



MEETINGS SCHEDULED FOR AUGUST

Minnesota Housing
400 Wabasha Street N. Suite 400
St. Paul, MN 55102

THURSDAY, AUGUST 30, 2018

Regular Board Meeting
Lake Superior Conference Room- Fourth 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, August 30, 2018.

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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AGENDA
Minnesota Housing Board Meeting
Thursday August 30, 2018
1:00 p.m.

- 1. Call to Order**
- 2. Roll Call**
- 3. Agenda Review**
- 4. Approval of Minutes**
 - A. (page 5) Regular Meeting of July 27, 2018
- 5. Reports**
 - A. **Chair**
 - B. **Commissioner**
 - C. **Committee**
- 6. Consent Agenda**
 - A. (page 9) Commitment, Low and Moderate Income Rental Loan (LMIR), LMIR Bridge Loan and FFCC loan
 - Apex Townhomes, D7943, Detroit Lakes
 - B. (page 27) Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Warroad Townhomes, D1717, Warroad
 - C. (page 39) Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Renewal
 - D3621 JustUs Health
 - D. (page 43) Approval, resolution authorizing extension of grant contract
 - Dakota County CDA, D3739
 - E. (page 47) Funding Modification, Housing Infrastructure Bond (HIB) Deferred Loan
 - Garfield Square Apartments, D7940, Duluth
- 7. Action Items**
 - A. (page 51) Request for Waivers to Minnesota Housing's 2019 Qualified Allocation Plan, Fort Snelling Upper Post Flats, D7976
 - B. (page 61) Selections, Homeownership Education, Counseling and Training (HECAT) Fund
 - C. (page 67) Affordable Housing Plan (AHP) Amendment, Deferred Payment Loan (DPL) Program
 - D. (page 69) Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Morningside Townhomes, D3887, Saint Joseph
 - E. (page 79) Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Cedarview Commons, D3589, North Saint Paul
 - F. (page 91) Resolution authorizing the issuance and sale of Rental Housing Bonds, 2018 Series B, for a multi-family housing development in Detroit Lakes, Minnesota (Apex Townhomes)

- G. (page 175) Approval, resolution authorizing the issuance and sale of State Appropriation Bonds (Housing Infrastructure), and approving the execution and delivery of related documents

8. Discussion Items

- A. (page 231) Draft 2019 Affordable Housing Plan

9. Information Items

- A. (page 303) 2018 Affordable Housing Plan and 2016-2019 Strategic Plan: Third Quarter Progress Report
- B. (page 311) Semi-Annual Variable Rate Debt and Swap Report

10. Other Business

None.

11. Adjournment

DRAFT MINUTES

Minnesota Housing Finance Agency Board Meeting**Thursday July 26, 2018**

1:00 pm

400 Wabasha Street N, St. Paul, MN 55102

1. Call to Order.

Chair John DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance Agency at 1:03 p.m.

2. Roll Call.

Members Present: John DeCramer, Terri Thao, Craig Klausing, Rebecca Otto, Damaris Hollingsworth and Stephanie Klinzing.

Minnesota Housing staff present: Tal Anderson, Ryan Baumtrog, Kevin Carpenter, Adam Connell, Ruth DuBose, Allison Ehlert, Rachel Franco, Eric Grumdahl, Marcia Kaasa, Kasey Kier, Tresa Larkin, Debbi Larson, Song Lee, Nira Ly, Paul Marzynski, Eric Mattson, Tom O'Hern, John Patterson, Caryn Polito, Paula Rindels, Danielle Salus, Joel Salzer, Terry Schwartz, Barb Sporlein, Cathy tenBroeke, Susan Thompson, Mike Thone, Mary Tingerthal, Krysten Treichel, Ted Tulashie, Que Vang and Elaine Vollbrecht.

Others Present: Michelle Adams, Kutak Rock; Ramona Advani, Office of the State Auditor; Andrew Duncan, Office of the Legislative Auditor; Melanie Lien, Piper Jaffray; Anne Mavity, Minnesota Housing Partnership.

3. Agenda Review.

Chair DeCramer indicated that there were no changes to the board agenda.

4. Approval of the Minutes.**A. Regular Meeting of June 21, 2018**

Motion: Rebecca Otto moved the approval of the minutes. Seconded by Terri Thao. Motion carries 6-0.

5. Reports.**A. Chair**

- Reminder that the October 18, 2018 board meeting date has been moved to November 1, 2018.

B. Commissioner

Commissioner Tingerthal shared the following with the board:

- The Governor's Task Force on Housing has their final meeting today, July 26. A report will be given to the Governor on August 1, 2018. We expect to have a press event in late August. Board members are welcome to stay for the meeting and attend the reception.
- Staff is busy with field inspections and Request for Proposals applications.

- Reminder that there is no October meeting. The board will meet on November 1 and November 15.
- Many technology changes within Single Family and Multifamily divisions.
- Record month in Single Family production, July will be another month of over \$100 million in production and continuing to hold at 35% for serving households of color.

New Employee Introductions:

- Marcia Kaasa introduced Krysten Treichel, Office and Administrative Specialist, Single Family Division
- Nira Ly introduced Song Lee, Housing Development Officer, Single Family Division.

C. Committee.

Chair DeCramer provided an update of the Finance and Audit Committee meeting that took place prior to today's board meeting. The committee reviewed accounting treatments relative to Housing Infrastructure Bonds (HIB), and impact of the Legislative Session on our tax credit funds.

6. Consent Agenda

A. Commitment, Low and Moderate Income Rental Loan (LMIR) – White Pine Apartments, D7974, Cloquet

C. Approval, Grant Modification – Park Plaza Cooperative **Motion:** Craig Klausung moved the approval of items 6A and 6C on the Consent Agenda. Seconded by Terri Thao. All were in favor. Motion carries 6-0.

B. Commitment, Low and Moderate Income Rental Loan (LMIR) – 15th Street Flats, D7990, Willmar **Motion:** Stephanie Klinzing moved approval of item 6B on the Consent Agenda. Seconded by Rebecca Otto. Chair DeCramer abstained. Motion carries 5-0.

7. Action Items

A. Approval, Enhanced Financial Homeownership Capacity Program Selections and Discussion, Program Evaluation

Ruth Dubose presented to the board a request for approval of \$750,000 in funding recommendations for the fourth year of the pilot program in the following categories:

- \$713,580 Program funding for 13 applicants
- \$36,420 Homeownership Capacity Incentive fund

Staff is also recommending the Board approve removal of the pilot status of the program.

Chair DeCramer opened up the discussion. Board members asked a series of questions and staff provided answers.

Motion: Rebecca Otto moved Approval, Enhanced Financial Homeownership Capacity Program Selections and Discussion, Program Evaluation and removal of the pilot status of the program. Seconded by Terri Thao. All were in favor. Motion carries 6-0.

B. Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Valley View Apartments - D0648, Hutchinson

Caryn Polito presented to the board a request for adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed \$1,425,000, subject to the review and approval of the Mortgage, and the terms and conditions of Minnesota Housing's term letter.

Chair DeCramer opened up the discussion. There were no questions from the board.

Motion: Craig Klausing moved Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Valley View Apartments - D0648, Hutchinson. Seconded by Stephanie Klinzing. All were in favor. Motion carries 6-0.

C. Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Como by the Lake - D3468, St. Paul

Paul Marzynski presented to the board a request for adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount of up to \$6,330,000.

Chair DeCramer opened up the discussion. Chair DeCramer asked if there was a need to relocate any of the tenants. Mr. Marzynski indicated that none of the tenants will be displaced.

Motion: Terri Thao moved Selection and Commitment, Low and Moderate Income Rental Loan (LMIR) – Como by the Lake - D3468, St. Paul. Seconded by Damaris Hollingsworth. All were in favor. Motion carries 6-0.

D. Selection and Commitment, Housing Trust Fund and Family Homeless Prevention and Assistance Program Resources for Homework Starts with Home

Joel Salzer and Eric Grumdahl presented to the board a request for adoption of a resolution authorizing the selection and commitment of up to \$3,500,000 in Housing Trust Fund (HTF) funds and up to \$400,000 in Family Homeless Prevention and Assistance Program (FHPAP) funds for Homework Starts with Home. These funds will allow Minnesota Housing to execute contracts with five grantees to implement programs serving homeless students and families in five regions of Minnesota.

Chair DeCramer opened up the discussion. There were no questions from the board.

Motion: Rebecca Otto moved Selection and Commitment, Housing Trust Fund and Family Homeless Prevention and Assistance Program Resources for Homework Starts with Home. Seconded by Damaris Hollingsworth. All were in favor. Motion carries 6-0.

E. Approval, Resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Homeownership Finance Bonds

Kevin Carpenter presented to the board a request for adoption of a resolution authorizing the terms of one or more bond issues, not-to-exceed \$300 million and to be issued prior to the end of 2019. Bond Counsel and Agency staff has also prepared a Preliminary Official Statement for an offering of approximately \$100 million in Homeownership Finance Bonds, 2018 Series EF,

which is anticipated to price in mid-August of 2018. Michelle Adams from Kutak Rock joined the call. Michelle reviewed the bond resolution.

Chair DeCramer opened up the discussion. There were no questions from the board.

Motion: Craig Klausing moved Approval, Resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Homeownership Finance Bonds. Seconded by Terri Thao. All were in favor. Motion carries 6-0.

8. Discussion Items

None.

9. Information Items

- A. Post-Sale Report, Residential Housing Finance Bonds (RHFB) 2018 Series ABCD
- B. Report of Complaints and Inquiries Received by Agency or Chief Risk Officer

10. Other Business

None.

11. Adjournment

The meeting was adjourned at 2:06 p.m.

John DeCramer, Chair

Item: Commitment, Low and Moderate Income Rental (LMIR), LMIR Bridge Loan and FFCC Loan
- Apex Townhomes, D7943, Detroit Lakes

Staff Contact(s):

Dani Salus, 651.284.3178, danielle.salus@state.mn.us

Request Type:

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

Summary of Request:

Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to \$1,389,000, a Low and Moderate Income Rental Bridge Loan (LMIRBL) program commitment not to exceed \$3,520,000 and a deferred funding commitment in the amount of \$270,000 under the Flexible Financing for Capital Costs (FFCC) program.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the end loan without incurring financing expenses. Minnesota Housing will also earn interest rate spread income on the LMIR bridge loan, and both the bridge loan and the end loan will generate additional fee income.

Meeting Agency Priorities:

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

Attachment(s):

- Background
- Development Summary
- Resolution
- Resolution Attachment

Background:

The Minnesota Housing Finance Agency (Minnesota Housing) board, at its October 20, 2017 meeting, approved this development 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) program. At this same meeting, the board approved a commitment for financing under the Economic Housing Development Housing Challenge (EDHC) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION	COMMITMENT	VARIANCE
Total Development Cost	\$ 6,955,822	\$ 7,066,566	\$ 110,744
Gross Construction Cost	\$ 5,426,532	\$ 5,558,536	\$ 132,004

Agency Sources:

LMIR	\$ 1,382,000	\$ 1,389,000	\$ 7,000
FFCC	\$ 270,000	\$ 270,000	\$ 0
EDHC	\$ 3,486,000	\$ 3,486,000	\$ 0
Total Agency Permanent Sources	\$ 5,138,000	\$ 5,145,000	\$ 7,000

Agency Sources (Bridge Loan):

LMIR BL	\$ 3,520,000	\$ 3,520,000	\$ 0
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Other Non-Agency Sources:

Housing Syndication Proceeds	\$ 1,787,252	\$ 1,824,105	\$ 36,853
Energy Rebate	\$ 29,070	\$ 27,452	\$ (1618)
Employer Contributions	\$ 1,500	\$ 1,500	\$ 0
Deferred Developer Fee	\$ 0	\$ 68,509	\$ 68,509

GROSS RENTS	SELECTION		COMMITMENT		VARIANCE	
	# of DU	Rent	# of DU	Rent	# of DU	Rent
2 BR	4	\$ 735	5	\$ 735	0	\$ 0
2 BR	8	\$ 735	7	\$ 789	0	\$ 54
2 BR – PBV	2	\$ 729	2	\$ 729	0	\$ 0
3 BR – PBV	2	\$ 959	2	\$ 849	0	\$ (110)
3 BR	6	\$ 830	6	\$ 849	0	\$ 19
3 BR	8	\$ 830	8	\$ 895	0	\$ 65
Total Number of Units	30		30		0	

NOTE: PBV = Project-based Voucher

Factors Contributing to Variances:

Since selection, the total development cost has increased by \$110,744. Construction costs came in higher than expected due to rising construction costs since application. The developer was able to realize some cost savings in professional fees and financing costs, but not enough to offset the increased cost of construction. In addition, syndicator reserve requirements were higher than anticipated. Increased first mortgage, syndication proceeds and a deferred developer fee will fund the increased costs.

Other Significant Events since Board Selection:

None.

Agenda Item: 6.A
Development Summary

DEVELOPMENT SUMMARY

Name: Apex Townhomes
Address: 1402-1412 Apex Court
City: Detroit Lakes County: Becker Region: West Central

D#: D7943
App#: M17702

MORTGAGOR:

Ownership Entity: DL Housing LLLP
General Partner/Principals: DL Housing LLC whose members are D.W. Jones, Inc. and Premiere Alliance, Inc.

DEVELOPMENT TEAM:

General Contractor: Voronyak Builders, Inc., Burtrum
Architect: Ringdahl Architects, Inc., Alexandria
Attorney: Winthrop and Weinstine, PA, Minneapolis
Management Company: D.W. Jones Management, Inc., Detroit Lakes
Service Provider: Mahube Otwa, Walker

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

\$1,389,000 LMIR First Mortgage
Funding Source: Housing Invest Fund (Pool 2)
Interest Rate: 4.46%
MIP Rate: 0.125%
Term (Years): 40
Amortization (Years): 40

\$3,520,000 LMIR Bridge Loan
Funding Source: Tax Exempt Future Bond Sale
Interest Rate: 3.25% estimated
Term (Months): 18 (approximately)

\$270,000 Flexible Financing Cap Costs
Funding Source: Hsg. Affordability Fund (Pool 3)
Interest Rate: 0.00%
Term (Years): 40

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
2BR	3	1,084	\$ 735	\$ 782	\$ 29,400
2BR	2	1,093	\$ 735	\$ 782	\$ 29,400
2BR	7	1,328	\$ 789	\$ 939	\$ 31,560
2BR –PBV (LTH)	2	1,328	\$ 729	\$ 782	\$ 29,160
3BR –PBV (LTH)	2	1,489	\$ 849	\$ 903	\$ 33,960
3BR	6	1,489	\$ 849	\$ 903	\$ 33,960
3BR	8	1,489	\$ 895	\$ 1084	\$ 35,800
TOTAL	30				

NOTES: *Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 60 percent of the Multifamily Tax Subsidy Project (MTSP) income levels, with incomes allowed up to 60% of MTSP. LTH = Long-term Homeless; PVB = Project-based Voucher.

Purpose:

Apex Townhomes is a new construction townhome development located in the City of Detroit Lakes. This 30 unit development will consist of a two-story townhome building with 14 two-bedroom, and 16 three-bedroom units with attached garage parking and surface parking for guests. The project will contain 30 Housing Tax Credit (HTC) units. The development addresses critical rental housing and supportive housing strategic priorities, and will include four units reserved for family households who have experienced long-term homelessness (LTH).

Population Served:

The development will provide housing for general occupancy, including families. The households will have incomes equal to or less than 60% of MTSP, and four households will serve long-term homeless families.

Project Feasibility:

The project is feasible as proposed. Minnesota Housing will issue a LMIR Bridge Loan with short-term, tax-exempt bonds to meet the 50% test, qualifying the development for an annual 4% tax credit allocation of approximately \$215,892.

Development financing includes an amortizing LMIR mortgage of \$1,389,000, \$270,000 in FFCC funds, and \$3,486,000 in EDHC funds. This financing will be leveraged with approximately \$1,824,105 of tax credit equity. Other sources of funding include local employer contributions, a deferred developer fee and energy rebates. The development cash flows at the proposed rent levels and are consistent with Minnesota Housing underwriting guidelines.

Total development costs of \$235,552 per unit are within 125 percent of the Predictive Model amount of \$211,510.

Development Team Capacity:

The developer, D.W. Jones, Inc. 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 D.W. Jones Management, Inc., the property management company.

Physical and Technical Review:

Ringdahl Architects, Inc. is the architect and Voronyak Builders, Inc. is the contractor. The contractor and the architect have the capacity to effectively design and construct the project and have successfully completed similar sized, affordable housing developments in Minnesota.

Market Feasibility:

Detroit Lakes is located in West Central Minnesota in Becker County. Both market rate and affordable rental housing in the area have very low vacancy rates. The market study, prepared by Admark, indicates that all the existing tax credit units in the area are occupied and that there are Section 8 vouchers going unused in Becker County due to the lack of available affordable housing. Population and the number of households in the area have been steadily increasing since 2010, and there is pent-up demand for affordable rental housing. The proposed rents are affordable to the local workforce, and there is a 28-34 percent discount compared to achievable market rents.

Supportive Housing:

Mahube Otwa will be the service provider for the four LTH families. The service provider will provide case management including housing and tenancy supports, benefits assistance and budget management. Service funding will be provided by a Long Term Homeless Support Services grant and is adequate to meet the service needs of the four LTH families. The long-term homeless unit rents are made affordable with project-based Section 8 vouchers.

DEVELOPMENT COST SUMMARY (estimated):	Total	Per Unit
Total Development Cost	\$ 7,066,566	\$ 235,553
Acquisition or Refinance Cost	\$ 154,728	\$ 5,158
Gross Construction Cost	\$ 5,558,536	\$185,285
Soft Costs (excluding Reserves)	\$ 1,235,543	\$ 41,185
Non-mortgageable Costs	\$ 0	\$ 0
Reserves	\$ 117,759	\$ 3,925
Total LMIR Mortgage	\$ 1,389,000	\$ 46,300
	20%	
Agency Deferred Loan Sources		
Flexible Financing Cap Costs	\$ 270,000	\$ 9,000
EDHC	\$ 3,486,000	\$ 116,200
Total Agency Sources	\$ 5,145,000	\$ 171,500
Total Loan-to-Cost Ratio	73%	
LMIR Bridge Loan	\$ 3,520,000	\$ 117,333
Other Non-Agency Sources		
Energy Rebate	\$ 27,452	\$ 915
Employer Contributions	\$ 1,500	\$ 50
Syndication Proceeds	\$ 1,824,105	\$ 60,804
Deferred Developer Fee	\$ 68,509	\$ 2,284
Total Non-Agency Sources	\$ 1,921,566	\$ 64,053

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 18-

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

Name of Development:	Apex Townhomes
Sponsors:	D.W. Jones, Inc.
Guarantors:	Ronald Duchesneau, Jr, D.W. Jones, Inc., Gary Schander and Premiere Alliance, Inc.
Location of Development:	Detroit Lakes
Number of Units:	30
General Contractor:	Voronyak Builders, Inc., Burtrum
Architect:	Ringdahl Architects, Inc., Alexandria
Amount of Development Cost:	\$7,066,566
Amount of LMIR Mortgage Loan:	\$1,389,000
Amount of LMIR Bridge Loan (not to exceed)	\$3,520,000
Amount of FFCC Loan:	\$270,000

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes a permanent mortgage loan from Minnesota Housing to the Sponsor or an affiliate thereof from available funds in the Housing Investment Fund (Pool 2 under the LMIR Program), a bridge loan from the proceeds of Rental Housing Bonds (if authorized by the Board) and a deferred loan from available funds in the Housing Affordability Fund (Pool 3 under the FFCC Program) for the Development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed \$1,389,000; and
2. The interest rate on the permanent LMIR loan shall be 4.46 percent per annum (subject to change, as set forth in the attached Agency term letter dated July 25, 2018), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 40 year amortization; and
3. The term of the permanent LMIR loan shall be 40 years; and
4. The amount of the FFCC deferred loan shall be \$270,000; and
5. Repayment of the FFCC loan shall be deferred, with interest at zero 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 March 2, 2019 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 BL shall not exceed \$3,520,000; and
8. The LMIR Bridge Loan will be financed with the proceeds of tax-exempt Rental Housing Bonds of the Agency, if approved by the Board, and is subject to the ability of the Agency to sell those bonds on terms and conditions, and in a time and manner acceptable to the Agency; and
9. The interest rate on the LMIR Bridge Loan will be equal to the interest rate on the Rental Housing Bonds issued to finance the LMIR Bridge Loan plus one percent interest will be payable monthly and the principal will be due in a balloon payment no more than 24 months after closing; and
10. The LMIR Bridge Loan Commitment shall be entered into on or before March 2, 2019 and shall have a six month term (which shall also be the LMIR Bridge Loan Commitment Expiration Date); and
11. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The commissioner is authorized to approve non-material modifications to those terms; and
12. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
13. Ronald A Duchesneau, Jr, D.W. Jones, Inc., Gary Schander and Premiere Alliance Inc. shall each guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

14. Ronald A Duchesneau, Jr, D.W. Jones, Inc., Gary Schander and Premiere Alliance Inc. shall each guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
15. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 30th day of August 2018

CHAIRMAN



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July 25 2018

Ronald A. Duchesneau, Jr
 PO Box 340
 Walker, MN 56484

RE: Term Letter
 Apex Townhomes
 Development #D7943, Project #M17702

Dear Mr. Duchesneau:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence, satisfactory loan documentation, and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: DL Housing LLLP

General Partner(s) : DL Housing LLC

Development Description/Purpose: New construction of a 30-unit affordable development located in Detroit Lakes, Minnesota

Minnesota Housing Loan Type/Terms

Program:	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)	Low and Moderate Income Rental Program (LMIR) Bridge Loan**	Flexible Financing Capital Costs (FFCC)	Economic Development and Housing Challenge (EDHC)
Loan Amount:	\$1,389,000	\$3,520,000	\$270,000	\$3,486,000
Interest Rate	* 4.46%	3.25% (est.)	0%	0%
Mortgage Insurance Premium (%):	0.125% (<i>1st year premium is paid in advance</i>)	Not Applicable	Not Applicable	Not Applicable
Term:	40 years	Approximately 18 months	40 years	40 years
Amortization/Repayment:	40 years	Interest only during term	deferred lump sum payment due in 40 years	deferred lump sum payment due in 40 years
Prepayment	No prepayment	No prepayment	Prepay at any	Prepay at any

Provision:	first 10 years from date of the Note	for approximately 12 months	time without penalty	time without penalty
Nonrecourse or Recourse	Nonrecourse	Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End Loan	Construction Bridge Loan	End Loan	Construction/Permanent
Lien Priority:	First	First <i>(during construction period)</i>	Second	Third <i>(second during construction)</i>

*Subject to change. Interest rate to be set at the time the Minnesota Housing Board approves the loan commitment and will be locked for 6 months, after which it may be reset at Minnesota Housing's sole discretion.

