expenses necessary to administer housing programs and initiatives and to meet work plan goals and objectives. The administrative budget does not include program expenditures such as loans, grants, and other housing assistance disbursements. Those expenditures are components of the Affordable Housing Plan, which is a one-year budget approved by the Board.

The FY 2018 administrative budget is $37,847,000. This includes $1.426 million of one-time move expenses related to the new office space. The FY 2017 budget was originally $34,828,000. In April 2017 the budget was increased by roughly $1.8 million, to $36,657,000 to accommodate the difference between approximately $3.8 million of one-time move expenses (mainly tenant improvements and furniture and equipment) and $2.0 million in budget savings. Since the Agency did not know its future office situation and related expenses in June 2016, we waited to make the budget amendment until those costs were more known in April 2017. The increase from the revised FY 2017 budget (without the one-time move expenses) and the FY 2018 budget without one-time office expenses is approximately $3.6 million or 11%.

For FY 2017, the revised administrative budget (including the one-time expenses) as a share of housing assistance provided by the Agency is projected to be 3.67%.

The primary drivers of the increase in 2018 are:

1. Payroll increases due to:
    a. Cost-of-living increases and salary range progression rates for labor and bargaining unit contracts for 2017 as approved by the legislature; and
    b. New FTEs to implement new and expanded business activities.
2. One-time new office space improvements and investments.
3. Information technology investments related to implementing the new single family loan origination system while maintaining the existing system, plus other planned major system improvements.

These drivers are related to strengthening the financial and organizational capacity of the agency which is a core activity included in the 2016-2019 Strategic Plan.

The FY 2018 budget includes 253.6 FTEs, a net increase of 4.00 over last year. New positions include two in Business Technology Solutions Division (former contractors who have been hired to permanent positions), one in Single Family Division (new Supervisor position), and one in the Olmstead Implementation Office (ASL Interpreter/Admin Support, this position is supported by State OIO appropriations).

| | Budgeted FTEs | Change |
|---|---|---|
| FY2018 | 253.60 | +4.00 |
| FY2017 | 249.60 | +7.25 |
| FY2016 | 242.35 | +4.80 |
| FY2015 | 237.55 | +6.50 |
| FY2014 | 231.05 | +3.40 |
| FY2013 | 227.65 | +12.00 |
| FY2012 | 215.65 | +2.58 |
| FY2011 | 213.07 | |

While every effort is made to achieve a high degree of accuracy in forecasting expenditures through the end of fiscal 2017, actual expenditures may vary from the forecast. The forecast of assistance provided that is shown on the third table for fiscal 2017 is also subject to change, especially given that assistance

provided uses activity through September 30, 2017, meaning that four months remain in the reporting period.

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Minnesota Housing Finance Agency

## Administrative Budgets FY 2018

| EXPENSE CATEGORY | 2018 Budget | 2017 Budget | 2018 Budget Change from 2017 Budget | 2017 Forecast | 2017 Budget/Forecast (Savings) Overage | 2016 Actual |
|---|---|---|---|---|---|---|
| Salaries | $ 26,884,000 | $ 25,310,000 | 6.2 % | $ 25,052,000 | (1.0)% | $ 23,816,000 |
| Computer Systems & Services/Supplies/Equipment | 3,261,000 | 2,323,000 | 40.4 % | 4,762,000 | 105.0 % | 2,128,000 |
| Professional & Technical Contracts | 2,691,000 | 3,654,000 | (26.4)% | 2,749,000 | (24.8)% | 1,750,000 |
| Other General Operating | 3,972,000 | 2,571,000 | 54.5 % | 3,514,000 | 36.7 % | 2,266,000 |
| Professional & Other Benefits | 449,000 | 357,000 | 25.8 % | 63,000 | (82.4)% | 396,000 |
| Travel | 374,000 | 401,000 | (6.7)% | 305,000 | (23.9)% | 341,000 |
| State Indirect Costs | 216,000 | 212,000 | 1.9 % | 212,000 | 0.0 % | 115,000 |
| **TOTALS** | **$ 37,847,000** | **$ 34,828,000** | 8.7 % | **$ 36,657,000** | 5.3 % | **$ 30,812,000** |

Board Agenda Item: 8.C

Attachment: Administrative Budget History

**MINNESOTA HOUSING FINANCE AGENCY**

**ADMINISTRATIVE BUDGET HISTORY**
**(000's)**

| | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY* 2017 | FY** 2018 | FY*** 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Budgeted | 25,697 | 26,063 | 25,612 | 26,884 | 28,132 | 30,538 | 33,509 | 34,810 | 34,828 | 36,657 | 37,847 | 36,439 |
| Actual**** | 24,447 | 23,319 | 23,786 | 25,776 | 26,790 | 29,838 | 30,258 | 30,813 | 32,833 | 36,657 | N/A | N/A |
| Variance | 1,250 | 2,744 | 1,826 | 1,108 | 1,342 | 700 | 3,251 | 3,997 | 1,995 | 0 | N/A | N/A |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expense actual change % year/year | 3.93% | 11.38% | 1.41% | 1.83% | 6.56% | 18.97% |
| Expense actual change $$ year/year | 1,014 | 3,048 | 420 | 555 | 2,020 | 5,844 |

Notes:

* Forecasted; includes one time move expenses and budget increase.