**Subject to the ability of Minnesota Housing to sell bonds on terms and conditions, and in a time and manner, acceptable to Minnesota Housing.

Origination Fee: LMIR HUD Risk Share Loan: \$27,780
 LMIR Bridge Loan: \$17,600
 (payable at the earlier of loan commitment or loan closing)

Inspection Fee: \$13,045 (payable at the earlier of loan commitment or loan closing)

Guaranty/Guarantor(s): Completion, repayment and operations Guaranty to be provided by:

- Ronald A. Duchesneau, Jr
- D.W. Jones, Inc.
- Gary Schander
- Premiere Alliance Inc.

Operating Deficit Reserve Account: \$41,670 to be funded on the day of end loan closing by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing.

Operating Cost Reserve Account: Capitalized operating reserve in the amount of \$117,759 funded at stabilized occupancy. The operating reserve will be held by the syndicator.

Replacement Reserve Account: A replacement reserve will be required in the amount of \$450/unit/annum. The monthly replacement reserve will be \$1125. The replacement reserve will be held by Minnesota Housing.

Escrows: Real estate tax escrow and property insurance escrow to be established at time of permanent loan closing and held by Minnesota Housing.

Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Commitment to 40 years of affordability from the date of loan closing under the Project Based Section 8 Program for 4 units.
Rent and Income Requirements:	LMIR – 30 units with rents at 60% MTSP and incomes not exceeding 60% MTSP for 40 years FFCC – 30 units with rents at 60% MTSP and incomes not exceeding 60% MTSP for 40 years EDHC – 30 units with rents at 60% MTSP and incomes not exceeding 60% MTSP for 40 years Commitment to 40 years of affordability from the date of loan closing.
Other Requirements:	The FFCC and EDHC funding is subject to all of the terms in the attached Deferred Selection Criteria.
Closing Costs:	Borrower agrees to pay all closing costs related to the specific financing referenced in this letter, including a financing fee with respect to Minnesota Housing's bonds issued to finance the Bridge Loan.
Expiration Date:	This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Board approval of a loan commitment.
Additional Terms:	NA
Other Conditions:	<ul style="list-style-type: none"> • Four units of Project Based Section 8 to be secured from the Detroit Lakes HRA; • Central air conditioning for all townhomes must be paid for out of construction contingency or developer fee; and • Storm sewer and catch basins must be paid for out of construction contingency or developer fee
Board Approval:	Commitment of all loans under the LMIR, LMIR BL and FFCC program[s] is subject to Minnesota Housing's Board approval and adoption of a resolution authorizing the commitment of the loan[s].
Not a Binding Contract:	This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing

for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Megan Sanders (megan.sanders@state.mn.us) on or before August 8, 2018.

If you have any questions related to this letter, please contact Dani Salus at 651-284-3178 or by e-mail at Danielle.salus@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

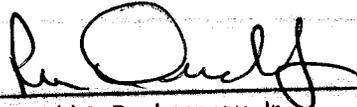


Wesley J. Butler
Assistant Commissioner, Multifamily

Attachment: Deferred Selection Criteria

AGREED AND ACCEPTED BY:

DL Housing LLLP

By: 
Ronald A. Duchesneau, Jr.

Date Accepted: 7/26/18



**Deferred Selection Criteria
Loan and Compliance Monitoring Requirements
Related to Selection Criteria RFP 2017**

Development Name Apex Townhomes
Development City Detroit Lakes

Development Number D7943
Project Number M17702

Selection Criteria	Developer Claimed	Agency Confirmed	Number of Units	Loan Commitment and Compliance Monitoring
Household Targeting- Large Families	✓	✓	14 - 2 BR units 16 - 3 BR units 0 - 4 BR units	<p>The deferred loan documents will include the number of units required to meet this criterion.</p> <p>The project will provide family housing that is not restricted to persons 55 years or older in which at least 75% of the affordable units contain two or more bedrooms. Or Greater Minnesota proposals that selected family housing that is not restricted to persons 55 years or older in which at least one-third of the 75% of the affordable units contain three or more bedrooms.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
Household Targeting- Single Room Occupancy			0 - 0 BR units	<p>The deferred loan document will include the number of units and unit sizes required to meet this criterion. The project must provide at least 50% of the restricted units for single room occupancy housing with one bedroom or less with rents affordable at 30% or median income.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>

<p>Permanent Supportive Housing for Households Experiencing Homelessness</p>	<p>✓</p>	<p>✓</p>	<p>0 - Single Adults 4 - Families with Children 0 - Youth</p>	<p>The deferred loan document will include the number of units required to meet this criterion.</p> <p>The Owner agrees units will be set aside and rented to households (1) experiencing long-term homelessness (LTH) targeted to single adults; or (2) (i) at significant risk of long-term homelessness, (ii) as prioritized for permanent supportive housing by the Coordinated Entry System, or (iii) experiencing long-term homelessness (LTH), targeted to families with children or youth.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
<p>Permanent Supportive Housing for Households Experiencing Homelessness - CoC Priority 1 -</p>	<p>✓</p>	<p>✓</p>		<p>The deferred loan document will include that the Owner agrees the project will set-aside Long Term Homeless units of 5% or more, but no fewer than four units, targeted to Continuum of Care Household Type Priority One.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
<p>Permanent Supportive Housing for Households Experiencing Homelessness -Rental Assistance</p>				<p>The Owner agrees the project will provide at least 5% of the total units of the Project, and no fewer than 4 units of Project-Based Rental Assistance, Section 811 Project Rental Assistance (PRA) or other similar rental assistance programs approved by Minnesota Housing. The development must ensure and continue of rental assistance for as long as the funding is available.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>

<p>People with Disabilities</p>			<p>0 units</p>	<p>The deferred loan document will include the number of units required to meet this criterion. The Owner agrees the project will provide housing that is not restricted to persons of a particular age group and in which for the term of the loan, at least 10% of the total units and up to 25% of the total units must be set aside and rented to persons with the following disabilities in a manner consistent with Minnesota Statutes, Section 462A.222, subdivision 3, subparagraph (d) (3):</p> <ul style="list-style-type: none"> a. A serious and persistent mental illness as defined in MN Statutes Section 245.462, Subdivision 20, Paragraph C; or b. A developmental disability as defined in United States Code, Title 42, Section 6001, Paragraph (5), as amended; or c. Assessed as drug dependent persons as defined in MN Statute Section 254A.02, Subdivision 5, and are receiving or will receive care and treatment services provided by an approved treatment program as defined in MN Statute Section 254A.02, Subdivision 2; or d. A brain injury as defined in MN Statute Section 256B.093, Subdivision 4, Paragraph (a); or e. Permanent physical disabilities that substantially limit major life activities, if at least 50 percent of the units in the Project are accessible as provided under Minnesota Rules, Chapter 1341. <p>Units must be restricted to households with incomes at or below 30% MTSP income limits.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
<p>People with Disabilities-Rental Assistance</p>				<p>The Owner agrees the project will provide at least 5% of the total units of the Project, and no fewer than 4 units of Project-Based Rental Assistance (e.g. Section 8, McKinney Vento Continuum of Care, site based Housing Support (fka Group Residential Housing), Section 811 Project Rental Assistance (PRA) or other similar rental assistance programs approved by Minnesota Housing. The development must ensure and continue of rental assistance for as long</p>

				<p>as the funding is available.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
Serves Lowest Income Tenants / Affordable to the Local Workforce	✓			<p>The deferred loan document will include the number of units required to meet this criterion, as outlined on the Conditions of Selection attachment to the Selection letter for the term of the loan.</p> <p>The owner will be required to certify on an annual basis that the rent and income restrictions comply.</p>
Rental Assistance	✓			<p>The deferred loan document will include the number of units required to meet this criterion and the required contract length. The development must ensure and continue of rental assistance for as long as the funding is available.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
Economic Integration				<p>The deferred loan document will include that the owner agrees the project will provide at least 25% not greater than 80% of the total units as affordable units.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p> <p>If the development was located in an economic integration area eligibility was determined at the time of selection.</p>
Access to Higher Performing schools				<p>The deferred loan document will include that the owner agrees the project will provide at least 25%, with a minimum of 15 units with units containing two or more bedroom will market to families with minor children. And that the owner must submit the Tenant Selection Plan to ensure the plan markets to families with minor children for the term of the loan.</p> <p>The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.</p>
Workforce Housing Communities	✓	✓		<p>Eligibility was determined at the time of selection.</p>

Location Efficiency	✓			Eligibility was determined at the time of selection.
Rural/Tribal	✓	✓		Eligibility was determined at the time of selection.
Federal/Local/Philanthropic Contributions	✓	✓		Eligibility was determined at the time of selection and will be monitored through the underwriting phase.
QCT/Community Revitalization				Eligibility was determined at the time of selection.
Minority Owned/Women Owned	✓			Eligibility was determined at the time of selection and will be monitored through the underwriting phase.
Preservation - Existing Federally Assisted Units			0 Federally Assisted Units	The deferred loan document will require the Owner to continue renewals of existing project-based housing subsidy payment contracts(s) for as long as the assistance is available. Except for good cause, the Owner must not evict existing subsidized residents and must continue to renew leases for those residents. The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.
Preservation- Critical Affordable Units at Risk of Loss				Eligibility was determined at the time of selection.
Financial Readiness to Proceed	✓			Eligibility was determined at the time of selection and will be monitored through the underwriting phase.
Greater Minnesota Workforce Housing-Meaningful Employer Contribution				Eligibility was determined at the time of selection.
High Speed Internet	✓	✓		Eligibility was determined at the time of selection and validated through the underwriting phase and architectural review.
Universal Design	✓	✓		Eligibility was determined at the time of selection and validated during the underwriting phase and architectural review.
Smoke Free Building	✓	✓		The deferred loan document will include that the owner must maintain a smoke free policy and include a non-smoking clause in the lease for every household for the term

				of the loan. The owner will be required to certify on an annual basis that the development complies with this criterion for the term of the loan.
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Minnesota Housing will monitor for the selected terms in the manner and frequency it deems appropriate and may modify its compliance monitoring processes at any time. The terms relate solely to the selection criteria selected in the project application and do not reflect all terms that will be included in the loan documents or monitored by Minnesota Housing and do not include project- or funding-specific terms and conditions.

Item: Commitment, Low and Moderate Income Rental (LMIR),
- Warroad Townhomes, Warroad, D1717

Staff Contact(s):

Paul Marzynski, 651.296.3797; paul.marzynski@state.mn.us

Request Type:

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

Summary of Request:

Agency staff completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in the amount of up to \$1,086,000.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the end loan without incurring financing expenses. The end loan will generate additional fee income.

Meeting Agency Priorities:

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

Attachment(s):

- Background
- Development Summary
- Resolution

Background:

The Minnesota Housing Finance Agency (Minnesota Housing) board, at its October 20, 2017, meeting, approved this development for processing under the Low and Moderate Income Rental (LMIR) program. At this same meeting, the board approved a commitment for financing under the Preservation Affordable Rental Income Fund (PARIF) program. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	SELECTION	COMMITMENT	VARIANCE
Total Development Cost	\$ 3,351,689	\$ 3,404,623	\$ 52,934
Gross Construction Cost	\$ 1,819,536	\$ 1,893,666	\$ 74,130
Agency Sources (Permanent):			
LMIR	\$ 1,024,000	\$ 1,086,000	\$ 62,000
PARIF	\$ 1,924,869	\$ 1,924,869	\$ 0
Total Agency Sources	\$ 2,948,869	\$ 3,010,869	\$ 62,000
Other Non-Agency Sources:			
Energy Rebate	\$ 9,750	\$3,445	(\$ 6,305)
DEED - SCDP Grant	\$ 330,000	\$330,000	\$ 0
Reserves	\$ 7,962	\$7,962	\$ 0
Deferred Developer Fee	\$ 55,108	\$52,347	(\$ 2,761)
Total Permanent Sources	\$ 3,351,689	\$ 3,404,623	\$ 52,934

Gross Rents:	SELECTION		COMMITMENT		VARIANCE	
Unit Type	# of DU	Rent	# of DU	Rent	# of DU	Rent
2BR – PBV HC	1	\$ 715	1	\$ 768	0	\$ 53
2BR – PBV	20	\$ 740	20	\$ 758	0	\$ 18
3BR – PBV	9	\$ 807	9	\$ 864	0	\$ 57
Total Number of Units	30		30		0	

NOTE: PBV = Project-based Voucher; HC = Handicap unit

Factors Contributing to Variances:

Since selection, total development costs increased slightly due to increases in construction costs and the addition of a financing fee related to the DEED award. The LMIR loan amount increased with the increase in the project's underwritten rents that were approved upon the 20-year renewal of the existing Section 8 Housing Assistance Payments (HAP) contract.

Other Significant Events since Board Selection:

None.

Agenda Item:6.B
Development Summary

DEVELOPMENT SUMMARY:

Name:	Warroad Townhomes	D#	1717
Address:	526 Nelson St #1-6	App#:	M17688
City:	Warroad	County:	Roseau
		Region:	Northwest

MORTGAGOR:

Ownership Entity:	Warroad Housing Limited Partnership
General Partner/Principals:	D.W. Jones, Inc.

DEVELOPMENT TEAM:

General Contractor:	Voronyak Builders, Inc., Burtrum
Architect:	Lucachick Architecture, Inc., Bemidji
Attorney:	Gammello, Qualley, Pearson & Mallak, PLLC, Baxter
Management Company:	D.W. Jones Management, Inc., Walker

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

\$ 1,086,000	LMIR First Mortgage	
	Funding Source:	Housing Investment Fund (Pool 2)
	Interest Rate:	4.410%
	MIP Rate:	0.125%
	Term (Years):	35
	Amortization (Years):	35

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY*
2BR PBV / LIHTC	1	834	\$ 768	\$ 768	\$ 30,720
2BR PBV / LIHTC	20	1,045	\$ 758	\$ 758	\$ 30,320
3BR PBV / LIHTC	9	1,266	\$ 864	\$ 864	\$ 34,560
TOTAL	30				

NOTES:

*Under the LMIR and Housing Tax Credit programs, rents are affordable to households at 60% of the Multifamily Tax Subsidy Projects (MTSP) income levels. All thirty (30) units are subject to a project-based Section 8 contract where tenants pay no more than 30 percent of their incomes toward rent. PVB = Project-based Voucher; LIHTC = Low Income Housing Tax Credits.

Purpose:

Warroad Townhomes is an existing 30 unit affordable townhome project in Warroad that has served low-income families for 37 years. The development consists of five, one and two story walk-up buildings containing 21 two-bedroom and 9 three-bedroom units. The refinancing and planned rehabilitation will preserve the existing Section 8 Housing Assistance Payments (HAP) contract. The rehabilitation will address extensive deferred maintenance issues including window replacement, heating system replacement, plumbing repairs, and unit upgrades with new cabinets, appliances and flooring. Upon completion of the rehabilitation project, Warroad Townhomes will be able to continue to provide affordable housing for lower income families.

The development meets the *Address Specific and Critical Local Housing Needs* strategic priority and serves an important policy goal of preserving federally assisted housing.

Population Served:

The development will provide housing for low-income families that have household incomes at or below 60% of MTSP. All 30 units at the development have project-based Section 8 rental assistance where tenants pay no more than 30 percent of their income toward rent.

Project Feasibility:

The development is feasible as proposed. Development financing includes an amortizing LMIR mortgage not to exceed \$1,086,000. Other permanent sources include a deferred PARIF loan from Minnesota Housing, a grant from the DEED Small Cities Development Program (SCDP), energy rebates and a deferred developer fee. The development cash flows at the proposed rent levels, and has been underwritten in compliance with Minnesota Housing standards.

Total development cost (TDC) of \$113,487 per unit is 8.3 percent below the predictive model estimate of \$123,896.

Development Team Capacity:

The developer, D.W. Jones, Inc., has a long history of bringing development proposals to completion in a timely manner. The developer has utilized Minnesota Housing first mortgages and deferred loans with proven success.

The management company, D.W. Jones Management, Inc. was established in 1989 and currently has 134 developments with a total of 3,533 units. Projects in its portfolio include low-income housing tax credits, Section 8, and other rent and income restricted programs. The property management company has the capacity to manage this development.

Physical and Technical Review:

Lucachick Architecture, Inc. is the architect, and Voronyak Builders, Inc. is the general contractor. Both the architect and the contractor have the capacity to effectively design and rehabilitate the project. They have successfully completed similarly sized, affordable housing developments in Minnesota.

Market Feasibility:

Warroad is located in the northwest part of the state in Roseau County. According to the AdMark Resources market study, the unemployment rate for the county has steadily declined since the last recession and is now lower than the state average. Their survey with the major local employers indicates the employment outlook for the area will remain stable. The demand for the area's rental housing will remain tight, and there have been no new multifamily properties built in the past 10 years. The units at Warroad Townhomes are 15 percent to 30 percent larger than comparable properties, and upon

completion of the development's renovation, the 30 restricted income units are expected to be in high demand.

DEVELOPMENT COST SUMMARY (estimated):

	Total	Per Unit
Total Development Cost	\$ 3,404,623	\$ 113,487
Payoff Existing Debt	\$ 995,043	\$ 33,168
Gross Construction Cost	\$ 1,893,666	\$ 63,122
Soft Costs (excluding Reserves)	\$ 507,952	\$ 16,932
Non-mortgageable Costs	\$ 0	\$ 0
Reserves	\$ 7,962	\$ 265
 Total LMIR Mortgage	 \$ 1,086,000	 \$ 36,200
First Mortgage Loan-to-Cost Ratio	32%	
 Agency Deferred Loan Sources		
PARIF	\$ 1,924,869	\$ 64,162
Total Agency Sources	\$ 3,010,869	\$ 100,362
Total Loan-to-Cost Ratio	88%	
 Other Non-Agency Sources		
Energy Rebates	\$ 3,445	\$ 115
DEED - SCDP Grant	\$ 330,000	\$ 11,000
Reserves	\$ 7,962	\$ 265
Deferred Developer Fee	\$ 52,347	\$ 1,745
 Total Non-Agency Sources	 \$ 393,754	 \$ 13,125

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 18-

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

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

Name of Development:	Warroad Townhomes, D1717
Sponsors:	D.W. Jones, Inc.
Guarantors:	Ronald A. Duchesneau Jr.
Location of Development:	Warroad
Number of Units:	30
General Contractor:	Voronyak Builders, Inc., Burtrum
Architect:	Lucachick Architecture, Inc., Bemidji
Amount of Development Cost:	\$ 3,404,623
Amount of LMIR Mortgage:	\$ 1,086,000

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Minnesota Housing Board hereby authorizes Agency staff to issue a commitment to provide permanent mortgage loans to the applicant from the Housing Investment Fund (Pool 2 under the LMIR Program) for the indicated development, upon the following terms and conditions:

1. The amount of the LMIR amortizing loan shall not exceed \$1,086,000; and
2. The interest rate on the permanent LMIR loan shall be 4.41 percent per annum (subject to change, as set forth in the attached Agency term letter dated July 23, 2018), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 35 year amortization; and

3. The term of the permanent LMIR loan shall be 35 years; and
4. The LMIR End Loan Commitment shall be entered into on or before March 2, 2019 and shall have an 18 month term (which shall also be the LMIR Commitment Expiration Date); and
5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The commissioner is authorized to approve non-material modifications to those terms; and
6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
7. Ronald A. Duchesneau Jr. shall guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and
8. Ronald A. Duchesneau Jr. shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
9. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 30th day of August 2018

CHAIRMAN

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July 23, 2018

Mr. Ronald A. Duchesneau Jr.
 D.W. Jones, Inc.
 PO Box 340
 Walker MN 56484

RE: Term Letter
 Warroad Townhomes
 Development #D1717, Project #M17688

Dear Mr. Duchesneau,

Minnesota Housing Finance Agency (“Minnesota Housing”) staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the “Terms”). The Terms are subject to Minnesota Housing’s Board of Directors’ approval and meeting all underwriting standards, delivery of required due diligence, satisfactory loan documentation, and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter. This term letter replaces the term letter dated July 18, 2018

Borrower: Warroad Housing Limited Partnership
 (A single asset entity)

General Partner(s): D.W. Jones, Inc.

Development Description/Purpose: Refinance and rehabilitation of a 30-unit multifamily development located in Warroad, Minnesota

Minnesota Housing Loan Type/Terms

Program:	Low and Moderate Income Rental Program (LMIR) <i>(HUD Risk Share)</i>	Preservation Affordable Rental Investment Fund Program (PARIF)
Loan Amount:	\$1,086,000	\$ 1,924,869
Interest Rate	* 4.41%	0.00%
Mortgage Insurance Premium (%):	0.125% <i>(1st year premium is paid in advance)</i>	Not Applicable
Term:	35 years	35 Years
Amortization/Repayment:	35 years <i>(Interest only during construction)</i>	Deferred lump sum payment due in 35 Years
Prepayment Provision:	No prepayment first 10 years from date of the Note.	Prepay at any time without penalty
Nonrecourse or Recourse	Nonrecourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	Construction/Permanent	Construction/Permanent
Lien Priority:	First	Second

*Subject to change. Interest rate to be set at time the Minnesota Housing Board approves the loan commitment and will be locked for 6 months, after which it may be reset at Minnesota Housing’s sole discretion.