** Budgeted; includes one time move expenses.

*** Budgeted; excludes one-time expenses.

**** Actual expense is gross amount not reduced by overhead recoveries. Base 2017 excludes one time expenses.

**ADMINISTRATIVE EXPENDITURES AS A PERCENTAGE OF ASSISTANCE PROVIDED**

| Expenditures (Thousands) | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 Est* |
|---|---|---|---|---|---|---|---|---|---|---|
| Administrative Expenditures (NOTE A) | 24,001 | 25,178 | 24,447 | 23,319 | 23,786 | 25,776 | 26,790 | 29,838 | 30,813 | 36,657 |
| Assistance Provided (NOTE B,C & D) | 669,756 | 514,367 | 717,375 | 726,979 | 638,307 | 781,838 | 754,083 | 1,037,283 | 1,091,030 | 1,000,000 |
| Admin Exp % of Assistance Provided | 3.58% | 4.89% | 3.41% | 3.21% | 3.73% | 3.30% | 3.55% | 2.88% | 2.82% | 3.67% |

NOTE A. The administrative expenditures are taken from the state accounting system. In each case, the figure is for the state fiscal year ending 6/30/xx.

NOTE B. The assistance amounts are taken from the agency's assessment report and are for the federal fiscal years ending 9/30/xx.

NOTE C. Effective in 2009 the agency changed the reporting methodology, to reporting the actual Low Income Housing Tax Credit proceeds.
In Prior years the annual amount for Low Income Housing Tax Credits allocations was reported, which under reported the actual assistance provided.

NOTE D. The increase in assistance provided from prior years can be explained by a large increase in homeownership lending and the use of Housing Infrastructure Bonds to develop affordable rental housing in fiscal year 2015.

Board Agenda Item: 8.C
Attachment: 2018 v 2017 Budget/Forecast with One-time Expenses

Minnesota Housing Finance Agency

**2018 v 2017 Budget/Forecast with One-time Expenses**

| EXPENSE CATEGORY | Total Agency 2018 Budget | One-Time Expenses | Agency 2018 Budget One-time Expenses Removed | Total Agency 2017 Budget | Total Agency 2017 Forecast | One-Time Expenses | Agency 2017 Forecast One-time Expenses Removed |
|---|---|---|---|---|---|---|---|
| Full Time Salaries | 26,540,000 | | 26,540,000 | 24,915,000 | 24,708,000 | | 24,708,000 |
| Part Time & Temp Salaries | 30,000 | | 30,000 | 29,000 | 108,000 | | 108,000 |
| Overtime | 152,000 | | 152,000 | 161,000 | 104,000 | | 104,000 |
| Separation Expenses | 162,000 | | 162,000 | 205,000 | 132,000 | | 132,000 |
| Space Rental | 2,748,000 | 1,213,665 | 1,534,335 | 1,309,000 | 2,597,000 | 1,310,000 | 1,287,000 |
| Printing /Advertising | 161,000 | | 161,000 | 163,000 | 104,000 | | 104,000 |
| Postage/Telephone | 190,000 | | 190,000 | 148,000 | 130,000 | | 130,000 |
| Travel-In State | 191,000 | | 191,000 | 192,000 | 162,000 | | 162,000 |
| Travel-Out State | 183,000 | | 183,000 | 209,000 | 143,000 | | 143,000 |
| Employee Development | 360,000 | | 360,000 | 331,000 | 255,000 | | 255,000 |
| Other Benefits | 167,000 | | 167,000 | 74,000 | 92,000 | | 92,000 |
| Repairs & Maintenance | 235,000 | 140,000 | 95,000 | 54,000 | 41,000 | | 41,000 |
| Computer & Systems Services | 2,194,000 | | 2,194,000 | 2,027,000 | 2,037,000 | | 2,037,000 |
| Supplies | 303,000 | 15,000 | 288,000 | 323,000 | 163,000 | | 163,000 |
| Equipment Rentals | 76,000 | | 76,000 | 64,000 | 61,000 | | 61,000 |
| Equipment Purchases | 756,000 | 38,000 | 718,000 | 178,000 | 2,623,000 | 2,370,000 | 253,000 |
| Other Operating Expenses | 210,000 | 10,000 | 200,000 | 297,000 | 265,000 | | 265,000 |
| | | | | | | | 0 |
| Pool 2 Contracts | 178,000 | | 178,000 | 356,000 | 402,000 | | 402,000 |
| Prof & Tech w/Outside Vendors | 808,000 | 9,000 | 817,000 | 2,615,000 | 1,690,000 | 144,087 | 1,545,913 |
| Prof & Tech Computer System Dev. | 1,705,000 | | 1,705,000 | 683,000 | 657,000 | | 657,000 |
| Prof & Tech w/State Agencies | 270,000 | | 270,000 | 259,000 | (39,000) | | (39,000) |
| State Indirect Costs | 216,000 | | 216,000 | 212,000 | 212,000 | | 212,000 |
| State Board of Investments | 0 | | 0 | 0 | 0 | | 0 |
| Attorney General Costs | 12,000 | | 12,000 | 24,000 | 10,000 | | 10,000 |
| **TOTALS** | 37,847,000 | 1,425,665 | 36,439,335 | 34,828,000 | 36,657,000 | 3,824,087 | 32,832,913 |

**Board Agenda Item:** 9.A
**Date: 6/22/2017**

**Item:** Post-Sale Report, Homeownership Finance Bonds (HFB) 2017 Series EF.

**Staff Contact(s):**
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☐ Discussion
☒ Information

**Summary of Request:**
The Agency sold $58,631,742 of Homeownership Finance Bonds on May 10, 2017 with a closing on May 24, 2017. In accordance with the Debt Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

**Fiscal Impact:**
None.

**Meeting Agency Priorities:**

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

**Attachment(s):**

- Post-Sale Report

CSG | advisors

Via Email Delivery

**M E M O R A N D U M**

**Date:** **May 31, 2017**

**To:** **Minnesota Housing Finance Agency**

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

**Re:** **Post-Sale Report**
**$58,631,742 Homeownership Finance Bonds (HFB)**
**2017 Series E (Non-AMT) and F (Taxable)**

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***BOND CRITERIA***

The 2017 Series E & F Homeownership Finance Bonds were issued to finance single-family new production. The key criteria for issuing the debt were:

1. ***Avoid major interest rate risk*** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.

2. ***Maintain high ratings on all Minnesota Housing single-family bonds***, with Series E & F rated Aaa.

3. ***Enhance Minnesota Housing's long-term financial sustainability*** through a mix of bond financing and sales of MBS, so as to provide more balanced and financially sustainable results for Minnesota Housing**.**

4. ***Provide at least a comparable expected level of return to selling MBS,*** at reasonably anticipated prepayment speeds.

5. ***Use new bond volume cap as efficiently and sparingly as possible,*** so that the Agency can continue both its single-family and multi-family programs even though volume cap has become an increasingly scarce resource.

***KEY RESULTS FOR MINNESOTA HOUSING***

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

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

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

- ***Leveraging Limited Volume Cap.*** The issue was structured so that Minnesota Housing could finance $58.6 million of new mortgages on balance sheet *with approximately $18.5 million of new volume cap.* To achieve this result, Minnesota Housing used $19.3 million of taxable bonds for Series F and recycled approximately $20.8 million of private activity bond authority from past issues. The Agency has been remarkably successful over the last 6 HFB issues in using *less than $40 million of new volume cap to fund $379 million of new production.*

  Being able to do this, however, requires using a significant amount of zero participations. These zero participations are generated by RHFB bond issues that help refund past bond issues at lower rates and create these subsidies. The dollar amount of such refundings is expected to be lower over the next few years than it has been in the last few years. This is because old bonds can be refunded approximately 10 years after original issuance, and Minnesota Housing issued fewer bonds during the financial crisis.

  As it becomes more difficult to generate new zeros, Minnesota Housing may find it more difficult to use as much taxable debt and still earn full spread. As a result, the Agency may need to use a lower proportion of taxable debt and a greater proportion of new volume cap on future issues.

- ***Full Spread.*** On the overall issue, Minnesota Housing obtained a spread of about 1.12%, similar to what the IRS would allow as full spread on an all-tax-exempt issue. This was achieved through a combination of a spread of 1.50% on the taxable Series F and 0.93% on tax-exempt Series E.[1]

[1] Minnesota Housing could have achieved even higher total spread, by receiving the full 1.125% on tax-exempt Series E while still receiving 1.50% on the taxable Series F, for an average of 1.25%. This would have required $2 million more of zero participations, however.