Origination Fee: LMIR HUD Risk Share Loan: \$25,000
(payable at the earlier of loan commitment or loan closing)

Inspection Fee: \$4,251 (payable at the earlier of loan commitment or loan closing)

Guaranty: Completion, repayment and operations Guaranty to be provided by: Ronald A. Duchesneau Jr.

Operating Deficit Reserve Account: \$32,580 to be funded on the day of closing by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing.

Replacement Reserve Account: A Replacement reserve will be required in the amount of \$450/unit/annum. The monthly replacement reserve will be \$1,125. The replacement reserve will be held by Minnesota Housing.

Escrows: Real estate tax escrow and property insurance escrow to be established at time of permanent loan closing and will be held by Minnesota Housing.

Collateral/Security: Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.

HAP or Other Subsidy Agreement: Commitment to 35 years of affordability from the date of LMIR loan closing under the Section 8 Program for 30 units

Rent and Income Restrictions: LMIR Loan: 30 units with rents at 60% MTSP and incomes not exceeding 60 MTSP

PARIF Loan: 30 units with rents at 60% MTSP and incomes not exceeding 60% MTSP.

Other Occupancy Requirements: Not Applicable

Closing Costs: Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.

Expiration Date: This term letter will expire on the earlier of (i) six months from the date of this letter or (ii) Board approval of a loan commitment.

Additional Terms: Not Applicable

Other Conditions: Not Applicable

Board Approval: Commitment of all loans under the LMIR program is subject to Minnesota Housing's Board approval and adoption of a resolution authorizing the commitment of the loan.

July 23, 2018
Page 3 of 3

Not a Binding Contract:

This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Megan Sanders at megan.sanders@state.mn.us on or before August 1, 2018.

If you have any questions related to this letter, please contact Paul Marzynski at 651-296-3797 or by e-mail at paul.marzynski@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

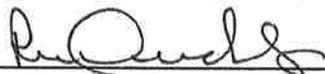


Wesley J. Butler
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

WARROAD HOUSING LIMITED PARTNERSHIP

By: _____



Ronald A. Duchesneau Jr, Vice President

Date Accepted: _____

7/25/18

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Item: Selection/Commitment, Housing Opportunities for Persons with AIDS (HOPWA) Renewal
- D3621, JustUs Health

Staff Contact(s):

Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us

Request Type:

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

Summary of Request:

Staff recommends the adoption of a resolution approving \$192,492 for funding under the Housing Opportunities for Persons with AIDS Program (HOPWA) for JustUs Health.

Fiscal Impact:

Minnesota Housing has received HOPWA formula funding for the state of Minnesota in the amount of \$198,445. Minnesota Housing will receive a fee of three percent (\$5,953) for the administration of this program.

Meeting Agency Priorities:

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

Attachment(s):

- Background
- Resolution

Background:

Minnesota Housing is the grantee for the HOPWA state of Minnesota formula funds, appropriated annually by the Department of Housing and Urban Development (HUD). HUD HOPWA funds are distributed under a statutory formula that is based on AIDS surveillance information (number of people living with HIV/AIDS) from the Centers for Disease Control and Prevention as well as other factors, including the share of the state's population in poverty and local housing costs.

State HOPWA formula funds serve Greater Minnesota outside of the 13 county Eligible Metropolitan Statistical Area (EMSA), including two Wisconsin counties. Low-income persons (at or below 80 percent of area median income (AMI)) who are living with HIV/AIDS, together with their families, are eligible to receive HOPWA assistance.

The amount allocated to Minnesota Housing for program use in FY2018 is \$198,445, of which \$192,492 will be available for program funding. The remaining \$5,953 is applied toward Minnesota Housing administrative expenses.

The Minnesota HIV Housing Coalition – comprised of advocates, representatives of government agencies, and HIV housing and service providers – has established the funding priorities for the HOPWA Program, which includes priority for the renewal and sustainability of existing programs. In previous years, the opportunity to apply for the Minnesota HOPWA formula funds was open only to the current grantee. Beginning with this contract, Minnesota Housing will award the funds in the form of a Single/Sole Source grant to the current grantee since they are the only organization with the combination of experience serving persons experiencing HIV/AIDS, statewide relationships, and capacity for geographic coverage. They have administered HOPWA funds throughout Greater Minnesota since 2001. The Single/Sole Source grant does not require application. The grant will be written for a two year term, with the second year award contingent on receipt of funds from HUD.

The current grantee is JustUs Health, formerly known as Minnesota AIDs Project (MAP). In March 2018 MAP merged with Rainbow Health Initiative, forming JustUs Health.

JustUs Health (formerly MAP) has administered HOPWA funds throughout Greater Minnesota since 2001, serving households in 48 of 76 Greater Minnesota counties in FY2017. JustUs Health works collaboratively with a variety of community organizations and receives referrals from the Rural AIDS Action Network (RAAN), the Mayo HIV case management program, JustUs Health's own Duluth Case Management program, as well as local, county, social service providers. Funds are available to eligible persons as emergency assistance for short-term rent, mortgage and utility payments (STRMU). Due to the limited funding available, emergency assistance is distributed through a lottery, based on referrals from the service providers, with restrictions on the funding amount and number of times the funding can be accessed by a given party. JustUs Health assisted 178 households with STRMU in FY2017, with 87 percent of the assisted households at income levels below 50 percent of AMI, including 52 percent of the assisted households at income levels below 30 percent of AMI. In FY2019, JustUs Health anticipates the STRMU assistance serving approximately 160 individuals living with HIV/AIDS and their family members.

The number of individuals living with HIV in Greater Minnesota continues to increase. In addition, the costs of rent, mortgage payments and utilities continued to rise in the last year. Participants in Greater Minnesota often experience difficulty obtaining long-term rental subsidies, leaving households living with HIV/AIDS at risk for housing instability and homelessness. The STRMU program helps to mitigate these rising barriers.

Staff recommends approval of the grant award to JustUs Health.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 18-

**RESOLUTION APPROVING SELECTION/AUTHORIZATION TO FUND
HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA) GRANT**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received funds from the U.S. Department of Housing and Development (HUD) for the purpose of funding HOPWA activities for low-income persons who are living with HIV/AIDS.

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the board hereby authorizes Agency staff to enter into a grant agreement using federal resources as set forth below, subject to changes allowable under the HUD HOPWA Program, upon the following conditions:

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

JustUs Health D3621 \$ 192,492;

2. The issuance of a grant agreement in form and substance acceptable to Agency staff, and the closing of the individual grant shall occur no later than six months from the adoption date of this resolution; and
3. The sponsor and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 30th day of August 2018

CHAIRMAN

Item: Approval, Resolution Authorizing Extension of Grant Contract
- Dakota County CDA, D3739

Staff Contact(s):

Elaine Vollbrecht, 651.296.9953, elaine.vollbrecht@state.mn.us

Request Type:

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

Summary of Request:

Staff requests approval of a twelve month extension of the existing contract to align the term with the 2019-20 Housing Trust Fund (HTF) rental assistance request for proposals.

Fiscal Impact:

None

Meeting Agency Priorities: select all that apply

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

Attachment(s):

- Background
- Resolution

Background:

In 2013, Governor Dayton recommended funding for rental assistance for ex-offenders, which was appropriated by the Minnesota Legislature for the 2014-15 biennium. The goals of the Re-entry Initiative are to help individuals secure stable housing and to reduce recidivism. Six grantees were awarded funding for this pilot initiative beginning in 2014.

In 2016, approximately \$80,000 of HTF Re-entry Initiative funds was returned by one of the grantees who did not wish to extend their grant term due to the level of in-kind service expenditures the grantee was contributing to the program.

The Dakota County Community Development Agency (CDA) was approved for a funding award of these returned Re-entry Initiative funds for the term January 1, 2016 to September 30, 2018. Dakota County's Re-entry Assistance Program (RAP) provides a team-based approach that specifically assists individuals exiting a Minnesota correctional facility with housing search, benefits assistance, employment and mental/chemical health services.

In 2017, four Re-entry Initiative pilot programs were given the opportunity to apply for ongoing funding on a biennial basis. Since the Dakota County CDA program had a later start date than the other programs, they were not given the opportunity at that time.

Staff requests approval to extend the term of the Dakota County CDA Re-entry contract by one year to September 30, 2019 to align with other biennially funded HTF contracts. No additional funding is requested, as the remaining funds are sufficient to operate the program. If this term extension is approved, the Dakota County CDA will be offered the opportunity to apply for funding for this program during the 2019 HTF rental assistance biennial application process.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 18-

**RESOLUTION APPROVING GRANT MODIFICATION
HOUSING TRUST FUND (HTF) RENTAL ASSISTANCE PROGRAM**

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received a request to modify the term of an existing grant for HTF rental assistance for the Dakota County Community Development Agency, D3739.

WHEREAS, the HTF grant to the above grantee expires on September 30, 2018.

WHEREAS, Agency staff has determined that an extension of the term of the grant will assist in fulfilling the purposes of Minn. Stat. ch. 462A.

NOW THEREFORE, BE IT RESOLVED:

THAT the board hereby authorizes the following:

1. Agency staff shall modify the agreement by extending its term to September 30, 2019. All other provisions of the grant agreement remain in force and effect;
2. The closing of the modified grant agreement shall occur no later than six months from the adoption date of this resolution; and
3. The sponsor and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 30th day of August 2018

CHAIRMAN

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Item: Commitment Modification, Flexible Financing for Capital Costs (FFCC); and
Waiver of QAP Private Activity Bond Limitation – Garfield Square Apartments, Duluth D7940

Staff Contact(s):

William Price, 651.296.9440, william.price@state.mn.us

Susan Thompson, 651.296.9838, susan.thompson@state.mn.us

Request Type:

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

Summary of Request:

Agency staff requests the adoption of a resolution authorizing: a modification to increase the Flexible Financing for Capital Costs (FFCC) loan commitment by an amount up to \$700,000; and a waiver of the provision in the QAP limiting the issuance of private activity bonds (to be issued to finance the Housing Infrastructure Bond (HIB) loan) to no more than 53% of eligible basis.

Fiscal Impact:

The Agency will not earn any interest revenue as neither loan carries an interest rate. As the debt service on the HIBs to be issued to finance the HIB loan is paid via state appropriation, there is also no interest expense to the Agency. The Agency will earn an inspection fee.

Meeting Agency Priorities:

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

Attachment(s):

- Background
- Resolution

Background:

At its October 19, 2017 meeting, the Minnesota Housing board approved a loan commitment for Garfield Square Apartments under FFCC in the amount of \$640,849 and a Housing Infrastructure Bond (HIB) deferred loan in the amount of \$7,500,000. The following summarizes the changes in the proposal since that time:

DESCRIPTION:	SELECTION	COMMITMENT	VARIANCE
Total Development Cost	\$ 12,146,208	\$ 13,105,220	\$ 959,012
Gross Construction Cost	\$ 7,261,301	\$ 7,581,718	\$ 320,417
Agency Sources:			\$ 0
HIB	\$ 7,500,000	\$ 7,500,000	\$ 700,000
FFCC	\$ 640,849	\$ 1,340,849	\$ 700,000
Total Agency Sources	\$ 8,140,849	\$ 8,840,849	
Other Non-Agency Sources:			
Syndication Proceeds	\$ 3,357,090	\$ 3,593,683	\$ 236,593
City of Duluth HOME	\$ 200,000	\$ 200,000	\$ 0
St. Louis County HRA	\$ 200,000	\$ 200,000	\$ 0
Sales Tax Rebate	\$ 243,254	\$ 253,988	\$ 10,734
Energy Rebate	\$ 5,015	\$ 16,700	\$ 11,685

The increase in the FFCC loan is due to Minnesota Housing's requirement for additional capitalized operating reserves to ensure feasibility through year 15.

The increase in construction costs is primarily due to reclassifying environmental abatement costs into the construction contract. Additional cost increases are funded by increased syndication proceeds.

Syndication increased due to a combination of increased basis resulting in more credits and increased pricing of \$0.0199 being paid by the syndicator, Cinnaire.

Staff requests the board approve an increase in the FFCC loan commitment by an amount up to \$700,000.

Waiver of Minnesota Housing Private Activity Bond Limitation

Article 8.0 of the Amended 2018 Qualified Action Plan (QAP) states that the Minnesota Housing will not issue private activity bonds in an amount in excess of 53% of eligible basis, as defined in Section 42 of the IRS Code.

Staff requests a waiver of this 53 percent limit for Garfield Square Apartments:

- Garfield Square Apartments will provide 50 tax credit units serving households whose incomes do not exceed 60% of MTSP. In addition, it will provide 25 units to individuals who have experienced long-term homelessness and an additional 10 units intended to serve individuals with disabilities. The development will offer project-based rental assistance for all units. The project addresses the critical need of replacing the dilapidated Esmond (f.k.a Seaway) building

and is the result of many years of planning by area stakeholders to provide safe and sanitary housing for very hard-to-house individuals.

- The 53 percent limit for Minnesota Housing tax exempt private activity bonds in the QAP was established to manage the scarcity of tax exempt private activity bonds limited by the state's volume cap. The 53 percent limit ensures that the amount of bonds issued for a particular project is limited to the amount necessary to qualify for 4% tax credits. HIBs issued as tax exempt private activity bonds are different from non-HIBs in that the HIB loan is sized based upon the project's need for deferred funding, not exclusively upon the amount needed to qualify for tax credits. In the case of Garfield Square Apartments, the \$7.5 million HIB loan represents 78 percent of eligible basis. This loan will qualify the project for nearly \$3.6 million of tax credit equity. Without the issuance of this larger amount of private activity bonds, those tax credit equity funds would not be available to the project, and thus the project would require additional deferred funding either from an additional amount of HIBs or from other deferred funding sources.

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

**RESOLUTION NO. MHFA 18-
Modifying Resolution No. MHFA 17-033**

**RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT MODIFICATION
FLEXIBLE FINANCING FOR CAPITAL COSTS (FFCC) PROGRAM
AND WAIVER OF THE BOND VOLUME CAP LIMITATION**

WHEREAS, the Board has previously authorized the loan commitment for the Garfield Square Apartments, (D7940) by MHFA Resolution No. 17-033; and

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

WHEREAS, Agency staff have determined that there are increased development costs created by the discovery of critical structural repairs; and

WHEREAS, Agency staff have determined that a waiver of the private activity bond limitation under the QAP is necessary.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Minnesota Housing Board hereby increases the funding commitment under 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 Flexible Financing for Capital Costs funding commitment for the development shall be increased from \$ 640,849 up to \$ 1,340,849;
2. The 53 percent Minnesota Housing private activity bond limitation under the QAP is waived; and
3. The Agency is able to issue and sell its tax-exempt bonds on terms acceptable to the Agency; and
4. All other terms and conditions of MHFA Resolution No. 17-033 remain in effect.

Adopted this 30th day of August, 2018

CHAIRMAN

**Item: Request for Waivers to Minnesota Housing's 2019 Qualified Allocation Plan, Fort Snelling
Upper Post Flats, D7976****Staff Contact(s):**

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

Wes Butler, 651.296.3028, wes.butler@state.mn.us

Request Type:

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

Summary of Request:

Two waivers from the requirements of the Agency's 2019 Qualified Allocation Plan are requested for the Fort Snelling Upper Post Flats development. First, a waiver of the predictive cost model threshold. Second, a waiver to allow the developer to submit an application for a preliminary determination related to 4% Low-Income Housing Tax Credits prior to an allocation of bonding authority to an issuer of bonds to finance the development.

Fiscal Impact:

Housing tax credits are a federal resource and do not directly impact Minnesota Housing's financial condition.

Meeting Agency Priorities:

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

Attachment(s):

- Background and Request
- Minn. Stat. § 474A.22
- Breakdown of sources and uses provided by the developer
- Resolution (to be provided at the meeting)

Fort Snelling Upper Post Flats (the “Development”) is proposed to be a 176-unit multifamily rental housing development located on the Fort Snelling campus in an unincorporated area of Hennepin County.

Previous Request for Conduit Bonds.

Dominium LLC previously asked Minnesota Housing to issue conduit tax-exempt private activity bonds for the Development. That request sought \$58 million of Minnesota Housing’s entitlement portion of the state’s tax exempt private activity bond volume cap (“bonding authority”). An issuance of conduit tax-exempt private activity bonds for the Development would have required several waivers of threshold conditions under the Board’s Debt Management Policy (subsequently renamed by the Board as the Debt and Balance Sheet Management Policy). The Board denied the request for waivers to the Debt Management Policy in August 2017 because, among other reasons, the use of Minnesota Housing’s entitlement portion of the private activity bond volume cap for conduit debt issuance is generally not in the best financial interest of the Agency and the Development does not preserve federally subsidized housing.

New State Statute.

At the end of the recent legislative session, statutory language regarding the Development was incorporated into the 2018 Omnibus Bonding Bill (Laws 2017, Chapter 214) and codified at Minn. Stat. § 474A.22 (attached).

Bonding Authority: The new statute requires Minnesota Management and Budget (MMB) to reserve \$58 million in bonding authority for the rehabilitation and renovation of the Fort Snelling Upper Post as a qualified residential rental project in 2019 (and in 2020 if the bonds are not permanently issued in 2019). Of the \$58 million, \$29 million is reserved from Minnesota Housing’s entitlement allocation and \$29 million is reserved from the Small Issue pool (a pool that can be used for eligible non-housing purposes). The statute provides for the bonding authority to be allocated to an eligible issuer by MMB upon submission of an application to MMB for that bonding authority. Fort Snelling Leased Housing Associates I, LLLP submitted an application to Hennepin County Housing and Redevelopment Authority (Hennepin County HRA) seeking to have the HRA issue conduit housing revenue bonds in a principal amount not exceeding \$58 million and to submit an application to MMB for allocation of the bonding authority. On August 14, 2018, Hennepin County HRA adopted a resolution granting preliminary approval to the issuance of those bonds and authorizing the submission of the application to MMB.

4% Low-Income Housing Tax Credits: If the Development is eligible for 4% tax credits, Minnesota Housing will be the allocating agency for the federal tax credits. Eligibility for 4% tax credits requires compliance with the Qualified Allocation Plan (QAP) for the calendar year in which the qualifying tax-exempt bonds are issued. Pertinent to the request before the Board, the state statute included the following language regarding 4% tax credits for the Development:

Subd. 4. Low-income housing tax credits. The redevelopment of the Fort Snelling Upper Post shall be a strategic priority of the state and the Minnesota Housing Finance Agency. If the allocation of bonding authority under subdivision 2 makes the Fort Snelling Upper Post development preliminarily eligible for an allocation of low-income housing tax credits under section 42(h)(4) of the Internal Revenue Code of 1986, as amended, the Minnesota Housing Finance Agency shall promptly process any application or preapplication for low-income housing tax credits submitted under this subdivision

pursuant to the qualified allocation plan and shall not require or impose additional criteria, requirements, regulations, or restrictions upon the Fort Snelling Upper Post project that would otherwise undermine the priorities of this section other than as required under section 42 of the Internal Revenue Code of 1986, as amended. The issuer of the bonds under this section and not the Minnesota Housing Finance Agency shall determine the financial feasibility and the reasonableness of the development costs for the project and the Minnesota Housing Finance Agency shall not include in its review of the project any per-unit cost limitations or other similar restrictions. The Minnesota Housing Finance Agency shall consider the legislature's determinations in evaluating the project and granting any requests or making any determinations related to the Fort Snelling Upper Post project to facilitate an allocation of low-income housing tax credits in light of the importance to the state of this unique and historic development.

Minnesota Housing's 2019 QAP: Pre-Application Process.

Minnesota Housing's 2019 QAP provides a pre-application process to provide early guidance related to developments that are expected to be financed by tax-exempt bonds and apply to Minnesota Housing for 4% tax credits in calendar year 2019. Developers may seek two determinations from Minnesota Housing through the pre-application process: (1) a preliminary scoring determination; and (2) a preliminary predictive cost model determination. The process is intended to help developers understand early in the process whether and how a development will qualify for 4% tax credits.

As required by the 2019 QAP, staff utilize the predictive cost model, which uses both historical Minnesota Housing cost data and industry wide cost data, as a tool to evaluate the costs of potential tax credit developments based on their characteristics. If the costs of a development exceed the predictive cost model estimate by more than 25% the Board may, if appropriate, grant a waiver to that threshold.

Upper Post Development Pre-Application.

In July 2018, a pre-application for the Development was submitted to Minnesota Housing pursuant to the 2019 QAP (the QAP in effect for the calendar year in which the tax-exempt bonds are expected to be issued for the Development). Staff reviewed the pre-application and sought additional information and documentation from the developer.

Based upon the information submitted, the expected per unit costs of the Development are \$550,830, which exceeds the predictive cost model estimate of \$221,986 by 148.14 percent.

Requested Waiver of the Predictive Cost Model Threshold.

By adopting the legislation and reserving the bonding authority, the legislature found that the Development's unique historic nature and the opportunity to provide affordable housing on the site are important to the state of Minnesota. The new state statute provides that the "redevelopment of the Fort Snelling Upper Post shall be a strategic priority of the state and the Minnesota Housing Finance Agency" and Minnesota Housing is directed to "consider the legislature's determinations in evaluating the project and granting any requests or making any determinations related to the Fort Snelling Upper Post project to facilitate an allocation of low-income housing tax credits in light of the importance to the state of this unique and historic development." Minn. Stat. § 474A.22, subd. 4. The statute also

provides that “the Minnesota Housing Finance Agency shall not include in its review of the [Upper Post] project any per-unit cost limitations or other similar restrictions.” *Id.*

The statute directs the Agency to process any pre-application and application for the Development “pursuant to the qualified allocation plan.” *Id.* Section 42 of the Internal Revenue Code, which governs the federal tax credit program, provides that a project must comply with the housing credit agency’s qualified allocation plan to be eligible for federal tax credits. Section 42(m). Minnesota Housing’s 2019 QAP includes a requirement that it evaluate the costs of every development that applies for federal tax credits using the predictive cost model. The Board may waive this requirement upon good cause.

The developer submitted the following justification to explain the high costs of the Development:

- The development is very large in scope with 26 buildings, that total 350,000 gross square feet, spread across more than 40 acres, which adds additional costs.
- The buildings, some of which date back more than 130 years, have been vacant for more than 30 years and both the buildings and the site have deteriorated significantly. Significant repairs are needed to maintain the architectural and structural integrity of the buildings.
- There are increased costs associated with renovating the site in a manner that is consistent with the historic character of the site and using materials consistent with past historic uses.

The developer also submitted a sources and uses document, attached to this report, reflecting that when the historic costs are isolated from the typical costs related to new construction of a development financed in part with tax credits, the costs appear significantly lower.

Requested Waiver to Allow Application to Be Submitted Prior to Allocation of Bonding Authority.

The 2019 QAP provides that a full application for the issuance of a 42m letter (the determination by Minnesota Housing that a development preliminarily qualifies for 4% tax credits) may only be submitted after the issuer of tax-exempt bonds for the development has been allocated bonding authority by MMB, and must be submitted before the bonds are issued. The full application must include the following:

The developer must submit to Minnesota Housing all documents required for an application for tax credits under Chapter 6.A of the Housing Tax Credit Program Procedural Manual and any additional information requested by Minnesota Housing. For projects in which Minnesota Housing is the allocating agency, the developer must submit an application fee. In addition, if the issuer of the bonds is not Minnesota Housing, the initial submission must include evidence from the issuer that the project received an approval of an allocation of tax-exempt bond volume cap from the state of Minnesota and a preliminary determination issued by the issuer of the bonds addressing the tax credit dollar amount and project costs pursuant to Section 42(m)(2)(D) of the Internal Revenue Code [also see the QAP for additional detail].

2019 HTC Procedural Manual at pg. 52.

Under the language of the 2019 QAP, the Agency cannot accept a full application for a preliminary determination of eligibility for 4% tax credits until MMB allocates bonding authority for the Development pursuant to Minn. Stat. § 474A.22. This cannot occur until 2019 when the amount of the state’s volume cap of bonding authority pursuant to Section 146 of the Internal Revenue Code has been determined and is available for allocation to issuers. The developer has

expressed an interest in beginning the process of submitting a full application in the coming months. In light of the complex nature of this Development, beginning to review and process application materials prior to 2019 would allow additional time for both Agency staff and the developer to identify and resolve any concerns.

In light of the above, staff asks the Board to grant two waivers to the 2019 QAP related to the Development: (1) a waiver of the predictive cost model threshold; and (2) a waiver of the requirement that the Agency cannot accept a full application for a preliminary determination letter unless MMB has allocated bonding authority to an issuer of bonds to finance the Development. Granting the two waivers will allow the process of evaluating whether the Development qualifies for a preliminary determination of eligibility for 4% tax credits to move forward. However, Minnesota Housing cannot issue its preliminary determination letter until staff has received and evaluated all of the necessary information, including the specific allocation of the state's 2019 bonding authority by MMB and the necessary issuer information, in order to make a fully informed decision regarding eligibility for 4% tax credits pursuant to Section 42 of the Internal Revenue Code and the 2019 QAP.

Minnesota Statutes Annotated
Public Debt; Local Government Aid (Ch. 474-477a)
Chapter 474A. Minnesota Bond Allocation Act

M.S.A. § 474A.22

474A.22. Fort Snelling national landmark redevelopment

Effective: May 31, 2018

Currentness

Subdivision 1. Fort Snelling bonding authority allocation. Notwithstanding any law, rule, or policy to the contrary, the commissioner shall reserve \$29,000,000 in bonding authority allocated under section 474A.03 to the Minnesota Housing Finance Agency and \$29,000,000 in bonding authority allocated under section 474A.03 to the small issue pool in 2019, and in 2020 if bonds are not permanently issued in 2019 subject to subdivision 3, for issuance of residential rental project bonds for purposes of the rehabilitation and renovation of the Fort Snelling Upper Post as a qualified residential rental project as provided in this section and section 474A.047. The qualified residential rental project shall be required to enter into a minimum 25-year agreement with the issuer to provide the applicable rental rates and incomes. Notwithstanding section 474A.091, subdivision 1, the amount reserved from the small issue pool in each year shall not be transferred to the unified pool but shall continue to be available under this section.

Subd. 2. Issuance; other issuer. Upon application by an eligible issuer on forms prescribed by the department and payment of the required application fee, the commissioner shall allocate the bonding authority under subdivision 1. An issuer receiving this allocation shall be authorized to act as the issuer regardless of its geographical area. In no event shall the bonds issued under this section be guaranteed as to payment by the state or the issuer. An issuer shall not be required to pay a refundable application deposit.

Subd. 3. Failure to permanently issue. In the event the bonds reserved or allocated under this section are not permanently issued by December 1, 2019, or December 1, 2020, as applicable, the bonding authority shall be reallocated to the Minnesota Housing Finance Agency for issuance for a qualified residential rental project.

Subd. 4. Low-income housing tax credits. The redevelopment of the Fort Snelling Upper Post shall be a strategic priority of the state and the Minnesota Housing Finance Agency. If the allocation of bonding authority under subdivision 2 makes the Fort Snelling Upper Post development preliminarily eligible for an allocation of low-income housing tax credits under section 42(h)(4) of the Internal Revenue Code of 1986, as amended, the Minnesota Housing Finance Agency shall promptly process any application or preapplication for low-income housing tax credits submitted under this subdivision pursuant to the qualified allocation plan and shall not require or impose additional criteria, requirements, regulations, or restrictions upon the Fort Snelling Upper Post project that would otherwise undermine the priorities of this section other than as required under section 42 of the Internal Revenue Code of 1986, as amended. The issuer of the bonds under this section and not the Minnesota Housing Finance Agency shall determine the financial feasibility and the reasonableness of the development costs for the project and the Minnesota Housing Finance Agency shall not include in its review of the project any per-unit cost limitations or other similar restrictions. The Minnesota Housing Finance Agency shall consider the legislature's determinations in evaluating the project and granting any requests or making any determinations related to the Fort Snelling Upper Post project to facilitate an allocation of low-income housing tax credits in light of the importance to the state of this unique and historic development.

Subd. 5. State historic structure rehabilitation tax credit. Notwithstanding the provisions of section 290.0681 or section 47(a)(2) of the Internal Revenue Code of 1986, as amended, to the extent the Fort Snelling Upper Post project qualifies for the credit as provided in section 290.0681, the amount of the credit shall be 100 percent of the credit allowed under section 47(a)(2) of the Internal Revenue Code of 1986, as amended, but shall be taken in full in the taxable year in which the qualified rehabilitation expenditures are placed in service for the Fort Snelling Upper Post project rather than ratably as described in section 47(a) of the Internal Revenue Code of 1986, as amended.

Credits

Laws 2018, c. 214, art. 3, § 2, eff. May 31, 2018.

Editors' Notes

EXPIRATION

<This section expires Dec. 31, 2020, pursuant to Laws 2018, c. 214, art. 3, § 2.>

M. S. A. § 474A.22, MN ST § 474A.22

Current with laws of the 2018 Regular Session. The statutes are subject to change as determined by the Minnesota Revisor of Statutes. (These changes will be incorporated later this year.)

**Fort Snelling - Upper Post Flats
Fort Snelling, MN
Source and Use Of Funds**

Units 176

Sources of Funds:

1st Mortgage
State Historic Tax Credit Equity
Federal Historic Tax Credit Equity
Low Income Housing Tax Credit Equity
Soft Funding
Developer Equity / Deferred Fee

Total Source of Funds

	Total	Per Unit
\$	22,350,000	\$ 126,989
	15,681,930	89,102
	16,820,841	95,573
	32,149,576	182,668
	1,120,000	6,364
	8,823,696	50,135
\$	96,946,042	\$ 550,830

Uses of Funds:

Acquisition Costs
Environmental Cleanup Costs
Construction Costs
Interest and Reserves during construction
Architect/Engineering/Consultant Fees
Financing Costs & Legal Fees
Title & Closing
Developer Fee

Total Use of Funds

	Total	Per Unit
\$	1,800,000	\$ 10,227
	-	-
	67,494,443	383,491
	8,963,657	50,930
	6,265,000	35,597
	2,909,801	16,533
	708,970	4,028
	8,804,171	50,024
\$	96,946,042	\$ 550,830

**Fort Snelling - Upper Post Flats
Fort Snelling, MN
Detailed Uses Of Funds**

Uses of Funds:

	Historic	Per Unit	LIHTC	Per Unit	Total	Per Unit
	\$	\$	\$	\$	\$	\$
Acquisition Costs	-	-	-	-	1,800,000	10,227
Environmental Cleanup Costs	-	-	-	-	-	-
Construction Costs	33,747,222	191,746	33,747,222	191,746	67,494,443	383,491
Interest and Reserves during construction	4,481,828	25,465	4,481,828	25,465	8,963,657	50,930
Architect/Engineering/Consultant Fees	4,698,750	26,697	1,566,250	8,899	6,265,000	35,597
Financing Costs & Legal Fees	1,454,900	8,266	1,454,900	8,266	2,909,801	16,533
Title & Closing	354,485	2,014	354,485	2,014	708,970	4,028
Developer Fee	4,402,086	25,012	4,402,086	25,012	8,804,171	50,024
Total Use of Funds	\$ 49,139,271	\$ 279,200	\$ 47,806,771	\$ 271,629	\$ 96,946,042	\$ 550,830

**Fort Snelling - Upper Post Flats
Fort Snelling, MN
Unique High Cost Drivers on Project**

<u>Unique High Cost Drivers</u>	<u>Total</u>	<u>Per Unit</u>
26 unique buildings (Construction and Design Added Costs)	\$ 6,303,586.77	\$ 35,815.83
Structural Enhancements	1,454,674	8,265
Additional 3rd Party Professionals	4,556,766	25,891
Historic Window Restoration	4,364,022	24,796
Masonry Restoration	5,818,695	33,061
Environmental Abatement	-	-
Infrastructure / Utility / Roadwork Improvements	1,454,674	8,265
Excessive Site Work / Improvements	1,454,674	8,265
Green / Sustainable Building Improvements (Geothermal, etc.)	1,939,565	11,020
HVAC Per Historic (Heatpumps)	1,745,609	9,918
Elevator and Accessibility Issues	1,454,674	8,265
Roof Replacements	1,260,717	7,163
Floor Replacements	1,939,565	11,020
Total Costs Unique to Historic Development	\$ 33,747,222	\$ 191,746

Item: Selections, Homeownership Education, Counseling and Training (HECAT) Fund

Staff Contact(s):

Que Vang, 651.296.7613, que.vang@state.mn.us

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

Request Type:

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

Summary of Request:

The Homeownership Education, Counseling and Training (HECAT) Fund provides yearly financial support for comprehensive homeownership training which may include education and counseling in a variety of areas, including in-person homeownership education and counseling (pre-purchase and financial wellness), home equity conversion counseling, and foreclosure prevention counseling.

Staff requests approval of the funding recommendations for participants in the HECAT program.

Fiscal Impact:

HECAT is funded by state appropriations, committed co-funder leverage, and Foreclosure Prevention Assistance Program (FPAP) repayments. HECAT awards are structured as grants and have no direct fiscal impact to the Agency.

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 and Discussion
- 2018-2019 HECAT Proposals Recommended for Approval

Background:

Minnesota Housing and its funding partners (Minnesota Homeownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund) accepted proposals under the HECAT program on May 22, 2018.

The HECAT application and selection process supports organizations wishing to expand existing activities, services and partnerships, while recognizing the importance of supporting established organizations providing continuity of service.

The funding process supports efforts toward establishing and coordinating a statewide partnership delivery model for the continuum of services needed to promote successful and sustainable homeownership and awards organizations that demonstrate strong experience, leveraging ability and targeting efforts in accordance with the Agency's program outreach goals and strategic direction.

Proposal Review and Selection Process

HECAT proposals submitted to Minnesota Housing must address a number of criteria as established by the Minnesota statute governing the program. Specifically, proposals are reviewed and recommended pursuant to the following criteria:

- The extent to which there is an equitable geographic distribution of funds among program applicants.
- The prior experience of the applicant in administering and delivering specified comprehensive homeownership training services.
- The reasonableness of the applicant's budget, including the applicant's ability to leverage other resources with program funds.
- The extent to which program services are targeted to low-income and/or households of color or Hispanic ethnicity.
- The credentials and/or certifications demonstrated by the applicant pertaining to the specific service(s) the applicant proposes to provide.

All proposals are initially reviewed and evaluated by both Minnesota Housing and Minnesota Homeownership Center staff. Proposals are presented to a selection committee, which score proposals pursuant to the criteria summarized above. The selection committee was comprised of staff from Minnesota Housing, the Minnesota Homeownership Center, the Greater Minnesota Housing Fund, and the Family Housing Fund.

In an effort to provide equitable funding allocations, a tiered outputs-based performance model is used which reviews applicant past performance in relation to the number of households served by HECAT providers. The tiered funding model allows for some flexibility in the recommended funding award levels within specified ranges, based on performance within the range and overall strength of a specific organization's proposal.

Discussion:**Recommended Selections**

The total amount of funding available for the 2018-2019 HECAT year is just over \$1.5 million with contributions of \$876,600 from Minnesota Housing and \$650,000 from the Minnesota Homeownership Center, the Greater Minnesota Housing Fund and the Family Housing Fund. With these funds, an

estimated 8,264 households will receive services under the HECAT grant. Thirty-five proposals were received this funding round requesting a combined maximum amount of just under \$2.1 million.

Seventy-six percent of the households-served goals are for homeownership counseling, homeownership education and financial wellness and 16 percent for foreclosure counseling. Eight percent of the households-served goals are allocated for home equity conversion mortgage counseling.

Final funding awards will be presented to awardees once the HECAT funding partners have obtained Board approvals next month. Awards are subject to a grantee agreement to meet performance and service area expectations as outlined in individual funding contracts.

2018 Outcomes and Selection Trends

All applicants are returning from the 2017 – 2018 program year. Staff will be recommending funding for thirty-four applicants and there is one non-recommended application from African Families Development Network (AFDN).

The proposals selected for funding this round provide a full spectrum of comprehensive homeownership training program services. Selected activities include: 1) foreclosure prevention counseling; 2) in-person homeownership education workshops in several languages; 3) individualized homeownership counseling and financial wellness services; and 4) home equity conversion counseling.

Foreclosure Prevention Counseling: The number of foreclosures affecting many areas of the state continues to heighten the awareness of foreclosure prevention counseling supported under HECAT. In 2017, HECAT grantees served a total of 1,367 households with 54 percent of those households in the Twin Cities Metro area and 45 percent of those households in Greater Minnesota. Seventy-three percent of those households avoided foreclosure.

While foreclosure most dramatically affects the borrower losing a home, neighborhoods impacted by concentrations of foreclosures are vulnerable to its social and economic costs, including increases in boarded, vacant houses and declining home prices. In light of this trend, 17 providers are being recommended to provide foreclosure counseling services to an estimated 1,305 households with HECAT funds.

Pre-purchase Education and Counseling: One of the best ways to prevent foreclosure is to assure that potential homeowners have access to information to enable success in the first place. Minnesota is recognized as having the best infrastructure for homeownership education and counseling in the country. In 2017, a total of 15,741 households received homeownership education and counseling services with 70 percent of those households in the Twin Cities Metro and 30 percent of those households in Greater Minnesota. Of the 15,741 that received services, 3,770 received classroom education, 9,627 completed the online version of homeownership education (Framework), and the remaining 2,344 received homeownership counseling. While the percentage is likely much higher, it's known that 18 percent of those households purchased a home with an average interest rate of 4.0 percent.

The selection committee is committed to sustaining this infrastructure, and recommends funding 29 organizations to provide homeownership education services to an estimated 3,616 households and homeownership counseling services to an estimated 1,636 households with HECAT funds.

Financial Wellness: Recognizing that some clients have significant barriers to homeownership and require more time to address their barriers, financial wellness services were added in the 2017 – 2018 program year as an eligible activity under HECAT. Clients who have no or few barriers to homeownership are served via homeownership counseling.

In the first year of providing financial wellness coaching services as a HECAT activity, 22 organizations are on track to service over 1,150 households by the end of the 2017 – 2018 program year. Recommended funding to provide financial wellness services will go to 24 organizations for an estimated 1,057 households for the 2018 – 2019 program year.

Home Equity Conversion Counseling (HECM): Home equity conversion loan options continue to grow slowly in acceptance. In 2017, 812 households received this service statewide. These loan programs, which require borrower counseling, are supported by three counseling organizations which will provide services to an estimated 650 households in the coming program year.

Households of Color and/or Hispanic Ethnicity: Although all organizations recommended for funding serve a broad range of households, the funding recommendation includes 12 organizations that provide services targeted to households of color and/or Hispanic ethnicity for in-person homeownership education and counseling services.

Request for Approval

Staff is hereby requesting board approval for the following organizations and their funding amount.

2018-2019 HECAT Proposals Recommended for Approval

Program Funding Recommendations

Organization	Region	Funding Amount
African Development Center	Statewide	\$ 53,000
African Economic Development Solutions	Metro	\$ 14,000
Anoka County Community Action Program Inc	Metro	\$ 45,000
Arrowhead Economic Opportunity Agency	Greater MN	\$ 42,000
Bii Gii Wiin Community Development Loan Fund	Metro	\$ 20,000
Carver County Community Development Agency	Metro	\$ 18,500
Central Minnesota Partnership, Inc	Greater MN	\$ 23,000
Community Action Duluth	Greater MN	\$ 36,500
Community Action Partnership of Hennepin County	Metro	\$ 80,000
Community NHS dba NeighborWorks Home Partners	Metro	\$ 101,000
Comunidades Latinas Unidas En Servicio (CLUES)	Metro	\$ 47,000
Dakota County Community Development Agency	Metro	\$ 60,000
Headwaters Regional Development Commission	Greater MN	\$ 15,500
Hmong American Partnership	Metro	\$ 26,000
HRA of the City of St Paul MN	Metro	\$ 17,000
KOOTASCA Community Action, Inc.	Greater MN	\$ 37,500
Lakes & Prairies Community Action Partnership, Inc.	Greater MN	\$ 19,500
Lutheran Social Service of Minnesota	Statewide	\$ 216,000
Minneapolis Urban League	Metro	\$ 36,500
Model Cities of St. Paul, Inc.	Metro	\$ 23,500
Neighborhood Development Alliance	Metro	\$ 87,500
Olmsted County HRA	Greater MN	\$ 28,500
One Roof Community Housing	Greater MN	\$ 65,000
PRG, Inc.	Metro	\$ 118,000
Project for Pride in Living (PPL)	Metro	\$ 21,500
Reverse Mortgage Counselors, Inc.	Statewide	\$ 25,000
Scott County Community Development Agency	Metro	\$ 36,500
Southwest Minnesota Housing Partnership	Greater MN	\$ 36,000
Three Rivers Community Action, Inc.	Greater MN	\$ 46,000
Twin Cities Habitat For Humanity	Metro	\$ 18,000
Washington County Community Development Agency	Metro	\$ 47,000
West Central Minnesota Communities Action Inc.	Greater MN	\$ 21,500
White Earth Investment Initiative	Greater MN	\$ 16,500
Wright County Community Action	Metro	\$ 28,000

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Item: Affordable Housing Plan (AHP) Amendment, Deferred Payment Loan (DPL) Program

Staff Contact(s):

Krissi Hoffmann, 651.297.3121, krissi.hoffmann@state.mn.us

Laura Bolstad, 651.296.6346, laura.bolstad@state.mn.us

Request Type:

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

Summary of Request:

Due to strong production, staff requests board approval for additional funding for the Deferred Payment Loan (DPL) Program.

Fiscal Impact:

The Agency earns income from our homeownership programs, earning a spread by financing the acquisition of the mortgage-backed securities through the issuance of bonds. The DPL Program supports Start Up first mortgage production, is funded out of Pool 3, and the loans carry a 0% interest rate. Increasing the funding available for this program will have no material impact on the Agency's financial condition.

Meeting Agency Priorities:

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

Attachment(s):

- Background
- Request Details

Background:

The home mortgage programs, which include Start Up and Step Up, provide home financing to first-time, repeat, and refinance borrowers. Production in 2017 was record-breaking with \$670 million in net commitments, and 2018 year-to-date production levels for these programs are 30% higher than in 2017. The down payment and closing cost loan programs support this first mortgage production. Subsequently, the demand for downpayment and closing cost loans has also increased.

DPLs are interest-free, deferred loans available to eligible first-time homebuyers using the Start Up loan program. DPL serves lower income borrowers than the Monthly Payment Loan (MPL) program. This program year, the average income for DPL borrowers is \$49,000. Increasing the amount available for this program will help approximately 66 additional first-time homebuyer households purchase a home.

Request Details:

Program	Source of Funds	Current AHP Amount	Source of Additional Funds	Total
DPL	<ul style="list-style-type: none"> • Appropriations, 2019 (\$885,000) • Repayments (\$3,500,000) • Housing Affordability Fund (Pool 3) (\$19,115,000) 	\$ 23,500,000	Multifamily Flexible Capital Account (\$500,000)	\$ 24,000,000



Board Agenda Item: 7.D

Date: 8/30/2018

Item: Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Morningside Townhomes, D3887, Saint Joseph

Staff Contact:

Caryn Polito, 651.297.3123, caryn.polito@state.mn.us

Request Type:

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

Summary of Request:

Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed \$818,000, subject to the review and approval of the mortgagor and the terms and conditions of Minnesota Housing's term letter.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. Additionally, this loan will generate fee income.

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(s):

- Background
- Development Summary
- Resolution
- Resolution Attachment

Background:

Morningside Townhomes is an existing, affordable development located in Saint Joseph. The property has 32 two and three-bedroom units in eight, two-story townhouse buildings. The property was built in 2006.