- ***Attractive Bond Yield.*** The bond yield was 2.85% on tax-exempt Series E and 3.20% on taxable Series F. The overall yield was approximately 40 basis points lower than if Minnesota Housing had used a traditionally structured fixed-rate issue.

- ***Return to Minnesota Housing.*** The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding, on average.

  The break-even prepayment speed[2] of 185% on 2017 E/F was higher than on most of Minnesota Housing's transactions (because the loans were at relatively low rates and would have sold for only small premiums in the secondary market). This break-even speed was significantly higher than the actual average prepayment speed on similar loans in this indenture.[3]

  The result is that, at expected prepayment speeds, Minnesota Housing will earn significantly more from issuing 2017 E/F than from having directly sold the MBS.

  To illustrate this, the net present value to Minnesota Housing (after all hedging costs/gains and net service release premiums) is projected to be approximately $650,000 at the break-even prepayment speed.

- ***Zero Participations.*** The issue used approximately $5 million of zero participations. Going forward, Minnesota Housing has approximately $23 million of zeros for future transactions.

  The Agency made two choices that affected how many zero participations were used:

  a) *Level of overall spread*. As indicated above, the Agency could have received even higher total spread, but this would have required using more zeros to earn that higher spread.

  b) *Impact of taxable bonds*. If the entire transaction had been tax-exempt, Minnesota Housing would have used approximately $2 million fewer zeros. On each issue, it is important to balance two competing needs: to stretch out the supply of available zeros while minimizing the use of available bond cap.

| | **Actual** | **No Taxable Bonds** | **Actual with Higher Spread** |
|---|---|---|---|
| Taxable % | 33% | 0% | 33% |
| New volume cap | $18.5 million | $37.8 million | $18.5 million |
| Ave. Spread | 1.12% | 1.12% | 1.25% |
| Approx. Zeros Required | **$5 million** | **$8 million** | **$7 million** |

[2] The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale.

[3] The average prepayment speed on all securities in the HFB indenture since inception is calculated at 129%.

- ***Hedging.*** The loan production pipeline remained fully hedged until bonds were sold. Approximately $951,000 of hedge losses were taken into account in bond yield, allowing Minnesota Housing to recover these losses over the life of the financing.

- ***Continuing to Build Investor Demand.*** With approximately $131.1 million of going away orders from 7 different investors, RBC continued to strengthen the market and liquidity for future pass-through bond issues. The number of investors for taxable pass-through bonds has been limited, and it has proven more difficult to expand that sub-market.

***Implications.*** Key implications include:

- ***Viability of Pass-Through Approach*.** Minnesota Housing's pass-through issues since June 2014 demonstrate the renewed viability of this approach for financing production on-balance sheet. The Agency has been, by far, the national leader in such financings.

- ***Size.*** The Agency and RBC have been quite successful in building up investor demand for pass-through series in this size range. Both the tax-exempt series and the taxable series were initially oversubscribed by approximately 2 times, but one of the orders for all of the taxable bonds dropped. Generally there has been significantly stronger interest in tax-exempt bonds, so the Agency and RBC continue to work on expanding the depth of investor interest in taxable pass-through bonds.

- ***Balance Sheet Management.*** Minnesota Housing remains the national leader in finding ways to fully hedge its pipeline while financing more than three-quarters of that pipeline, and effectively all of its tax-exempt eligible pipeline (e.g. Start-Up Loans), on the Agency's balance sheet.

- ***Volume Cap.*** Minnesota Housing's single-family production together with demand for multi-family issuance in the State is now so great that *private activity volume cap is a major constraint* on tax-exempt issuance. To help address this:

    - The Agency is actively utilizing taxable bonds, and

    - Has established a credit facility with RBC to recycle up to $300 million of past private activity volume cap when old bonds are redeemed (whether on a monthly or semi-annual basis).

  This bond issue took advantage of both approaches.

***TIMING AND STRUCTURE***

***Timing.*** The issue was priced on Wednesday, May 10th, for closing on Wednesday, May 24th.

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

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

- Continue to include a 10-year par call at Minnesota Housing's option, so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.

- Include Ginnie Mae, Fannie Mae and Freddie Mac MBS in the issue, with no percentage limit on any category. This provides Minnesota Housing the ability to adjust to the actual mix of loans in its pipeline. Ginnie Mae MBS were approximately 2/3 of this issue, similar to Series C/D.

- Finance one-third of the issue as taxable bonds.