This transaction is the refinance of the Agency’s existing LMIR loan with a new LMIR loan. The new LMIR loan will pay off the old loan, lower the interest rate from 5.74 percent to 4.15 percent, and extend the term of the loan from a maturity date in 2036 to 2048. Also, capital improvements will be completed.

An existing Minnesota Housing Flexible Financing for Capital Costs (FFCC) deferred loan will be extended to be coterminous with the new first mortgage.

DEVELOPMENT SUMMARY:

Name:	Morningside Townhomes	D#:	3887
Address:	198 Iverson Street West	App#:	M20142
City:	Saint Joseph	County:	Stearns
		Region:	Central

MORTGAGOR:

Ownership Entity: St. Joseph Morningside, LLC
 General Partner/Principals: St. Joseph Morningside Investments, LLC / Sand Properties, Inc.

DEVELOPMENT TEAM:

Attorney: Peter Fuchsteiner
 Management Company: Sand Property Management, LLC

CURRENT FUNDING REQUEST/PROGRAM and TERMS:

\$818,000 LMIR First Mortgage
 Funding Source: Housing Investment Fund (Pool 2)
 Interest Rate: 4.15%
 MIP Rate: not applicable (no HUD risk share)
 Term (Years): 30
 Amortization (Years): 30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY
2 BR @ 60%	2	1,364	\$ 988	\$ 988	\$ 39,520
2 BR @ 60%	6	1,445	\$ 988	\$ 988	\$ 39,520
3 BR @ 60%	15	1,602	\$ 1,142	\$ 1,142	\$ 45,680
3 BR @ 60%	8	2,096	\$ 1,142	\$ 1,142	\$ 45,680
3 BR - caretaker	1	1,602	\$ 1,142	\$ 1,142	\$ 45,680
TOTAL	32				

Rent and Income Limits:

Under the LMIR loan, 13 units will be restricted to 60% of MTSP rent limits and incomes, up to eight units may have unrestricted incomes and 11 units will be income restricted at 100% of the greater of statewide median or area median.

Purpose:

Morningside Townhomes is an existing affordable development located in Saint Joseph. The property has 32 two and three-bedroom townhouses in eight buildings.

This transaction is the refinance and replacement of the Agency's existing LMIR loan with a new LMIR loan. The new LMIR loan will pay off the old loan, lower the interest rate from 5.74 percent to 4.15 percent, and extend the term of the loan from a maturity date in 2036 to 2048.

Population Served:

Under the current tax credit restrictions, 31 units will have incomes at or below 60% of MTSP, held harmless based on the tax credit Placed in Service date, and there is one caretaker unit.

Project Feasibility:

Development financing includes the \$818,000 LMIR loan. The existing Agency FFCC deferred loan will remain on the property, and the term will be extended to be coterminous with the new first mortgage.

Development Team Capacity:

Affiliates of Sand Companies are the existing property owner and the management company. There is no change in ownership in this transaction. The property has been in the Agency's first mortgage portfolio since it was built in 2006 and has performed well financially. Sand has the capacity to continue to own and manage this property successfully.

Sand owns approximately 34 multifamily properties.

Sand Property Management, LLC manages approximately 1,600 units of housing.

Physical and Technical Review:

The limited scope rehabilitation includes \$27,500 in capital improvements including parking lot and sidewalk repairs, and landscaping.

Sand Architects, LLC performed a capital needs assessment. The owner will complete critical improvements within 12 months of closing on the new LMIR loan. Additionally, a deposit of \$16,957 will be made to the property's replacement reserve account for future capital improvements.

Market Feasibility:

The property is conveniently located in Saint Joseph, nine miles west of Saint Cloud. Morningside Townhomes will continue to provide quality affordable rental housing, specifically large size units suitable for families. It is located in a residential neighborhood within close proximity to employment opportunities and amenities. The historical vacancy of the property has been between 1.6 percent and 5.4 percent over the last three years, averaging 4.1 percent. The loan is underwritten with a 5 percent vacancy rate.

DEVELOPMENT COST SUMMARY (estimated):	Total	Per Unit
Total Development Cost	\$ 818,000	\$ 25,563
Acquisition or Refinance Cost	\$ 728,293	\$ 22,759
Gross Construction Cost	\$ 27,500	\$ 859
Soft Costs	\$ 45,250	\$ 1,415
Deposit to Replacement Reserves	\$ 16,957	\$ 530
 Agency Loan Sources		
LMIR	\$ 818,000	\$ 25,563
 Total Agency Sources	 \$ 818,000	 \$ 25,563
 Non-Agency Sources		
Not applicable		

**MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102**

RESOLUTION NO. MHFA 18-XXX

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

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

Name of Development:	Morningside Townhomes (D3887)
Sponsors:	St. Joseph Morningside, LLC
Guarantors:	Sand Properties, Inc.
Location of Development:	Saint Joseph
Number of Units:	32
Amount of Refinance:	\$818,000
Amount of LMIR Mortgage: (not to exceed):	\$818,000

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

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed \$818,000; and
2. The interest rate on the permanent LMIR loan shall be 4.15 percent per annum (subject to change as set forth in the attached Agency term letter dated August 8, 2018) with monthly payments based on a 30-year amortization; and
3. The term of the permanent LMIR loan shall be 30 years; and
4. The LMIR loan closing shall occur on or before September 21, 2018; and
5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
7. Sand Properties, Inc. shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
8. The sponsor, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 30th day of August 2018

CHAIRMAN



400 Wabasha Street North, Suite 400
 St. Paul, MN 55102
 P: 800.657.3769
 F: 651.296.8139 | TTY: 651.297.2361
 www.mnhousing.gov

August 8, 2018

Mr. Jamie Thelen
 Sand Companies
 366 10th Avenue S
 Waite Park, MN 56387

RE: Term Letter
 Morningside Townhomes, St. Joseph
 D3887, M20142

Dear Mr. Thelen:

Minnesota Housing Finance Agency ("Minnesota Housing") staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the "Terms"). The Terms are subject to Minnesota Housing's Board of Directors' approval and meeting all underwriting standards, delivery of required due diligence, satisfactory loan documentation, and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: St. Joseph Morningside, LLC

General Partner(s) St. Joseph Morningside Investments, LLC
Managing Member(s): Sand Properties, Inc.

Development Refinance and limited rehabilitation of a 32-unit affordable
Description/Purpose: development located in St. Joseph, Minnesota

Minnesota Housing Loan Type/Terms

Program:	Low and Moderate Income Rental Program (LMIR)
Loan Amount:	\$818,000
Interest Rate	* 4.15%
Mortgage Insurance Premium (%):	Not applicable
Term:	30
Amortization/Repayment:	30
Prepayment Provision:	No prepayment first 10 years from date of the Note.
Nonrecourse or Recourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End

Lien Priority:	First
-----------------------	-------

*Subject to change. Loan closing must occur by August 31, 2018 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion [TS1]

Origination Fee: LMIR Loan: \$25,000
(payable at the earlier of loan commitment or loan closing)

Inspection Fee: Not applicable

Guaranty/Guarantor(s): Operations Guaranty to be provided by: Sand Properties, Inc.

Operating Deficit Reserve Account: Not applicable

Operating Cost Reserve Account: Not applicable

Replacement Reserve Account: Capitalized replacement reserve in the amount of \$16,957 funded at loan closing. A replacement reserve will be required in the amount of \$450/unit/annum. The monthly replacement reserve will be \$1,200. The replacement reserve will be held by Minnesota Housing.

Escrows: Real estate tax escrow and property insurance escrow to be established at time of permanent loan closing and held by Minnesota Housing.

Collateral/Security: Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.

- HAP or other Subsidy Agreement:** Not applicable
- Rent and Income Requirements:** **LMIR Rent and Income Limits**
13 units at or below 60% MTSP Rents & Incomes, held harmless based on the tax credit Placed in Service date
- 11 units with income restrictions at 100% of the great of State or Area Median Income (not adjusted for household size). Rents for these units at market (as determined by Minnesota Housing).
- Commitment to 30 years of affordability from the date of loan closing.
- Other Occupancy Requirements:** Not applicable
- Other Requirements:** Not applicable
- Closing Costs:** Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
- Expiration Date:** The Terms will expire six months from the date of this letter.
- Additional Terms:** Not applicable
- Other Conditions:** Not applicable
- Board Approval:** Commitment of all loans under the LMIR program is subject to Minnesota Housing's Board approval and adoption of a resolution authorizing the commitment of the loan.
- Not a Binding Contract:** This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Allison Ehlert at Allison.Ehlert@state.mn.us on or before August 15, 2018.

If you have any questions related to this letter, please contact Caryn Polito at 651-297-3123 or by e-mail at caryn.polito@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

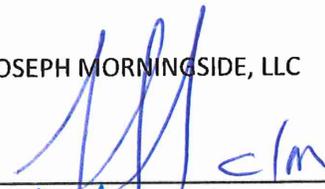
Sincerely,



Wesley J. Butler
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

ST. JOSEPH MORNINGSIDE, LLC

By:  c/m

Its: Chief mgr. of managing Member

Date Accepted: 8/9/18



Board Agenda Item: 7.E

Date: 8/30/2018

Item: Approval, Selection and Commitment, Low and Moderate Income Rental Loan (LMIR)
 - Cedarview Commons, D3589, North Saint Paul

Staff Contact:

Caryn Polito, 651.297.3123, caryn.polito@state.mn.us

Request Type:

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

Summary of Request:

Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed \$11,108,000, subject to the review and approval of the mortgagor and the terms and conditions of Minnesota Housing's term letter.

Fiscal Impact:

LMIR loans are funded from Housing Investment Fund Pool 2 resources, and as such, Minnesota Housing will earn interest income on the loan without incurring financing expenses. Additionally, this loan will generate fee income.

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(s):

- Background
- Development Summary
- Resolution
- Resolution Attachment

Background:

Cedarview Commons is an existing, affordable development located in North Saint Paul. The property has 204 one, two, and three-bedroom units in twelve, walk-up style buildings. The property was built in 1964.

This transaction is the refinance of the Agency's existing LMIR loan with a new HUD risk-share LMIR loan. The new LMIR loan will pay off the old loan as well as the Agency Limited Partner Buyout loan, lower the interest rate from 5.18 percent to 4.15 percent, and extend the term of the loan from a maturity date in 2025 to 2048.

Existing Minnesota Housing Ending Long-term Homelessness Initiative Fund (ELHIF) and Flexible Financing for Capital Costs (FFCC) deferred loans will both be terminated and re-issued as FFCC loans and will be coterminous with the new first mortgage. The owner will pay \$300,000 towards the existing FFCC loan balance at closing and will make annual interest-only payments going forward on this FFCC loan.

The refinance will allow the property to complete many needed capital improvements within the next twelve months as well as funding replacement reserves to cover capital improvements that will be needed over the next ten years.

DEVELOPMENT SUMMARY:

Name:	Cedarview Commons	D#:	3589
Address:	2055 Highway 36	App#:	M20143
City:	North Saint Paul	County:	Ramsey
		Region:	Metro

MORTGAGOR:

Ownership Entity:	Cedarview Commons Limited Partnership
General Partner/Principals:	Cedarview Commons, LLC / Colleen Carey

DEVELOPMENT TEAM:

Attorney:	Winthrop & Weinstine
Management Company:	TCG Management, LLC

CURRENT FUNDING REQUEST/PROGRAM and TERMS:

\$11,108,000	LMIR First Mortgage	
	Funding Source:	Housing Investment Fund (Pool 2)
	Interest Rate:	4.15%
	MIP Rate:	0.125%
	Term (Years):	30
	Amortization (Years):	30

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORDABILITY
1 BR @ 60%	46	610	\$ 762	\$ 1,062	\$ 30,480
1 BR @ 60%	46	728	\$ 855	\$ 1,062	\$ 34,200
2 BR @ 60%	58	894	\$ 987	\$ 1,273	\$ 39,480
3 BR @ 60%	40	1,028	\$ 1,224	\$ 1,471	\$ 48,960
1 BR – LTH*	6	610	\$ 762	\$ 1,062	\$ 30,480
2 BR – LTH*	8	894	\$ 987	\$ 1,273	\$ 39,480
TOTAL	204				

*Residents in Long-term Homeless (LTH) units pay 30 percent of their income toward rent via a Housing Trust Fund (HTF) rental assistance contract between Minnesota Housing and service provider, Lutheran Social Service of Minnesota.

Rent and Income Limits:

Under the LMIR loan, 82 units will be restricted to 60% of MTSP rent limits and incomes, up to 51 units may have unrestricted incomes and 71 units will be income restricted at 100% of the greater of statewide median or area median.

Purpose:

Cedarview Commons is an existing affordable development located in North Saint Paul. The property has 204 one, two, and three-bedroom units in twelve buildings.

This transaction is the refinance and replacement of the Agency’s existing LMIR loan with a new HUD risk-share LMIR loan. The new LMIR loan will pay off the old loan as well as the Agency Limited Partner Buyout loan, lower the interest rate from 5.18 percent to 4.15 percent, and extend the term of the loan from a maturity date in 2025 to 2048.

Population Served:

Under the current tax credit restrictions, 190 units will have incomes at or below 60% of MTSP and 14 units will have incomes at or below 30% of metro median. Fourteen units serve persons who have experienced Long-term Homelessness (LTH). The 14 LTH units have a Housing Trust Fund (HTF) rental assistance contract between Minnesota Housing and service provider, Lutheran Social Service of Minnesota.

Project Feasibility:

Development financing includes the \$11,108,000 LMIR loan. The existing ELHIF and FFCC deferred loans will be terminated and re-issued as new FFCC loans and will be coterminous with the new first mortgage. The owner will pay \$300,000 towards the outstanding FFCC loan balance at closing and will begin annual interest-only payments on the FFCC loan going forward. The development also has an existing Community Development Block Grant (CDBG) loan with Ramsey County that will be extended to be coterminous with the new first mortgage.

Development Team Capacity:

There is no change in ownership or the management company with this transaction. The sponsor is The Cornerstone Group and the management company is TCG Management, LLC. Affiliates of The Cornerstone

Group currently own 668 units in eight properties. TCG Management manages all 668 units. The Cornerstone Group has two other properties within Minnesota Housing's first mortgage portfolio.

The property has been in the Agency's first mortgage portfolio since 2008 and has performed well financially. The Cornerstone Group has the capacity to continue successful ownership of the property.

Physical and Technical Review:

The limited scope rehabilitation includes approximately \$654,000 in capital improvements including site work, replacement of tub surrounds, replacement of kitchen and bathroom cabinets and countertops, water intrusion repairs and sealing, and replacement of the keyless entry system at each building entry.

Architect Cermak Rhoades performed a capital needs assessment. The owner will complete critical improvements within 12 months of closing on the new LMIR loan. Additionally, a deposit of \$801,000 will be made to the property's replacement reserve account to cover capital improvements needed over the next 10 years.

Market Feasibility:

The property is conveniently located in North Saint Paul, eight miles from downtown Saint Paul and fourteen miles from downtown Minneapolis. The surrounding neighborhood is a mix of residential and commercial properties. The development serves an important policy goal of addressing permanent supportive housing through its 14 LTH units. Services are provided by Lutheran Social Services at the site. Cedarview Commons will continue to provide quality affordable rental housing, including some larger size units suitable for families. The historical vacancy of the property has been between 1.5 percent and 2.0 percent over the last three years, averaging 1.8 percent. The loan is underwritten with a 5 percent vacancy rate.

DEVELOPMENT COST SUMMARY	Total	Per Unit
(estimated):		
Total Development Cost	\$ 11,108,000	\$ 54,451
Acquisition or Refinance Cost	\$ 9,388,895	\$ 46,024
Gross Construction Cost	\$ 654,280	\$ 3,207
Soft Costs	\$ 263,825	\$ 1,294
Agency Loan Sources		
LMIR	\$ 11,108,000	\$ 54,451
Total Agency Sources	\$ 11,108,000	\$ 54,451
Non-Agency Sources		
Not applicable		

MINNESOTA HOUSING FINANCE AGENCY
400 Wabasha Street North, Suite 400
St. Paul, Minnesota 55102

RESOLUTION NO. MHFA 18-XXX

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

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

Name of Development:	Cedarview Commons
Sponsors:	Cedarview Commons Limited Partnership
Guarantors:	Colleen Carey
Location of Development:	North Saint Paul
Number of Units:	204
Amount of Refinance:	\$11,108,000
Amount of LMIR Mortgage: (not to exceed):	\$11,108,000

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

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

NOW THEREFORE, BE IT RESOLVED:

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

1. The amount of the LMIR amortizing loan shall not exceed \$11,108,000; and
2. The interest rate on the permanent LMIR loan shall be 4.15 percent per annum (subject to change as set forth in the attached Agency term letter dated August 22, 2018) plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 30-year amortization; and
3. The term of the permanent LMIR loan shall be 30 years; and
4. The LMIR loan closing shall occur on or before November 8, 2018; and
5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and
7. Colleen Carey shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and
8. The sponsor, the mortgagor, and such other parties as Agency staff in its sole discretion deem necessary, shall execute all such documents relating to said loan, to the security therefore, and to the operation of the development, as Agency staff in its sole discretion deem necessary.

Adopted this 30th day of August 2018

CHAIRMAN

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August 22, 2018

Ms. Colleen Carey
 The Cornerstone Group
 2213 W. 54th Street
 Minneapolis, MN 55419

RE: Term Letter
 Cedarview Commons, North Saint Paul
 D3589, M20143

Dear Ms. Carey:

Minnesota Housing Finance Agency (“Minnesota Housing”) staff has approved your request for a loan or loans subject to the terms and conditions contained in this letter (the “Terms”). The Terms are subject to Minnesota Housing’s Board of Directors’ approval and meeting all underwriting standards, delivery of required due diligence, satisfactory loan documentation, and other loan closing requirements. The Terms do not constitute a commitment to lend on the part of Minnesota Housing and relate only to the specific financing referenced in this letter.

Borrower: A single asset entity: Cedarview Commons Limited Partnership

General Partner(s) Cedarview Commons, LLC
Managing Member(s): Colleen Carey

Development Description/Purpose: Refinance and limited rehabilitation of a 204-unit affordable housing development located in North Saint Paul, Minnesota

Minnesota Housing Loan Type/Terms

Program:	Low and Moderate Income Rental Program (LMIR) (HUD Risk Share)
Loan Amount:	\$11,108,000
Interest Rate	* 4.15%
Mortgage Insurance Premium (%):	0.125% <i>(1st year premium is paid in advance)</i>
Term:	30
Amortization/Repayment:	30
Prepayment Provision:	No prepayment first 10 years from date of the Note.
Nonrecourse or Recourse	Nonrecourse
Construction/Permanent Loan or Construction Bridge Loan or End Loan	End
Lien Priority:	First

*Subject to change. Loan closing must occur by November 1, 2018 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion

Origination Fee:	LMIR HUD Risk Share Loan: \$161,080 (payable at loan closing)
Inspection Fee:	Not applicable
Guaranty/Guarantor(s):	Operations Guaranty to be provided by: Colleen Carey
Operating Deficit Reserve Account:	Not applicable
Operating Cost Reserve Account:	Not applicable
Rehab Escrow Account:	Capitalized rehab escrow in the amount of \$654,280 funded at loan closing.
Replacement Reserve Account:	Capitalized replacement reserve in the amount of \$801,000 funded at loan closing. A replacement reserve will be required in the amount of \$500/unit/annum. The monthly replacement reserve will be \$8,500. The replacement reserve will be held by Minnesota Housing.
Escrows:	Real estate tax escrow and property insurance escrow to be established at time of permanent loan closing and held by Minnesota Housing.
Collateral/Security:	Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment.
HAP or other Subsidy Agreement:	Not applicable
Rent and Income Requirements:	<p>LMIR Rent and Income Limits 82 units at or below 60% MTSP Rents & Incomes.</p> <p>71 units with income restrictions at 100% of the greater of state or Area Median Income (not adjusted for household size). Rents for these units at market (as determined by Minnesota Housing).</p> <p>Commitment to 30 years of affordability from the date of loan closing.</p>
Other Occupancy Requirements:	Not applicable

- Other Requirements:** Not applicable
- Closing Costs:** Borrower agrees to pay all closing costs related to the specific financing referenced in this letter.
- Expiration Date:** The Terms will expire six months from the date of this letter.
- Additional Terms:** Not applicable
- Other Conditions:** Approval is contingent upon the Agency-ordered appraisal having a restricted value of not less than \$12,767,816.
- Board Approval:** Commitment of all loans under the LMIR program is subject to Minnesota Housing’s Board approval and adoption of a resolution authorizing the commitment of the loan.
- Not a Binding Contract:** This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower’s ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter.

Please sign this letter and return it to Allison Ehlert at allison.ehlert@state.mn.us on or before August 29, 2018.

If you have any questions related to this letter, please contact Caryn Polito at 651.297.3123 or by e-mail at caryn.polito@state.mn.us.

We appreciate the opportunity to work with you on your affordable housing development.

Sincerely,

Wesley J. Butler
Assistant Commissioner, Multifamily

AGREED AND ACCEPTED BY:

CEDARVIEW COMMONS LIMITED PARTNERSHIP

By: _____

Its: _____

Date Accepted: _____

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Board Agenda Item: 7.F
Date: 8/30/2018

Item: Resolution authorizing the issuance and sale of Rental Housing Bonds, 2018 Series B, for a multi-family housing development in Detroit Lakes, Minnesota (Apex Townhomes)

Staff Contact(s):

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

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

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

Request Type:

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

Summary of Request:

Staff is requesting authorization to issue short-term fixed rate tax-exempt bonds under the existing Rental Housing bond resolution. The bonds will be issued in an amount not to exceed \$3,520,000, and will be used to acquire and finance the construction of a 30-unit rental housing development located in Detroit Lakes, Minnesota.

Fiscal Impact:

The Agency will earn an interest spread while these bonds are outstanding, and will also receive certain fee income as part of the closing of the bridge loan financed with these bond proceeds. In addition, the Agency will receive additional interest earnings and certain fee income in conjunction with providing a long-term end loan as part of the permanent financing for 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

NEW ISSUERatings: 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.