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

***Hedging.*** Minnesota Housing has remained fully hedged on its pipeline until the bonds are sold or MBS are delivered to mortgage buyers. This protects the Agency from risk if interest rates rise between the time the loans are committed and they are packaged into MBS (for either bond or TBA sale). In this case long-term interest rates rose substantially after loans were reserved. Minnesota Housing was able to pair out of those trades and obtain approximately $350,000 million in cash. The result, and the purpose of this strategy, is to help make the Agency largely indifferent to changes in rates.

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

1. ***Investor Interest for Series 2017 E and F.*** There was strong institutional interest, especially on the tax-exempt series. There were $89.4 million of going away orders for tax-exempt Series E and $41.7 million for taxable Series F although one of the orders for all of the taxable bonds dropped.

2. ***Timing.*** The 10-year Treasury started the year at 2.45%, after having risen about 50 basis points following the Presidential election. Rates have fluctuated this year, reaching 2.62% when Series C/D was priced, dropping to a low of 2.14% in early April with a flight to quality due partly to international tensions, and then gradually rising to 2.41% on the date of sale.

This level of rates reflects the perceived strength of the domestic economy, inflation still below the Federal Reserve target of 2.0%, the Federal Reserve's announced set of rate increases (which began in December and continued in March), and uncertainty over what type of fiscal stimulus may result from any possible tax cuts and infrastructure spending. During the week prior to the sale, due to the Fed's keeping rates unchanged and the strong labor market report, the interest rate options market increased the probability of a rate hike at the June meeting from 67% to 100%.

3. ***Successful Sale.*** The sale was very well-priced. Both the Series E tax-exempt bonds and taxable Series F bonds were priced at the tighter end of the expected trading ranges.

4. ***Comparison to GNMA Yields.*** Investors compare yields on pass-through issues to current-coupon GNMAs, as well as Treasuries and municipals. Compared to GNMAs, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption. On this transaction, Minnesota Housing was able to achieve its tightest spread to GNMA yields of any recent transaction, either by Minnesota or any other HFA. The spread between Series E and the market GNMA yield at dealer forecast prepayment speed was -1 basis points.

| | **2016 A** | **2016 B** | **2016 C/D** | **2016 E/F** | **2016 G/H** | **2017 A/B** | **2017 C/D** | **2017 E/F** |
|---|---|---|---|---|---|---|---|---|
| | Jan. 2016 | March 2016 | July 2016 | Sept. 2016 | Oct. 2016 | Feb. 2017 | Mar. 2017 | May 2017 |
| **Minn. Housing bond yield**<br>**Tax-Exempt**<br>**Taxable** | **2.95%** | **2.70%** | **2.33%**<br>**2.73%** | **2.35%**<br>**2.68%** | **2.30%**<br>**2.65%** | **2.93%**<br>**3.25%** | **3.08%**<br>**3.43%** | **2.85%**<br>**3.20%** |
| **Yield on GNMA I, 3.0 current coupon, at dealer prepay speed** | **2.67%** | **2.55%** | **2.08%** | **2.16%** | **2.16%** | **2.82%** | **3.12%** | **2.86%** |
| **Minn. Housing v. GNMA**<br>**Tax-exempt**<br>**Taxable** | **+ 28 bp** | **+ 15 bp** | **+ 25 bp**<br>**+ 65 bp** | **+ 19 bp**<br>**+ 52 bp** | **+ 14 bp**<br>**+ 49 bp** | **+ 11 bp**<br>**+ 43 bp** | **- 4 bp**<br>**+ 31 bp** | **- 1 bp**<br>**+ 34 bp** |

5. ***Comparable Single-Family Pass-Through Bond Transactions:*** The most recent other new money single-family pass-through issues were Minnesota's own AB and CD. As with those issues, EF was significantly tighter than the only other such issuer, Illinois. A key spread to look at is the tax-exempt yield v. GNMA yield. Illinois's tax-exempt yield was 24 basis points *above* GNMA. Minnesota's was 11 basis points higher on Series A and has since tightened this significantly so that Series C and Series E are slightly *below* the GNMA yield.

| | **Minnesota Housing** Tax-Exempt Series E | **Minnesota Housing** Tax-Exempt Series C | **Minnesota Housing** Tax-Exempt Series A | **Illinois** Tax-Exempt Series C | **Spreads for Series E v. Illinois** |
|---|---|---|---|---|---|
| Pricing Date | May 10, 2017 | Mar. 13, 2017 | Feb. 9, 2017 | Jan. 24, 2017 | |
| Yield on Tax-Exempt Series | 2.85% | 3.08% | 2.93% | 3.125% | |
| **Spread to 10 year US Treasury** | 44 bp | 46 bp | 53 bp | 66 bp | **- 22 bp** |
| **Spread to 10 year MMD** | 68 bp | 59 bp | 65 bp | 81 bp | **- 13 bp** |
| **Spread to 3% GNMA (at Dealer Forecast Prepayment Speed)** | -1 bp | - 4 bp | 11 bp | 24 bp | **- 25 bp** |