**\$3,520,000*****MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2018 Series B (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, 2019.*

Denominations

\$5,000 or any integral multiple thereof.

Closing/Settlement

On or about October __, 2018* 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 E 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 __, 2018.

* Preliminary; subject to change.

MATURITY, PRINCIPAL AMOUNT, INTEREST RATE AND PRICE*

\$3,520,000* 2018 Series B Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP**</u>
August 1, 2020*	\$3,520,000*	____%	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
\$3,520,000***

MINNESOTA HOUSING FINANCE AGENCY Rental Housing Bonds, 2018 Series B (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, 2018 Series B (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 _____, 2018 (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 \$[36,420,000] as of [August 31], 2018, 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 Detroit Lakes, 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

Damaris Hollingsworth, Member – Term expires January, 2022, Minneapolis, Minnesota – Architect

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

Craig Klausning, 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

Staff

The staff of the Agency presently consists of approximately 250 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 human resources, 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 is a member of the Citizens League, the Urban Land Institute and the Minnesota Chapter of National Association of Housing and Redevelopment Officials. 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 Wabasha Street North, St. Paul, Minnesota 55102, 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, 2018, 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, 2018. 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, 2018 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 reported at June 30, 2018 with respect to MSRS is \$[76.077] million.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix C 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 ending June 30, 2019, 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 C — 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 C — 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 \$[767.91] million, representing the combined net position of these funds so calculated as of June 30, 2018. 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, 2018 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 (in thousands):

	Fiscal Year Ended <u>June 30, 2018</u>	Fiscal Year Ended <u>June 30, 2017</u>
Revenues		
Fees earned and other income ⁽¹⁾	\$	\$11,077
Interest earned on investments		254
Unrealized gain (loss) on investments	--	--
Administrative reimbursement ^{(2), (3)}		<u>22,482</u>
Total revenues		33,813
Expenses		
Salaries and benefits		36,311
Other general operating expenses		<u>7,690</u>
Total expenses		44,001
Revenues over expenses	()	(10,188)
Non-operating transfer of assets between funds ⁽⁴⁾		9,624
Change in net position	()	(564)
Net position beginning of period		<u>14,280</u>
Net position end of period	<u>\$</u>	<u>\$13,716</u>

(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.

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, 2015 and 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 [August 31], 2018 [TO BE UPDATED]:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds.....	9	2049	\$ 41,880	\$ 36,420
Residential Housing Finance Bonds.....	38	2048	1,755,580	1,185,095
Homeownership Finance Bonds.....	46	2048	2,011,064	1,415,873
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	13,720
Totals.....	94		\$3,823,524	\$2,651,108

*Does not include series of bonds or the original principal amount of any bonds that had been, as of [August 31], 2018, 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 \$255,000,000. The Agency has issued 11 series of its State Appropriation Bonds (Housing Infrastructure) in 2013 through 2017 in an aggregate principal amount of \$129,980,000 under a separate indenture of trust.

On June 1, 2018, the Agency issued its Note (the “Bank Note”) to Royal Bank of Canada, pursuant to a Revolving Credit Agreement dated as of June 1, 2018 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 “Single Family Housing Bonds”). Funds representing prepayments and repayments of mortgage loans financed with Single Family Housing Bonds, and other amounts available under the applicable bond resolution for the payment of those Single Family Housing Bonds, will be deposited into a cash collateral fund established under a separate amended and restated indenture of trust as security for the repayment of the principal amount of the Bank Note that has been advanced to the Agency. The amount of the advances outstanding and not repaid with respect to the Bank Note may not exceed \$80,000,000 at any time and the cumulative amount of the advances made may not exceed \$200,000,000. The obligation of the Agency to pay the interest on, but not the principal of, the Bank Note is a general obligation of the Agency. The Agency has requested advances in the aggregate principal amount of \$[35,159,152], \$[10,639,152] of which is outstanding.

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 Apex Townhomes, will be a five building, two-story rental development to be located in Detroit Lakes, Minnesota. The Development will have 30 residential units. The total development cost is estimated to be approximately \$7.1 million. The Development is expected to be completed by March 31, 2020. The Development will be acquired and constructed by DL Housing, LLLP, a Minnesota limited liability limited partnership, or another entity affiliated with D.W. Jones, Inc. of Walker, 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 on the date of issuance of the Series Bonds. The bridge Mortgage Loan, in the principal amount of \$3.52 million,* will mature in full on July 1, 2020.* 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 approximately \$1.39 million, a portion of two deferred repayment loans from the Agency with respect to the Development in the aggregate principal amount of approximately \$3.76 million 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 each of Ronald A. Duchesneau, Jr, D.W. Jones, Inc., Gary Schander and Premiere Alliance Inc.

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 provided by the Detroit Lakes Housing and Redevelopment Authority, with a 40-year term, covering four of the dwelling units, which will be reserved for high priority homeless households targeted to families with children.

*Preliminary, subject to change.

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:

<i>Sources:</i>	
Principal Amount of Series Bonds	\$3,520,000*
Funds Available to the Agency.....	_____
Total Sources of Funds.....	<u>\$_____</u>
<i>Uses:</i>	
Series A Mortgage Loan Account	\$3,520,000*
Revenue Fund	_____
Costs of Issuance	_____
Total Uses of Funds	<u>\$_____</u>

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, 2019,* 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 E – “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 D) 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, 2020,* 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 D 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 June 30, 2018 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 D – "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 June 30, 2018 for the programs as listed above:

Rental Housing Program Mortgage Loan Program Summary as of June 30, 2018

Program	<u>Number of Loans</u>	<u>Number of Units</u>	<u>Outstanding Loan Amount</u>	<u>Percentage of Total Amount</u>
Section 8 Housing Assistance Payments Program	54	2,844	\$ 41,953,412	29.06%
Apartment Renovation Mortgage Program	3	128	306,755	0.21
Low and Moderate Income Rental Program **	39	3,188	100,259,567	69.43
Market Rate Mortgage Loan Program ...	4	216	1,877,950	1.30
Section 236 Interest Reduction Payments Program.....	<u>1</u>	<u>27</u>	<u>12</u>	<u>0.00</u>
	<u>101</u>	<u>6,403</u>	<u>\$144,397,696</u>	<u>100.00%</u>

*Includes 10 HUD Risk-Sharing loans for Developments with 967 aggregate units and an aggregate outstanding loan amount of \$29,265,041.

**Includes 22 HUD Risk-Sharing loans for Developments with 2,113 aggregate units and an aggregate outstanding loan amount of \$58,941,965 and four bridge mortgage loans for Developments with 132 units and an aggregate outstanding loan amount of \$14,675,000.

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, 2018. 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 issued two draft Request for Funding Proposals (“RFPs”) that encapsulated the work conducted under the PBCA program in late 2017. The draft RFPs contemplated significant program changes, including dividing the work between a national contract and multiple regional contractors. In March of 2018, HUD cancelled the RFPs in light of the extensive comments that were submitted regarding the drafts. The cancellation notices indicate that HUD plans to undertake additional due diligence and expects to issue new RFPs at some point in the future. It is unclear when HUD may issue any more RFPs related to the work conducted under the PBCA program. Depending on the form and content of any RFPs, there may be bid protests and litigation with respect to the RFPs and any new awards of the PBCA contracts that result from the RFPs. 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 any subsequent RFPs, what the terms of those RFPs 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 corporations’ calculations of 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 F.

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 F 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 C 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

_____, 2018.

By _____
Commissioner

APPENDIX A

**DESCRIPTION OF OUTSTANDING MORTGAGE LOANS AND DEVELOPMENTS
PREVIOUSLY FINANCED 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 JUNE 30, 2018

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

Development Name	Location	Mortgage Loan		Outstanding Mortgage Loan		Undisbursed Mortgage Amount		Development Reserves (2)		Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
		Interest Rate	Balance (1)	Balance (1)	Mortgage Amount	Reserves (2)	Reserves (2)							
BOARDWALK	Wayzata	6.50	\$ 205,032	\$ -	\$ -	212,745	212,745	12/01/19	HAP	10/22/18	77	77		
BOSSEN PARK APTS	Minneapolis	6.68	1,751,901	-	-	207,810	207,810	02/01/30	LMIR/HR	N/A	0	110		
CASCADE	Fergus Falls	0.00	31,443	-	-	178,683	178,683	01/01/19	HAP	05/31/38	36	36		
CASCADE	Fergus Falls	0.00	130,179	-	-	See above	See above	12/01/21	HAP/AMP	See above	See above	See above		
COLONY APTS	North Mankato	6.30	1,005,681	-	-	457,818	457,818	05/01/30	LMIR/HR	N/A	0	120		
CONCORDIA ARMS	Maplewood	5.75	3,561,172	-	-	811,424	811,424	07/01/49	LMIR/HR/HAP	12/31/32	125	125		
COUNTRYSIDE T.H.	Fairmont	6.50	202,646	-	-	343,017	343,017	12/01/19	HAP	09/21/18	71	71		
DOVER HILL	Golden Valley	6.07	6,503,597	-	-	1,031,174	1,031,174	03/01/41	LMIR/HR	N/A	0	234		
DUBLIN CROSSING	Mankato	2.20	5,750,000	-	-	-	-	07/01/19	LMIR/BRIDGE	(5)	15	50		
EASTGATE	Montevideo	0.00	262,293	-	-	143,367	143,367	09/01/21	HAP	07/31/20	46	46		
FIFTEEN HUND PERKINS	Windom	0.00	219,309	-	-	303,020	303,020	03/01/21	HAP	11/27/19	48	48		
GARDEN COURT	Winnebago	0.00	24,575	-	-	140,604	140,604	01/01/19	HAP	09/30/36	36	36		
GENEVA VILLAGE	Oakdale	7.21	2,535,555	-	-	292,180	292,180	01/01/28	LMIR	N/A	0	175		
GRAHEK APTS.	Ely	7.25	121,855	-	-	201,940	201,940	11/01/19	HAP	03/29/19	42	42		
GREYSON PLAZA	Duluth	6.50	5,673,060	-	-	1,823,345	1,823,345	05/01/47	HAP/HR	11/25/20	150	150		
HEIGHTS MANOR	Columbia Heights	6.50	199,457	-	-	556,943	556,943	12/01/19	HAP	09/30/21	85	85		
HILLSIDE HOMES	Spring Valley	2.00	133,769	-	-	87,531	87,531	12/01/21	HAP	12/13/18	37	37		
HILLSIDE TERRACE	Long Lake	6.72	1,488,658	-	-	282,232	282,232	08/01/34	LMIR/HR	01/15/31	44	44		
HOMESTEAD APTS	Mankato	7.55	931,584	-	-	71,048	71,048	05/01/30	LMIR/HR	N/A	0	120		
JACKSON PLACE	Elk River	5.63	904,348	-	-	122,624	122,624	04/01/38	LMIR	N/A	0	32		
KENTUCKY LANE	Crystal	5.00	1,964,319	-	-	152,568	152,568	12/01/31	LMIR/HR	N/A	0	67		
LAKE CRYSTAL	Lake Crystal	7.25	268,222	-	-	444,408	444,408	03/01/21	HAP	06/12/19	43	43		
LARSON COMMONS	Cloquet	6.52	2,203,229	-	-	782,689	782,689	06/01/37	HAP/HR	03/06/20	85	85		
LORING TOWERS APARTMENTS (3)	Minneapolis	6.14	5,701,873	-	-	634,283	634,283	04/01/35	LMIR/HR	12/31/32	187	230		
LYNDALE GREEN	Minneapolis	6.05	3,184,020	-	-	314,969	314,969	03/01/52	LMIR/HR	N/A	0	63		
MAIN STREET FLATS	Cambridge	2.95	3,110,000	-	2,234,838	-	-	01/01/20	LMIR/BRIDGE	N/A	0	28		
MANITOU RIDGE (3)	White Bear Lake	6.63	2,611,348	-	-	194,830	194,830	03/01/33	LMIR/HR	N/A	0	118		
MAPLE RIDGE MANOR	Alexandria	0.00	153,657	-	-	226,088	226,088	11/01/20	HAP	07/31/21	40	40		
MAPLE RIDGE MANOR	Alexandria	0.00	460,000	-	-	See above	See above	12/31/21	HAP/AMP	See above	See above	See above		
MARSHALL SQUARE APTS	Marshall	6.45	1,296,008	-	-	128,708	128,708	02/01/36	LMIR/HR/HAP	08/24/25	90	90		
MATTHEWS PARK	Minneapolis	0.00	81,246	-	-	383,225	383,225	12/01/21	HAP	10/31/36	24	24		
MILL POND VIEW	Pelican Rapids	7.25	334,319	-	-	607,802	607,802	09/01/20	HAP	09/20/19	66	66		
MILLIE BENEKE	Glencoe	0.00	52,683	-	-	115,132	115,132	08/01/19	HAP	08/06/18	41	41		
MOWER COUNTY	LeRoy	6.50	130,154	-	-	715,125	715,125	10/01/20	HAP	06/30/19	30	30		

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

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 JUNE 30, 2018

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

Development Name	Location	Mortgage Loan		Outstanding Mortgage Loan		Undisbursed Mortgage Amount	Development Reserves (2)	Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
		Interest Rate	Balance (1)	Balance (1)	Reserves (2)							
MUNGER TERRACE	Duluth	0.00 %	\$ 263,957	\$ -	\$ 342,676	12/01/21	HAP	05/31/37	See above	45	45	
MUNGER TERRACE	Duluth	0.00	177,516	-	See above	12/01/21	HAP	See above	See above	See above	See above	
MYSIA HOUSE	Mora	2.35	2,250,000	1,001,818	-	07/01/19	LMIR/BRIDGE	(5)	See above	12	24	
NORTH 44th fka TODD 27	Long Prairie	2.00	241,944	-	181,184	12/01/21	HAP	06/25/20	See above	44	44	
NORTH MORA	Mora	0.00	164,240	-	26,892	05/01/21	HAP	12/06/19	See above	35	35	
NORTH STAR	Roseau	7.25	176,188	-	361,322	02/01/20	HAP	05/13/19	See above	51	51	
NORTHWOOD COMMONS	Baudette	0.00	36,280	-	71,493	05/01/19	HAP	12/18/18	See above	32	32	
OAKWOOD HOMES	Karlstad	7.25	87,378	-	85,495	12/01/21	HAP	03/12/20	See above	45	45	
OAKWOOD HOMES	Karlstad	0.00	168,014	-	See above	12/01/21	HAP	See above	See above	See above	See above	
OKABENA	Worthington	7.25	121,996	-	213,119	07/01/19	HAP	11/29/18	See above	60	60	
PENNEL PARK APARTMENTS	Duluth	6.20	2,319,786	-	561,676	07/01/35	LMIR/HR	05/31/24	See above	100	101	
PRINCETON	Princeton	7.25	176,289	-	437,723	04/01/20	HAP	04/11/19	See above	48	48	
RIVERSIDE MANOR	Dawson	0.00	90,982	-	142,902	09/01/20	HAP	11/30/19	See above	24	24	
RIVERTOWN COMMONS	Stillwater	6.15	2,942,976	-	196,923	03/01/38	LMIR/HR	04/02/20	See above	96	96	
ROCHESTER SQUARE APTS	Rochester	5.75	1,926,004	-	331,531	07/01/44	LMIR/HR/HAP	02/17/34	See above	95	104	
ROSEMOUNT TOWNHOUSES	Rosemount	1.00	164,960	-	72,721	10/01/21	LMIR/HAP	01/31/28	See above	28	28	
SOLACE APARTMENTS	St. Peter	3.23	3,565,000	3,565,000	-	07/01/19	LMIR/BRIDGE	(5)	See above	29	30	
SOUTHVIEW TERRACE	Hibbing	2.00	435,800	-	559,115	12/01/21	HAP	11/30/36	See above	43	145	
SUNRISE ESTATES	Jackson	0.00	340,000	-	167,245	01/01/22	HAP/AMP	01/01/22	See above	40	40	
THE CROSSROADS fka SOUTH PARK MANOR	Dodge Center	0.00	257,960	-	81,810	05/01/22	HAP	10/31/37	See above	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	See above	
THIRTYONE HUND FOURTH AVENUE	Minneapolis	7.50	50,711	-	13,415	01/01/24	LMIR	N/A	See above	0	10	
TOWN SQUARE	East Grand Forks	2.00	570,988	-	450,011	12/01/21	HAP	10/08/19	See above	81	81	
VADNAIS HIGHLANDS	Vadnais Heights	6.60	1,353,187	-	115,435	03/01/34	LMIR/HR/HAP	07/31/23	See above	35	35	
VALLEY VIEW MANOR	Ada	6.50	47,632	-	303,632	04/01/19	HAP	06/30/23	See above	40	40	
VALLEYVIEW COMMONS	Mahnomen	0.00	32,889	-	189,812	04/01/19	HAP	10/12/18	See above	32	32	
VICTORY APTS fka MERIDIAN APTS	Duluth	0.00	154,648	-	326,363	12/01/21	HAP	06/30/38	See above	39	39	
WARROAD	Warroad	0.00	181,064	-	11,878	12/01/21	HAP	12/17/20	See above	30	30	
WESTGATE-HIBBING	Hibbing	0.00	1,200,346	-	12,706	08/01/18	HAP	01/31/37	See above	30	100	
WHISPERING PINES	Caledonia	0.00	63,418	-	27,141	09/01/19	HAP	12/13/18	See above	37	37	
WHITTIER COOP	Minneapolis	0.00	221,238	-	489,320	12/01/21	HAP	09/14/30	See above	45	45	
WHITTIER COOP	Minneapolis	0.00	944,000	-	See above	12/01/21	HAP/AMP	See above	See above	See above	See above	
WOODCREST MANOR	Mora	1.00	224,158	-	131,091	08/01/21	HAP	01/31/37	See above	42	42	
YORKDALE	Edina	5.00	3,925,086	-	535,185	06/01/48	HAP/HR	06/30/19	See above	90	90	
Subtotal			\$ 78,323,827	\$ 6,801,655	\$ 18,417,148					2783	4133	

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 JUNE 30, 2018

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

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
BLOOMING GLEN	Bloomington	6.17	\$ 2,776,109	\$ -	194,535	10/01/38	LMIR/HRS	12/30/31	50	50
CAPITOL CITY	St. Paul	5.15	1,054,144	-	192,981	11/01/37	LMIR	N/A	0	69
CARRIAGE HOUSE	Moorhead	6.50	238,895	-	13,938	07/01/21	MR	N/A	0	36
CEDARVIEW COMMONS	North St. Paul	5.18	4,210,100	-	765,603	11/01/25	LMIR	N/A	0	204
CENTRAL TOWERS	Rochester	5.00	4,280,816	-	758,260	08/01/43	LMIR/HRS	12/31/31	105	105
CHARTER OAKS TH	Stillwater	5.00	3,211,841	-	218,340	04/01/43	LMIR/HRS	12/31/27	60	60
CHEERY RIDGE APTS	Mankato	6.39	1,159,723	-	322,019	02/01/39	LMIR/HRS	N/A	0	83
CHESTER TERRACE	Duluth	5.00	38,189	-	269,547	03/01/19	ARM	N/A	0	42
CITY FLATS	Shakopee	5.86	405,545	-	149,835	06/01/37	LMIR	N/A	0	27
CITY PLACE LOFTS	Minneapolis	4.75	3,090,537	-	337,449	10/01/44	LMIR/HRS	N/A	0	55
COMPASS POINTE TH	New Hope	5.25	2,559,035	-	107,449	02/01/46	LMIR/HRS	N/A	0	68
CORNERSTONE VILLAGE	St. Michael	5.63	1,881,029	-	138,202	10/01/28	LMIR	N/A	0	42
DELANCEY & SELBY STONE APTS. Fka 700-716 SELB	St. Paul	5.50	10,170	-	210,734	11/01/18	ARM	N/A	0	38
EAST VILLAGE NORTH	Minneapolis	4.90	1,697,340	-	192,893	01/01/21	LMIR	N/A	0	70
EASTEN TH	Moorhead	5.74	721,689	-	297,472	09/01/37	LMIR/HRS	N/A	0	38
FIRST AVENUE FLATS	Rochester	4.50	4,965,026	-	198,753	10/01/34	LMIR	N/A	0	68
GEORGETOWNE HOMES	Shakopee	6.50	3,363,627	-	282,058	08/01/31	LMIR	N/A	0	100
GEORGETOWNE HOMES	Shakopee	6.50	3,363,627	-	282,058	08/01/31	LMIR	N/A	0	100
LAKEVILLE COURT	Lakeville	5.00	2,811,769	-	163,081	08/01/42	LMIR/HRS	N/A	0	52
LIBERTY PLAZA	St. Paul	6.50	3,951,830	-	1,166,735	02/01/34	LMIR/HRS	09/30/19	78	173
MESABA VILLAS (3)	Duluth	6.75	12	-	415,173	12/01/18	236	12/01/18	14	27
MORNINGSIDE TH	St. Joseph	5.74	732,158	-	50,986	07/01/36	LMIR	N/A	0	32
NORTHGATE WOODS	Blaine	5.50	2,873,647	-	266,440	10/01/52	HAP	10/30/20	75	75
PARK MANOR ESTATES	Detroit Lakes	4.75	4,070,915	-	341,788	05/01/44	HAP/HRS	05/17/19	97	97
PARK PLAZA St. fka 830 13th STREET	St. Cloud	8.50	258,396	-	16,412	02/01/21	ARM	N/A	0	48
PASSAGES (4)	Minneapolis	5.00	84,752	-	133,375	09/01/21	MR	N/A	0	17
PINE RIDGE APTS	Grand Rapids	5.25	2,559,117	-	127,511	07/01/46	HAP/HRS	02/28/38	60	100
RUSSELL ARMS/BENTON HEIGHTS	Sauk Rapids	5.15	2,697,264	-	364,240	09/01/37	HAP/HRS	05/31/22	71	91
SLATER SQUARE	Minneapolis	5.00	954,333	-	384,088	11/01/36	MR	N/A	0	163
SLATER SQUARE	Minneapolis	5.00	599,970	-	See above	11/01/36	MR	See above	See above	See above
THE RIDGE APTS	Minnetonka	4.75	2,562,640	-	434,743	12/01/44	LMIR/HRS	N/A	0	64
WASHINGTON CROSSING	Winona	5.75	1,410,234	-	254,636	01/01/36	LMIR/HRS	N/A	0	62
WEST VIEW ESTATES	Plymouth	5.00	3,435,867	-	314,576	09/01/42	LMIR	N/A	0	67
WILLOW RIDGE	Vadnais Heights	6.39	1,407,151	-	154,559	04/01/38	LMIR	N/A	0	47
			\$ 66,073,868	\$ -	\$ 9,238,411				610	2,270
Subtotal			\$ 144,397,696	\$ 6,801,655	\$ 27,655,559				3,393	6,403
Total										

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 2018 SERIES B

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
Apex Townhomes	Detroit Lakes	%	\$3,520,000		7/1/2020	LMIR/ Bridge Loan	40 years from placed in service date	4	30

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.
- (5) Subsidy expiration date will not be determined until development is placed in service.

***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, 2018**

APPENDIX C

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 C.

“*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 C.

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 ending June 30, 2019, 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 D

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 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 E

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 another 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 F
FORM OF OPINION OF BOND COUNSEL

_____, 2018

Minnesota Housing Finance Agency
St. Paul, Minnesota 55102

Minnesota Housing Finance Agency
Rental Housing Bonds
2018 Series B

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, 2018 Series B, in the aggregate principal amount of \$_____ (the “2018 Series B Bonds”), which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2018 Series B Bonds are dated, mature on the date, bear interest at the rate and are payable as provided in the Series Resolution referenced below. The 2018 Series B 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 2018 Series B Bonds adopted _____, 2018 (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 2018 Series B 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 2018 Series B 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 2018 Series B 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 2018 Series B 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

Minnesota Housing Finance Agency

_____, 2018

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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 2018 Series B 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 2018 Series B Bond for any period during which such 2018 Series B Bond is held by a person who is a “substantial user” of the Development financed by the 2018 Series B 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 2018 Series B 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 2018 Series B 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 2018 Series B Bonds. All owners of 2018 Series B 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 2018 Series B Bonds.

Noncompliance by the Agency or the owner of the Development financed by the 2018 Series B 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 2018 Series B Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2018 Series B 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,

RESOLUTION NO. MHFA 18-054

RESOLUTION RELATING TO RENTAL HOUSING BONDS; AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A MULTIFAMILY HOUSING DEVELOPMENT IN DETROIT LAKES, 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, 2018 Series,” in the principal amount to be determined pursuant to Section 2(E) (the “Series Bonds”). The “2018” in the designation of the Bonds may be changed to “2019” 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 \$3,520,000;

(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 3.00%; and

(iv) the commission payable to the Underwriter of the Series Bonds; provided that the commission shall not exceed three percent 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, 2019, or a subsequent August 1 or February 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 (i) carried forward from calendar year 2017, (ii) for calendar year 2018 or (iii) a combination of (i) and (ii). 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.

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Adopted by the Minnesota Housing Finance
Agency this 30th day of August, 2018.

By: _____
Chairman

Attest: _____
Commissioner

[Signature page to Resolution No. MHFA 18-054]

EXHIBIT A**DESCRIPTION OF MORTGAGOR AND DEVELOPMENT**

<u>Mortgagor</u>	<u>Name</u>	<u>Location</u>	<u>Number of Units</u>
DL Housing LLLP	Apex Townhomes	Detroit Lakes, MN	30

EXHIBIT B
FORM OF SERIES BONDS

No. _____ \$ _____

UNITED STATES OF AMERICA - STATE OF MINNESOTA

MINNESOTA HOUSING FINANCE AGENCY

RENTAL HOUSING BOND

[2018] 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, [2018] 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 Detroit Lakes, 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 18-054, adopted August 30, 2018, 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.

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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

MINNESOTA HOUSING FINANCE
AGENCY

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

By: _____
Chairman (Facsimile Signature)

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

By: _____
Authorized Representative

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:

This page intentionally left blank.

Item: Approval, Resolution authorizing the issuance and sale of State Appropriation Bonds (Housing Infrastructure), and approving the execution and delivery of related documents.

Staff Contact(s):

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

Terry Schwartz, 651.297.2404, terry.schwartz@state.mn.us

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

Request Type:

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

Summary of Request:

Agency staff is preparing to issue State Appropriation Bonds (Housing Infrastructure), the proceeds of which will be used to finance loans for eligible housing infrastructure projects. The attached resolution outlines the parameters under which the Agency can proceed to issue additional Series of Housing Infrastructure Bonds, and contemplates the full use of the legislative authority granted for Housing Infrastructure Bonds up to and through the 2017 legislative session. Any utilization of the legislative authority for the issuance of Housing Infrastructure Bonds provided in the 2018 legislative session will be subject to a new authorizing bond resolution. It is currently anticipated that the Agency will issue approximately \$25 million of Housing Infrastructure Bonds in September of 2018.

Fiscal Impact:

The debt service on these State Appropriation Bonds will be paid from the annual appropriation to the Agency's trustee from State of Minnesota so there is no direct financial impact to the Agency.

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
- Authorizing Resolution

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 5, 2018**NEW ISSUE**

RATINGS: Moody's: "___"
S&P: "___"
(See "Ratings" herein.)

This Official Statement has been prepared by the Minnesota Housing Finance Agency (the "Agency") 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 this Official Statement in its entirety. Unless indicated, terms used with initial capital letters on this cover page have the meanings given in this Official Statement.

**\$24,185,000*****Minnesota Housing Finance Agency****\$1,150,000*** State Appropriation Bonds (Housing Infrastructure), 2018 Series A (Non-AMT)**\$4,780,000*** State Appropriation Bonds (Housing Infrastructure), 2018 Series B (Non-AMT)**\$8,625,000*** State Appropriation Bonds (Housing Infrastructure), 2018 Series C (Non-AMT)**\$9,630,000*** State Appropriation Bonds (Housing Infrastructure), 2018 Series D (Non-AMT)**Dated Date: 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, estates and trusts 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.")

Redemption The Agency may redeem all or a portion of the Series Bonds by optional redemption as described under "The Series Bonds."

Security THE SERIES BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY, AND EQUALLY AND RATABLY, FROM SPECIFIED TRANSFERS EXPECTED TO BE MADE BY THE STATE OF MINNESOTA (THE "STATE") PURSUANT TO LEGISLATION PROVIDING FOR THE APPROPRIATION OF THOSE TRANSFERS FROM THE GENERAL FUND OF THE STATE TO THE AGENCY (THE "HOUSING INFRASTRUCTURE STATE APPROPRIATIONS"), AND MONEYS AND SECURITIES HELD FROM TIME TO TIME IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE (AS HEREIN DEFINED) AND PLEDGED TO THAT PAYMENT. THE AGENCY HAS NOT PLEDGED ANY OTHER REVENUES OR ASSETS, NOR THE FULL FAITH AND CREDIT OF THE AGENCY, TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES BONDS. THE AGENCY HAS NO TAXING POWER. THE SERIES BONDS ARE NOT INDEBTEDNESS OR ANOTHER OBLIGATION OF THE STATE AND ARE NOT PUBLIC DEBT OF THE STATE. THE STATE HAS NOT PLEDGED ITS FULL FAITH AND CREDIT AND TAXING POWER TO PAYMENT OF THE SERIES BONDS OR TO TRANSFERS TO THE AGENCY OF THE HOUSING INFRASTRUCTURE STATE APPROPRIATIONS. PURSUANT TO MINNESOTA LAW, THE MINNESOTA LEGISLATURE MAY REDUCE OR REPEAL THE HOUSING INFRASTRUCTURE STATE APPROPRIATIONS IN THEIR ENTIRETY. THE HOUSING INFRASTRUCTURE APPROPRIATIONS ARE ALSO SUBJECT TO REDUCTION THROUGH UNALLOTMENT. See "Nature of Obligation and Source of Payment."

Interest Payment Dates February 1 and August 1, commencing February 1, 2019, and, for any Series Bonds to be redeemed, the redemption date.

Denominations \$5,000 or any multiple thereof.

Closing/Settlement September 25, 2018* through the facilities of DTC in New York, New York.

Bond Counsel Kutak Rock LLP.

Underwriters' Counsel Cozen O'Connor.

Trustee Wells Fargo Bank, National Association, in Minneapolis, Minnesota.

Book-Entry-Only System The Depository Trust Company. See Appendix B hereto.

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**J.P. Morgan****Piper Jaffray & Co.****Wells Fargo Securities**

The date of this Official Statement is _____, 2018.

* Preliminary; subject to change.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS***2018 Series A Bonds (Non-AMT)**

<u>Due (August 1)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP**</u>
	\$,000	%	. %	%	
	,000		.	.	
	,000		.	.	

2018 Series B Bonds (Non-AMT)

<u>Due (August 1)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP**</u>
	\$,000	%	. %	0. %	
	,000		.	0.	
	,000		.	0.	
	,000		.	.	

2018 Series C Bonds (Non-AMT)

<u>Due (August 1)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP**</u>
	\$,000	%	. %	%	
	,000		.	.	
	,000		.	.	

2018 Series D Bonds (Non-AMT)

<u>Due (August 1)*</u>	<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP**</u>
	\$,000	%	. %	0. %	
	,000		.	0.	
	,000		.	0.	
	,000		.	.	

* Preliminary, subject to change.

** CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their 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.

None of the Minnesota Housing Finance Agency, the State of Minnesota or the Underwriters have 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 State and the Series Bonds could cause actual results to differ materially from those contemplated in the forward-looking statements.

The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their respective responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriters 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
\$24,185,000*
MINNESOTA HOUSING FINANCE AGENCY
STATE APPROPRIATION BONDS (HOUSING INFRASTRUCTURE)
2018 SERIES A, 2018 SERIES B, 2018 SERIES C AND 2018 SERIES D

This Official Statement (which includes the cover page, inside front cover and Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the “Agency”), created by Minnesota Statutes, Chapter 462A, as amended (the “Act”), the State of Minnesota (the “State”), and the State Appropriation Bonds (Housing Infrastructure), 2018 Series A (the “Series 2018A Bonds”), State Appropriation Bonds (Housing Infrastructure), 2018 Series B (the “Series 2018B Bonds”), State Appropriation Bonds (Housing Infrastructure), 2018 Series C (the “Series 2018C Bonds”), and State Appropriation Bonds (Housing Infrastructure), 2018 Series D (the “Series 2018D Bonds,” and collectively with the Series 2018C Bonds, the “Series 2018CD Bonds;” the Series 2018A Bonds, the Series 2018B Bonds and the Series 2018CD Bonds are collectively referred to herein as the “Series Bonds”), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial Owners of the Series Bonds.

The Agency is issuing the Series Bonds pursuant to the Act, an Indenture of Trust, dated as of August 1, 2013, as supplemented by a Seventh Supplemental Indenture of Trust, to be dated as of September 1, 2018 (as so supplemented, and as amended and supplemented from time to time in accordance with its terms, the “Indenture”), each between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”). The Agency has issued eleven series of its State Appropriation Bonds (Housing Infrastructure), 2013 Series A and 2013 Series B (the “Series 2013 Bonds”), its State Appropriation Bonds (Housing Infrastructure), 2014 Series A and 2014 Series B (the “Series 2014 Bonds”), its State Appropriation Bonds (Housing Infrastructure), 2015 Series A, 2015 Series B and 2015 Series C (the “Series 2015 Bonds”), its State Appropriation Bonds (Housing Infrastructure), 2016 Series A and 2016 Series B (the “Series 2016AB Bonds”) and 2016 Series C (the “Series 2016C Bonds”), and its State Appropriation Bonds (Housing Infrastructure), 2017 Series A (the “Series 2017A Bonds,” and collectively with the Series 2013 Bonds, the Series 2014 Bonds, the Series 2015 Bonds, the Series 2016AB Bonds and the 2016 Series C Bonds, the “Prior Series Bonds”) under the Indenture in the original aggregate principal amount of \$129,980,000, of which \$112,165,000 are outstanding. The Series Bonds, the Prior Series Bonds and any additional bonds (the “Additional Bonds”) issued pursuant to the Indenture are equally and ratably secured thereunder and are herein called the “Bonds.”

The Indenture includes definitions of capitalized terms used in this Official Statement, some of which are reproduced in Appendix A. The summaries and references in this Official Statement to the Act and the Indenture and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references in this Official Statement to the Act and the Indenture are qualified in their entirety by reference to the Act and Indenture, 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 form thereof and the information with respect thereto contained in the Indenture.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota, established in 1971 pursuant to the Act. Section 462A.37 of the Act authorizes the Agency to issue its bonds to fund loans (“Housing Infrastructure Loans”) to pay for all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence with a preference to be given for developments serving certain individuals and families, all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed, that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers, that portion of the improvement and

* Preliminary; subject to change.

infrastructure of manufactured home parks that is attributable to land to be leased to low- and moderate-income manufactured home owners, all or a portion of the costs of acquisition, rehabilitation, adaptive reuse, or new construction of senior housing, all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit and all or a portion of the costs of the construction, acquisition, and rehabilitation of supportive housing for girls and women to provide them protection from and the means to escape exploitation and trafficking.

The Agency is issuing the Series Bonds to provide money to fund Housing Infrastructure Loans and to pay costs of issuance of the Series Bonds. (See “Estimated Sources and Uses of Funds.”) For a description of the developments expected to be financed with proceeds of the Series Bonds, see “The Developments” herein. The Series Bonds are secured, on parity with the Prior Series Bonds and Additional Bonds, if any, hereafter issued under the Indenture, by a pledge made by the Agency under the Indenture of all amounts appropriated to the Agency by the State pursuant to Section 462A.37 of the Act (the “Housing Infrastructure State Appropriations”). Section 462A.37 of the Act provides that amounts necessary to pay principal of and premium, if any, and interest on housing infrastructure bonds issued pursuant to Section 462A.37 of the Act, and the fees, charges and expenses related thereto, are appropriated annually from the State general fund (the “General Fund”) to the Commissioner of Management and Budget for transfer to the Agency. The amount appropriated with respect to the Series 2013 Bonds and the Series 2014 Bonds, collectively, will not exceed \$2,200,000 annually for transfer to the Agency through July 15, 2035. The amount appropriated with respect to Series 2015 Bonds, the Series 2016AB Bonds, the Series 2017A Bonds and the Series 2018A Bonds, collectively, will not exceed \$6,400,000 annually for transfer to the Agency through July 15, 2037. The amount appropriated with respect to the Series 2016C Bonds and the Series 2018B Bonds, collectively, will not exceed \$800,000 annually for transfer to the Agency through July 15, 2038. The amount appropriated with respect to Additional Bonds (including the Series 2018CD Bonds), collectively, in an aggregate principal amount up to \$35,000,000, will not exceed \$2,800,000 annually for transfer to the Agency through July 15, 2040. The amount appropriated with respect to Additional Bonds not included in the principal amount described in the preceding sentence, collectively, in an aggregate principal amount up to \$80,000,000, will not exceed the amount payable in that fiscal year of principal, premium, if any, and interest, and the fees, charges, and expenses related to, those Additional Bonds for transfer to the Agency annually beginning July 15, 2020 through July 15, 2041. Upon the issuance of the Series Bonds, there will be \$96,745,000* of authorized but unissued debt supported by the Housing Infrastructure State Appropriations.

The Series Bonds are special, limited obligations of the Agency. The Series Bonds are not general obligations of the Agency and the Agency has not pledged its general funds to the payment of the Series Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Series Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of the Housing Infrastructure State Appropriations. In no event will the Agency pay principal of, premium, if any, or interest on the Series Bonds from the general revenues or assets of the Agency. The Act provides that the Bonds are not public debt of the State. The State has not pledged its full faith and credit and taxing powers to payment of the Series Bonds or to payment of the Housing Infrastructure State Appropriations. Pursuant to Minnesota law, the Minnesota Legislature (the “Legislature”) may reduce or repeal the Housing Infrastructure State Appropriations in their entirety. The Housing Infrastructure State Appropriations are also subject to unallotment under Minnesota Statutes, Section 16A.152. See “Nature of Obligation and Source of Payment” and “Appendix A – Summary of Certain Provisions of the Indenture.”

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

* Preliminary; subject to change.

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

Damaris Hollingsworth, Member – Term expires January, 2022, Minneapolis, Minnesota – Architect

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

Craig Klausung, 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

Staff

The staff of the Agency presently consists of approximately 250 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 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 programs associated with the developments to be funded with Housing Infrastructure Loans 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 human resources, 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 is a member of the Citizens League, the Urban Land Institute and the Minnesota Chapter of National Association of Housing and Redevelopment Officials. 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 Wabasha Street North, Saint Paul, Minnesota 55102, 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.

THE SERIES BONDS

General

The Series Bonds will be fully registered bonds issued in the denominations of \$5,000 or any integral multiple thereof of single maturities. The Series Bonds will initially be 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 each series of the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Indenture. 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, which interest is to be redistributed by DTC. Principal of the Series Bonds will be paid at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. (See “Appendix B — 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. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to prior redemption as hereinafter described.

The Series Bonds will bear interest from their dated date, payable semiannually on February 1 and August 1 of each year, commencing February 1, 2019, and, for any Series Bonds then to be redeemed, on any redemption date, at the respective annual rates set forth on the inside front cover hereof until payment of the principal or redemption price of the Series Bonds. Interest on the Series Bonds is calculated on the basis of a 360-day year composed of twelve 30-day months and will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the Record Date.

Optional Redemption

The Agency may redeem Series Bonds maturing on or after August 1, 2029,^{*} at its option, in whole or in part, on any date on or after August 1, 2028,^{*} from the stated maturities and in the principal amounts selected by the Agency, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium.

General Redemption Provisions

The Trustee must mail notice of redemption, first-class postage prepaid, not less than 30 days before the Redemption Date, to each Owner of Series Bonds to be redeemed; but neither the failure to mail notice to the Owner of any particular Series Bond nor any defect in any notice so mailed will affect the validity of the proceedings for redemption of any Series Bond not affected by that failure or defect.

If notice of redemption has been given and funds sufficient to pay the redemption price are on deposit with the Trustee, on the Redemption Date the Series Bonds to be redeemed become due and payable at the Redemption Price specified and on and after that date (unless the Agency defaults in the payment of the Redemption Price) those Bonds will cease to bear interest.

NATURE OF OBLIGATION AND SOURCE OF PAYMENT

General

The Bonds (including the Series Bonds) are special, limited obligations of the Agency. The Agency expects that the Housing Infrastructure State Appropriations will be transferred on July 15 of each year from the General Fund of the State to the Agency by the Commissioner of Management and Budget pursuant to Section 462A.37 of the Act and has pledged the Housing Infrastructure State Appropriations pursuant to the Indenture to the payment of the Bonds. The Bonds are not general obligations of the Agency and the Agency has not pledged its general revenues or assets to the payment of the Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of the Housing Infrastructure State Appropriations. In no event will the Agency make payments with respect to the Bonds from the general revenues or assets of the Agency, which include appropriations from the State other than the Housing Infrastructure State Appropriations pursuant to Section 462A.37 of the Act. The Bonds will not constitute indebtedness or another obligation of the State and are not public debt of the State. The State will not pledge its full faith, credit and taxing power to payment of the Bonds or the interest thereon or to annual transfers of Housing Infrastructure State Appropriations to the Agency. The Agency does not expect that any revenues from the Housing Infrastructure Loans will be available to pay debt service on the Bonds, and has not pledged payments on the Housing Infrastructure Loans, if any, to pay principal of or interest on the Bonds.

^{*} Preliminary; subject to change.

In the opinion of Bond Counsel, Housing Infrastructure State Appropriations from the General Fund to the Agency do not require further State or other approval except as expressly provided in the Act. See “—The Housing Infrastructure State Appropriations” and “—Certain Risks With Respect to Payment of Housing Infrastructure State Appropriations” hereunder.

The Indenture provides that, as received each year, all Housing Infrastructure State Appropriations paid by the State to the Agency will be remitted by the Agency to the Trustee for deposit into the Bond Fund held under the Indenture and that amounts in the Bond Fund are irrevocably pledged to and must be used for the payment of principal of and premium (if any) and interest on the Bonds, as and when principal, premium and interest become due and payable. The Trustee may also use moneys in the Bond Fund in excess of the amount necessary to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year to pay fees, charges and expenses with respect to the Bonds, except as otherwise required under the Indenture upon occurrence of Event of Default and with respect to advances, counsel fees and other expenses reasonably made or incurred by the Trustee (see “Appendix A — Summary of Certain Provisions of the Indenture — Application of Revenues and Other Moneys After Event of Default” and “—Compensation of Trustee”). Upon written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a sinking fund payment date on either of the next two interest payment dates after that purchase, provided that the Bonds are delivered to the Trustee for cancellation upon purchase.

The Indenture further provides that proceeds of the Series Bonds will be deposited by the Agency in the Program Fund (the “Program Fund”). The money in the Program Fund will be held in trust by the Trustee and applied to the funding of certain Housing Infrastructure Loans and payment of costs of issuance of the Series Bonds. The Trustee is to create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Housing Infrastructure Loans. See “Appendix A — Summary of Certain Provisions of the Indenture.”