***UNDERWRITING***

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

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

**********

***ISSUE DETAILS***

| | | |
|---|---|---|
| ***Key Dates:*** | 2017 E/F Bond Pricing | HFB Indenture |
| | Institutional Order Period: | Wed., May 10, 2017 |
| | Closing Date: | Wed., May 24, 2017 |

***Economic Calendar.*** During the week prior to the sale, non-farm payrolls increased by 211,000 compared to the 190,000 consensus expectation. The unemployment rate dropped by 0.1% to 4.4%, the lowest rate of the last 8 years.

In the week of the sale, wholesale inventories rose by 0.2%, compared to a market expectation of -0.1% drop. Job openings rose from the prior month.

***Treasuries*.** Treasury yields were gradually increasing in the weeks leading up to the sale, in expectation of a March Fed rate hike.

***Municipals*.** While municipal bond yields generally closely track the movements in Treasury yields, the relationship has been distorted by high profile municipal credit events (Puerto Rico's problems, most recently) and international investment flows, as well as supply and demand for municipal bonds. Municipal bonds have rallied more strongly than Treasuries over the last two months. Thus, since the CD issue, 10-year MMD has dropped by 32 basis points while the 10-year Treasury declined by 21 basis points. Flows into municipal bond funds have been positive over the last month, with cumulative net investment of $2.9 billion; the average weekly inflow has been tapering off, however. The yield curve flattened slightly over the week prior to the sale.

***Municipal Calendar*.** The calendar was heavy the week of sale, with an estimated volume of $9.36 billion, almost double the very light supply of $4.88 billion the prior week.

The largest issues were negotiated, including Cuyahoga County $915 million of Baa3/BBB-/BBB- hospital revenue bonds for Metrohealth; $856 million Hawaii G.O.'s Aa1/AA-/AA; and $838 million Houston school bonds Aa1/AA-/AA. The only negotiated Minnesota issue, other than Minnesota Housing, was Plato $10.8 million health care revenue bonds.

The Minnesota competitive sale calendar was limited to a $17 million Spring Lake Park school refunding and a $1 million Franconia certificates issue, both on Tuesday. Several housing issues were priced during the week. Single-family issues included a $262 million traditionally structured transaction for Pennsylvania HFA.

| Issue | Date | 10-Year Treasury | 10-Year MMD | MMD/ Treasury Ratio | 30-Year Treasury | 30-Year MMD | MMD/ Treasury Ratio |
|---|---|---|---|---|---|---|---|
| 2015 HFB A | 1/12/15 | 1.92% | 1.84% | 95.8% | 2.49% | 2.63% | 105.6% |
| 2015 HFB B | 3/10/15 | 2.14% | 2.18% | 102.0% | 2.73% | 3.0% | 110.0% |
| 2015 HFB C | 5/13/15 | 2.28% | 2.24% | 98.2% | 3.02% | 3.21% | 106.3% |
| *2015 RHFB ABCD* | 7/30/15 | 2.28% | 2.23% | 97.8% | 2.96% | 3.14% | 106.1% |
| 2015 HFB D | 10/08/15 | 2.12% | 2.04% | 96.2% | 2.96% | 3.09% | 104.4% |
| *2015 RHFB EFG* | 11/24/15 | 2.24% | 2.04% | 91.1% | 3.00% | 2.98% | 99.3% |
| 2016 A | 1/12/16 | 2.12% | 1.78% | 84.0% | 2.89% | 2.73% | 94.5% |
| 2016 B | 3/10/16 | 1.93% | 1.88% | 97.4% | 2.70% | 2.86% | 105.9% |
| *2016 RHFB ABC* | 5/25/16 | 1.87% | 1.66% | 88.8% | 2.67% | 2.45% | 91.8% |
| 2016 E/F | 7/14/16 | 1.53% | 1.41% | 92.2% | 2.25% | 2.05% | 91.1% |
| 2016 E/F | 9/12/16 | 1.68% | 1.52% | 90.5% | 2.40% | 2.23% | 92.9% |
| 2016 G/H | 10/20/16 | 1.76% | 1.73% | 98.3% | 2.50% | 2.56% | 102.4% |
| *2016 RHFB DEF* | 12/13/16 | 2.48% | 2.37% | 95.6% | 3.14% | 3.16% | 100.6% |
| 2017 HFB A/B | 2/9/17 | 2.40% | 2.28% | 95.0% | 3.02% | 3.06% | 101.3% |
| 2017 HFB C/D | 3/13/17 | 2.62% | 2.49% | 95.0% | 3.20% | 3.25% | 101.6% |
| **2017 HFB E/F** | **5/20/17** | **2.41%** | **2.17%** | **90.0%** | **3.03%** | **3.01%** | **99.3%** |
| **Change from 2017 HFB C/D** | | **- 21 bp** | **- 32 bp** | **- 5.0%** | **-17 bp** | **- 24 bp** | **- 2.1 %** |

***MBS Yields.*** MBS yields are very relevant because investors can choose between purchasing MBS directly or purchasing Minnesota Housing's bonds backed by MBS. In effect, bond purchasers look as much to the spread between Minnesota Housing's bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries. As can be seen, both GNMA and Fannie Mae yields are relatively tight to 10-year Treasuries, with GNMA yields having increased more than Fannie Mae's since the last bond issue.

| Type | Delivery | Coupon | Measure | Mar. 10, 2016 | July 14, 2016 | Sept. 12, 2016 | Oct. 20, 2016 | Feb. 9, 2017 | Mar. 13, 2017 | May 10, 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GNMA** | Current | 3.0 | Price | 102.91 | 104.64 | 104.36 | 104.45 | 101.13 | 99.25 | 100.88 |
| | | | Yield* | **2.55%** | **2.08%** | **2.16%** | **2.16%** | **2.82%** | **3.12%** | **2.86%** |
| | | | Dealer Forecast % PSA | 189% | 252% | 230% | 224% | 160% | 159% | 161% |
| **FNMA** | Current | 3.5 | Price | 104.30 | 105.52 | 105.33 | 105.16 | 102.52 | 102.19 | 102.31 |
| | | | Yield* | **2.72%** | **2.25%** | **2.33%** | **2.46%** | **3.09%** | **3.15%** | **3.09%** |
| | | | Dealer Forecast % PSA | 245% | 341% | 315% | 277% | 168% | 160% | 190% |
| **10-Year Treasury** | n/a | n/a | Yield | 1.93% | 1.53% | 1.68% | 1.75% | 2.40% | 2.62% | 2.41% |
| **GNMA to 10-Year Treasury** | n/a | n/a | Yield* | **132.12%** | **135.95%** | **128.57%** | **123.43%** | **117.50%** | **119.1%** | **118.59%** |
| **GNMA to 10-Year MMD** | n/a | n/a | Yield* | **135.64%** | **147.52%** | **142.11%** | **124.86%** | **123.68%** | **125.3%** | **131.71%** |
| **Minnesota Housing** | Tax-exempt<br>Taxable | | | **2.70%** | **2.33%**<br>**2.73%** | **2.35%**<br>**2.68%** | **2.30%**<br>**2.65%** | **2.93%**<br>**3.25%** | **3.08%**<br>**3.43%** | **2.85%**<br>**3.20%** |

* Yield at dealer forecasted prepayment speed

**MinnesotaHFB2017EF_PostPricingComps170510.pdf**

**Item: Closing of Minnesota Housing investment in NOAH Fund.**

**Staff Contact(s):**
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**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☐ Discussion
☒ Information

**Summary of Request:**
Update on the June 1st closing of Minnesota Housing's investment in NOAH Pool 1, LLC sponsored by the Greater Minnesota Housing Fund.

**Fiscal Impact:**
Over the next 3 years, Minnesota Housing will invest up to $5 million from Pool 2 in Class D participations in NOAH Pool 1, LLC (the Fund), providing a portion of the equity capital that will be contributed by the Fund for the acquisition and improvement of certain naturally occurring affordable housing (NOAH) properties in the 7-county metropolitan area.

**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

At the September 22, 2016 Board meeting, the Board granted approval of a program concept for Minnesota Housing to invest up to $5 million, over three years, to purchase Class D notes in a new structured fund, sponsored by the Greater Minnesota Housing Fund (GMHF), tentatively named the "NOAH Impact Fund". The Fund was being created to provide a portion of the financing related to the potential acquisition of NOAH multi-family properties in the 7- county metropolitan area. The board also approved the potential Agency investment of $5 million in Class C notes in the Fund.

On June 1, 2017, the closing of the $32.5 million Fund occurred; Minnesota Housing will invest up to $5 million in the Class D participations in the Fund, earning 5% interest. Western Bank, Sunrise Bank, and Bremer Bank each invested $5.67 million (total of $17 million) in the Class A, B and C participations in the Fund; Hennepin County invested $3 million in Class E, providing for a total of $25 million in capital available for acquisition of properties. The remaining $7.5 million provided to the Fund ($5 million from the McKnight Foundation and $2.5 million from GMHF) fund various reserves and administrative costs.

It is anticipated that within the next month or so, the first draw on the fund will occur, providing $2.25 million in total ($450 thousand from Minnesota Housing), for the acquisition of the Fountain Terrace property in New Brighton.

**Board Agenda Item:** 9.C
**Date: 6/22/2017**

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

**Staff Contact(s):**
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**Request Type:**

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

This is an quarterly 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

**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.

This report informs the Board of complaints received, their current status, and their resolution, if one has been achieved.

**Events Occurring During Period (March 2017 through May 2017)**

- One new alleged fraud / embezzlement case opened
- Three misuse of funds cases closed
- $47,610 recovered during this period
- $137,714 identified as misused funds during this period

The next quarterly report will be delivered to the Board on September 28, 2017.

**Historical Record**

Since 2013 there have been 49 instances of potential conflicts of interest, alleged misused funds and alleged fraudulent activity. During that period $729,008 has been recovered. A total of $558,134 has not been recovered: $496,797 in misused funds, and $61,337 in fraudulent activity.

**Complaints Received by Agency or Chief Risk Officer**

| Complaint | Year Closed | | | | | | |
|---|---|---|---|---|---|---|---|
| **Resolution** | **2013** | **2014** | **2015** | **2016** | **2017** | **In Process** | **Grand Total** |
| **Conflict of Interest** | **1** | | **10** | | | | **11** |
| External Employment Approved | | | 1 | | | | 1 |
| Insufficient Evidence | 1 | | | | | | 1 |
| Issue Resolved | | | 2 | | | | 2 |
| Seller Indemnification | | | 5 | | | | 5 |
| Seller Repurchase | | | 2 | | | | 2 |
| **Fraud / Embezzlement** | **2** | **3** | | | | **1** | **6** |
| Felony Conviction | 1 | | | | | | 1 |
| Insufficient Evidence | 1 | 1 | | | | | 2 |
| None Yet | | | | | | 1 | 1 |
| Seller Repurchase | | 2 | | | | | 2 |
| **Misuse of Funds** | **6** | **5** | **12** | **5** | **3** | **1** | **32** |
| Entry of Judgment | 1 | 1 | | | | | 2 |
| Funds Returned to Agency | | 1 | 1 | 1 | | | 3 |
| Insufficient Evidence | 1 | | | 2 | 1 | | 4 |
| Issue Cured | | 1 | 2 | | 1 | | 4 |
| Issue Resolved | | | | 1 | | | 1 |
| Negotiated Settlement | 3 | 2 | 3 | | | | 8 |
| None - Affordability Period Expired | | | 3 | | | | 3 |
| None – Nonviable Counterparty | | | | 1 | | | 1 |
| None Yet | | | | | | 1 | 1 |
| Revenue Recapture | 1 | | 3 | | 1 | | 5 |
| **Grand Total** | **9** | **8** | **22** | **5** | **3** | **2** | **49** |

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)

DRAFT

**Board Agenda Item:** 9.D
**Date: 6/22/2017**

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

**Staff Contact(s):**
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**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☐ Discussion
☒ Information

**Summary of Request:**
The information provided is a summary of intake data and outcomes from August 1, 2014 – March 31, 2017 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):**
- Semiannual Program Update

**Semiannual Program Update:**
A total of 15 agencies have been approved to provide Homeownership Capacity services since the beginning of the program which started August 1, 2014. A total of 1,604 clients have started receiving Homeownership Capacity services since that date. Of those 1,604 clients, 295 (18%) have stopped communication and 252 (16%) have reached program completion. The remaining 1,057 (66%) are still actively participating in the Homeownership Capacity program.

The chart below identifies additional information about these clients:

| | Percent of clients |
|---|---|
| Identify as a household of color or Hispanic ethnicity | 89% |
| At or below 80% AMI | 95% |
| Credit identified as the primary barrier to obtaining homeownership | 68% |

As of March 31, 2017, 252 clients have reached program completion with the following outcomes:

| | Percent of clients that exited the program |
|---|---|
| Home purchase* | 66% |
| Client is actively pursuing homeownership^ | 15% |
| Client is no longer interested in homeownership | 19% |

* 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 third program year started October 1, 2016 with the goal of serving 823 households including Build Wealth's activity under a direct appropriation. Within the first two quarters of the program year, 404 new clients (49% of the total goal) have started receiving Homeownership Capacity services.

Minnesota Housing collects quarterly reports from Homeownership Capacity providers. Staff will provide intake and outcome updates on a semiannual basis.