The Housing Infrastructure State Appropriations

Section 462A.37 of the Act provides that the Agency may issue up to \$255 million of housing infrastructure bonds in one or more series to which Housing Infrastructure State Appropriations may be pledged. To qualify as housing infrastructure bonds, the Bonds must be “qualified 501(c)(3) bonds” (within the meaning of Section 145(a) of the Internal Revenue Code of 1986, as amended (the “Code”)), finance qualified residential rental projects within the meaning of Section 142(d) of the Code or not be “private activity bonds” (within the meaning of Section 141(a) of the Code). The Bonds may be issued for the purpose of making loans, on terms and conditions the Agency deems appropriate, to finance all or a portion of the costs of the construction, acquisition and rehabilitation of supportive housing for individuals and families who are without a permanent residence with a preference to be given for developments serving certain individuals and families, all or a portion of the costs of the acquisition and rehabilitation of abandoned or foreclosed property to be used for affordable rental housing and the construction of rental housing on that property where the existing structures will be demolished or removed, that portion of the costs of the acquisition of abandoned or foreclosed property that is attributable to the land to be leased by community land trusts to low and moderate income homebuyers, that portion of the improvement and infrastructure of manufactured home parks that is attributable to land to be leased to low- and moderate-income manufactured home owners, all or a portion of the costs of acquisition, rehabilitation, adaptive reuse, or new construction of senior housing, and all or a portion of the costs of the acquisition and rehabilitation or refinancing of federally assisted rental housing, including refunding outstanding bonds issued by the Agency or another governmental unit, and for other authorized purposes under the Act. For a description of the developments expected to be financed with proceeds of the Series Bonds, see “The Developments” herein.

Section 462A.37 of the Act requires the Agency to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in that year and the fees, charges and expenses related to the Bonds. The amount so certified with respect to the Series 2013 Bonds and the Series 2014 Bonds, collectively, may not exceed \$2,200,000 annually for appropriation on July 15 of each year until July 15, 2035. The amount so certified with respect to the Series 2015 Bonds, the Series 2016AB Bonds, the Series 2017A Bonds and the Series 2018A Bonds, collectively, may not exceed \$6,400,000 annually, for appropriation on July 15 of each year until July 15, 2037. The amount so certified with respect to the Series 2016C Bonds and the Series 2018B Bonds, collectively, may not exceed \$800,000 annually for appropriation on July 15 of each year until July 15, 2038. The amount so certified with respect to Additional Bonds (including the Series 2018CD Bonds), collectively, in an aggregate principal amount up

to \$35,000,000, will not exceed \$2,800,000 annually for appropriation on July 15 of each year until July 15, 2040. The amount so certified with respect to Additional Bonds not included in the principal amount described in the preceding sentence, collectively, in an aggregate principal amount up to \$80,000,000, will not exceed the amount payable in that fiscal year of principal, premium, if any, and interest on, and the fees, charges, and expenses related to, those Additional Bonds annually for appropriation on July 15 of each year beginning July 15, 2020 through July 15, 2041. Appropriations will be made from the General Fund to fund transfers by the Commissioner of Management and Budget to the Agency to pay debt service on the Outstanding Bonds and related fees, charges and expenses. The amounts appropriated to the Agency pursuant to Section 462A.37 of the Act are the “Housing Infrastructure State Appropriations.”

Under the Indenture, the Agency has covenanted to annually certify to the Commissioner of Management and Budget the actual amount of principal of and premium, if any, and interest on each series of Bonds issued pursuant to the Act payable in that year and the fees, charges and expenses related to the Bonds.

The Act contains no provision establishing any right of Owners of Outstanding Bonds to require the Commissioner of Management and Budget to make the specified Housing Infrastructure State Appropriations or limiting the ability of the State to amend or repeal Section 462A.37 of the Act or, by other legislative, executive or judicial action, to adversely affect the amount or timely transfer of Housing Infrastructure State Appropriations.

Certain Risks With Respect to Payment of Housing Infrastructure State Appropriations

Section 462A.37 of the Act provides for annual Housing Infrastructure State Appropriations of funds from the General Fund to the Agency for payment of Outstanding Bonds, conditioned upon certification by the Agency to the Commissioner of Management and Budget of the actual amount of annual debt service on each series of Outstanding Bonds. The Housing Infrastructure State Appropriations constitute an appropriation for future years that does not require any further action by the Legislature. However, pursuant to Minnesota law, the Legislature may reduce or repeal a standing appropriation in its entirety. The Legislature is prohibited from acting to bind any future Legislature. **Any of: (i) a legislative reduction or repeal of the Housing Infrastructure State Appropriations established by Section 462A.37 of the Act; (ii) an unallotment of, or other executive action affecting, the Housing Infrastructure State Appropriations established by Section 462A.37 of the Act; or (iii) a partial government shutdown affecting the practical ability of the Commissioner of Management and Budget to make transfers of Housing Infrastructure State Appropriations to the Agency could prevent the anticipated full and timely payment of interest and principal then due on the Series Bonds. In addition, prospective secondary market purchaser concerns that such an event might occur could materially and adversely affect the market price of the Outstanding Series Bonds even if the event does not in fact occur.**

Reduction or Repeal of Appropriation.

Housing Infrastructure State Appropriations. The Housing Infrastructure State Appropriations constitute a standing appropriation that does not require any further action by the Legislature for payments to be made in future years. However, as provided by Minnesota law, the Legislature may reduce or repeal a standing appropriation entirely. The State cannot give any assurance that the Legislature will not reduce or repeal the Housing Infrastructure State Appropriations.

Appropriations Other Than Housing Infrastructure State Appropriations. Certain State appropriations (other than the Housing Infrastructure State Appropriations) for limited payment obligations of the State are not standing appropriations and, thus, require action by the Legislature on an annual or biennial basis. The State’s obligation to make payments on these State or other obligations is not a general or moral obligation indebtedness of the State; rather the State is obligated to make payments only to the extent moneys are appropriated from time to time for that purpose. In the past, the Legislature has failed to make appropriations as necessary to pay in full debt service on State or other obligations, including in 1980 and 1981, when an appropriation to the Minnesota State Zoological Board (the “Zoo Board”) of net revenues of a zoo ride facility were insufficient to allow the Zoo Board to make payments pursuant to an installment purchase agreement, which payments had been assigned to holders of certificates of participation in that agreement. In 1989, the Legislature declined to appropriate funds to St. Cloud State University as necessary to make certain payments under an energy services agreement, which payments had been assigned to an indenture trustee as security for the payment of principal of and interest on industrial

development revenue bonds issued by the City of St. Cloud, Minnesota. As previously stated, the limited payments obligations of the State described in this paragraph were not standing appropriations and, unlike the Series Bonds, required affirmative action by the Legislature on an annual or biennial basis for State payments to be made in respect of said obligations.

Unallotment. The Housing Infrastructure State Appropriations are subject to executive unallotment, in whole or in part, under Minnesota Statutes, Section 16A.152. Article XI, Section 6 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to that requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (those years together, the “biennium”). On July 1 of each odd-numbered year, the Commissioner of Management and Budget transfers to the Budget Reserve Account within the General Fund (the “Budget Reserve”) any amounts specifically appropriated by law to the Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner of Management and Budget determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner of Management and Budget, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner of Management and Budget, with the approval of the Governor, to “unallot” funds as follows:

- (a) An additional deficit shall, with the approval of the Governor, and after consulting the Legislative Advisory Commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the Commissioner of Management and Budget is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
- (b) If the Commissioner of Management and Budget determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the Commissioner of Management and Budget shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.
- (c) In reducing allotments, the Commissioner of Management and Budget may consider other sources of revenue available to recipients of State appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are updated to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner of Management and Budget discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but those requests do not relieve the Commissioner of Management and Budget of his obligation to reduce allotments to State agencies.

The executive branch has imposed unallotments in prior fiscal years, but not with respect to the payment of debt service. Over the past thirty years, the unallotment procedure has been used as follows: \$195 million of unallotments in 1980; in 1981 local government aid payments were unallotted in November and December but were reallocated and paid by February 26, 1982; \$109 million of unallotments in 1986; \$281 million of unallotments in 2003; \$271 million of unallotments in 2008; and \$2.68 billion of unallotments in 2009. The 2009 unallotment was unique in that it resulted from the passage of appropriation bills for the fiscal biennium, but the then-Governor vetoed a tax bill that would have balanced the biennial budget by raising revenues and shifting payments. In litigation challenging the 2009 unallotments, the Minnesota Supreme Court concluded that unallotment could not be used to balance the budget for an entire biennium when balanced spending and revenue has not been agreed upon by the legislature and the Governor. The legislature and Governor subsequently agreed to a balanced budget for the biennium. While appropriations from the General Fund for payment of debt service have not previously been unallotted, the State cannot give any assurance that unallotment of the Housing Infrastructure State Appropriations will not be imposed in any future year.

Other Risks. There can be no assurance that other events outside the control of the Commissioner of Management and Budget, such as a temporary State government shutdown, will not affect the ability of the Commissioner of Management and Budget to make timely payments of principal of and interest on the Series Bonds.

The Bonds are not general obligations of the Agency and the Agency has not pledged its general funds or assets to the payment of the Bonds or the interest thereon. The Agency will pay principal of, premium, if any, and interest on the Bonds solely from the Trust Estate established pursuant to the Indenture, consisting principally of Housing Infrastructure State Appropriations. In no event will the Agency make payments with respect to the Bonds from its general revenues, which include appropriations from the State other than the Housing Infrastructure State Appropriations pursuant to Section 462A.37 of the Act. The Bonds will not constitute indebtedness or another obligation of the State and are not public debt of the State. The State will not pledge its full faith, credit and taxing power to payment of the Bonds or the interest thereon or to the annual transfers of Housing Infrastructure State Appropriations to the Agency.

Additional Bonds

In addition to the Series Bonds described herein, the Agency may in its discretion issue up to \$96,745,000* in principal amount of Additional Bonds to provide funds to make additional Housing Infrastructure Loans and pay costs of issuance of such Additional Bonds and other purposes authorized by Section 462A.37 of the Act. Any Additional Bonds are to be authorized by a resolution of the Agency and prescribed in a supplemental indenture (a "Supplemental Indenture") executed by the Agency and the Trustee and which, when so issued, authorized and prescribed, will be secured by the Indenture and the Trust Estate, consisting primarily of Housing Infrastructure State Appropriations, on a parity with the Bonds then Outstanding under the Indenture; provided that no Additional Bonds are to be issued under the Indenture or secured by the Trust Estate on a parity with the Outstanding Bonds unless there is delivered to the Trustee the following: (a) An Agency resolution authorizing the issuance of the Additional Bonds and the sale thereof to the purchaser or purchasers named therein; (b) an Agency order directing the authentication of a specified principal amount of Additional Bonds of a specified series and the delivery thereof to or upon the order of the purchaser or purchasers named therein upon payment of the purchase price set forth therein; (c) an Agency Certificate to the effect that the principal and interest required to be paid on the Outstanding Bonds, including the Additional Bonds to be issued, in the current and any future Fiscal Year, does not exceed the maximum amount of Housing Infrastructure State Appropriations authorized by the Act in any Fiscal Year; (d) an opinion of Bond Counsel (i) stating that all conditions precedent provided in the Indenture relating to the authentication and delivery of the Additional Bonds have been complied with, and (ii) stating that the Additional Bonds whose authentication and delivery are then applied for, when issued and executed by the Agency and authenticated and delivered by the Trustee, will be the valid and binding special, limited obligations of the Agency in accordance with their terms and entitled to the benefits of and secured by the lien of the Indenture, subject to customary qualifications and assumptions; (e) an executed counterpart of the Supplemental Indenture creating the Additional Bonds; and (f) written confirmation from each Rating Agency that issuance of the Additional Bonds will not impair the then existing rating on Outstanding Bonds.

* Preliminary; subject to change.

DEBT SERVICE REQUIREMENTS ON OUTSTANDING BONDS

The following table sets forth, for each Fiscal Year of the State ending June 30, the amounts to be required for payment of interest on (net of capitalized interest) and principal at maturity or mandatory sinking fund redemption of the Prior Series Bonds and the Series Bonds (assuming no optional redemption of such Bonds) and which are required to be paid from the Housing Infrastructure State Appropriations of up to \$12,200,000 expected to be received on July 15 of each fiscal year through fiscal year 2036, \$10,000,000 in fiscal years 2037 and 2038, \$3,600,000 in fiscal year 2039 and \$2,800,000 in fiscal years 2040 and 2041:

Fiscal Year Ending June 30	Prior Series Bonds		Series Bonds		Total*
	Principal	Interest	Principal*	Interest*	
2019	\$4,020,000	\$4,761,830	\$ ---	\$ ---	\$8,781,830
2020	4,155,000	4,623,455	,000		
2021	4,305,000	4,476,316	,000		
2022	4,480,000	4,307,249	,000		
2023	4,655,000	4,118,346	,000		
2024	4,840,000	3,940,515	,000		
2025	5,010,000	3,772,511	,000		
2026	5,205,000	3,573,656	,000		
2027	5,440,000	3,341,625	,000		
2028	5,675,000	3,100,750	,000		
2029	5,905,000	2,871,075	,000		
2030	6,150,000	2,628,791	,000		
2031	6,415,000	2,364,319	,000		
2032	6,680,000	2,096,959	,000		
2033	6,970,000	1,806,600	,000		
2034	7,295,000	1,485,969	,000		
2035	7,645,000	1,140,638	,000		
2036	8,005,000	770,850	,000		
2037	6,305,000	441,894	,000		
2038	6,590,000	158,269	,000		
2039	440,000	6,600	,000		
2040			,000		
2041			,000		

Under the Indenture, Housing Infrastructure State Appropriations are to be credited to the Bond Fund and applied to the payment of principal of and interest on Outstanding Bonds before being applied to the payment of fees, charges and expenses with respect to the Bonds. (See “Appendix A—Summary of Certain Provisions of the Indenture—Bond Fund.”)

STATE FINANCIAL INFORMATION

The Bonds (including the Series Bonds) are special, limited obligations of the Agency. Specified transfers expected to be made by the State pursuant to Section 462A.37 of the Act are pledged pursuant to the Indenture for the payment of the Outstanding Bonds. (See “Nature of Obligation and Source of Payment.”) Potential purchasers and Owners of the Series Bonds are advised to consider the likelihood of their full and timely receipt of principal and interest payments on the Series Bonds when due on the basis of the financial condition of the State, rather than that of the Agency.

Basic financial statements for the State for the Fiscal Year ended June 30, 2017, as well as certain additional information concerning the State, are included in the Official Statement of the State of Minnesota dated August 7, 2018 (the “August 7, 2018 State Official Statement”) with respect to its \$619,720,000 General Obligation

* Preliminary; subject to change. Assumes the Series Bonds mature as described herein and bear interest at an average annual interest rate of ____%.

State Bonds, which is attached hereto as Appendix E. The State most recently released certain revenue and expenditure forecasts prepared by the Department of Management and Budget in February 2018. Information concerning this forecast is included in the August 7, 2018 State Official Statement in Appendix B thereto under the caption “Biennium Budgets – 2018 February Forecast – Current Biennium.” The next official forecast of revenue and expenditures will be prepared in November 2018 and will be released in early December 2018.

The November 2018 forecast of revenue and expenditures will be available on the Minnesota Management and Budget website (www.mn.gov/mmb/) and on the Municipal Securities Rulemaking Board’s internet repository named “Electronic Municipal Market Access” (“EMMA”) filed with respect to the Series Bonds. Any amendment or supplement to the basic financial statements of the State, and any subsequent financial statements published by the State and made publicly available in a State official statement or revenue and expenditure forecast required by statute or an official quarterly economic update published by the State on the Minnesota Management and Budget website and also filed on EMMA with respect to the Series Bonds, to and including a date 25 days following the “end of the underwriting period” (as defined in Rule 15c2-12 of the Securities and Exchange Commission) applicable to the Series Bonds offered hereby, will be deemed to be incorporated by reference in this Official Statement from the date made publicly available. No other information on the Minnesota Management and Budget website or on EMMA is incorporated into this Official Statement. Any statement contained in any document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document that also is, or is deemed to be, incorporated by reference herein modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

THE DEVELOPMENTS

The Series Bonds are being issued to provide money for the Agency to fund one or more Housing Infrastructure Loans for the purposes permitted to be funded pursuant to Section 462A.37 of the Act.

One Housing Infrastructure Loan will finance a portion of the cost of the acquisition and construction of a multifamily housing development, to be known as Garfield Square Apartments, in Duluth, Minnesota. The development will consist of a single building multi-story apartment building with 50 residential units, with support services provided by Center City Housing and Human Development Center, Duluth, Minnesota. The development will be acquired and constructed by Garfield Square LLLP, a Minnesota limited liability limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be GSGP, LLC, a Minnesota limited liability company, or another entity owned or affiliated with Center City Housing Corp., a Minnesota nonprofit corporation whose registered address is in Duluth, Minnesota.

A second Housing Infrastructure Loan is expected to finance a portion of the cost of acquisition and rehabilitation of a multifamily housing development, currently known as Hanson Apartments, in Willmar, Minnesota. The development will consist of a four building two-story multifamily apartment development with 56 residential units, with support services provided by Southwestern Minnesota Adult Mental Health Consortium, Willmar, Minnesota. The development will be acquired and rehabilitated by Hanson Apartments Limited Partnership, a Minnesota limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be SWMHP Hanson Apartments, LLC, a Minnesota limited liability company, or another entity owned or affiliated with Southwest Minnesota Housing Partnership, a Minnesota nonprofit corporation whose registered address is in Slayton, Minnesota.

A third Housing Infrastructure Loan is expected to finance a portion of the cost of acquisition and construction of a multifamily housing development, to be known as Minnehaha Commons, in Minneapolis, Minnesota. The development will consist of a single building multi-story multifamily apartment development with 44 residential units, with support services provided by Touchstone Mental Health, Minneapolis, Minnesota. The development will be acquired and constructed by Minnehaha Commons Limited Partnership, a Minnesota limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be Alliance Housing Incorporated, a Minnesota nonprofit corporation whose registered address is in Minneapolis, Minnesota.

A fourth Housing Infrastructure Loan is expected to finance a portion of the cost of acquisition and construction of a multifamily housing development, to be known as Park 7, in Minneapolis, Minnesota. The development will consist of a single building multi-story multifamily apartment development with 61 residential units, with support services provided by House of Charity, Minneapolis, Minnesota. The development will be acquired and constructed by a to-be-named single purpose entity as its initial owner, operator or manager, one of the managing members or partners of which will be House of Charity, Inc., a Minnesota nonprofit corporation whose registered address is in Minneapolis, Minnesota, or an affiliate of such single purpose entity or successor thereto, or another entity owned or affiliated with House of Charity, Inc.

A fifth Housing Infrastructure Loan is expected to finance a portion of the cost of acquisition and rehabilitation of a multifamily housing development, currently known as The Hylands, in Rochester, Minnesota. The development will consist of a 17 building multi-story multifamily apartment development with 100 residential units, with support services provided by Independent Management Services, Austin, Minnesota. The development will be acquired and rehabilitated by The Hylands II, Limited Partnership, a Minnesota limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be The Hylands II GP, LLC, a Minnesota limited liability company, or another entity owned or affiliated with Titan Development and Investments, Inc., a Minnesota corporation whose registered address is in Rochester, Minnesota.

A sixth Housing Infrastructure Loan is expected to finance a portion of the cost of acquisition and construction of a multifamily housing development, to be known as Willow Grove, in North Branch, Minnesota. The development will consist of a single building multi-story multifamily apartment development with 20 residential units, with support services provided by provided by Nystrom & Associates, Ltd, Minneapolis, Minnesota. The development will be acquired and constructed by Willow Grove of North Branch Limited Partnership, a Minnesota limited partnership, or an affiliate thereof or successor thereto, as its initial owner, operator or manager; one of the managing partners of which will be, Willow Grove of North Branch, LLC, a Minnesota limited liability company, or another entity owned or affiliated with Central Minnesota Housing Partnership, Inc., a Minnesota nonprofit corporation whose registered address is in Saint Cloud, Minnesota.

Housing Infrastructure Loans also are expected to be made to one or more Community Land Trusts, for the acquisition of land upon which one or more condominium units, townhouses, or structures consisting of one to four single-family dwelling units, one of which will be owned and occupied by a person or family of low and moderate income, whose income does not exceed 115 percent of area median income as adjusted from time to time by the U.S. Department of Housing and Urban Development as its principal residence, all of which are located on or will be constructed on the acquired land, and, if applicable, eligible costs of clearing the land, demolition and utility connections. A Community Land Trust is a private nonprofit organization that is a Section 501(c)(3) tax-exempt organization that is authorized to acquire land to be leased as owner-occupied single family housing to low- and moderate-income persons or families.

Each of the Housing Infrastructure Loans described above may be a 0 percent interest, non-amortizing, nonrecourse deferred loan. Certain of the Housing Infrastructure Loans may also be forgivable if the conditions for use are met. No revenues from the Housing Infrastructure Loans are expected to be available to pay debt service on the Series Bonds, and payments on the Housing Infrastructure Loans, if any, are not pledged to pay principal of or interest on the Series Bonds. Consequently, Owners of the Series Bonds should not regard the Housing Infrastructure Loans or the developments financed thereby as providing security for the Series Bonds.

If any one or more of these developments does not proceed for any reason, to the extent permitted by the Code, the Agency may use moneys in the Program Fund to make loans for other developments eligible for funding under Section 462A.37 of the Act.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to the Series Bonds are as follows:

Sources:

Principal Amount of Series Bonds.....
 Net Original Issue Premium.....
 Total Sources of Funds

Uses:

Deposit to Program Fund for Housing Infrastructure Loans
 Capitalized Interest
 Costs of Issuance
 Underwriters' Compensation
 Total Uses of Funds

The Agency may reimburse itself from proceeds of the Series Bonds for Agency funds advanced to fund Housing Infrastructure Loans and related costs authorized by the Act before the date of issuance of the Series Bonds.

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 Indenture and the Bond Compliance Agreements and the Tax Exemption Agreements described in the Indenture contain provisions (the "Tax Covenants") 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 and, where applicable, the recipients of the Housing Infrastructure Loans 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 that exclusion of interest on any Series 2018A Bond, Series 2018B Bond or Series 2018D Bond for any period during which that Series Bond is held by a person who is a "substantial user" of a facility financed with the proceeds of the Series 2018A Bonds, Series 2018B Bonds or Series 2018D 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 for purposes of the federal alternative minimum tax and that interest on the Series 2018A Bonds, the Series 2018B Bonds and the Series 2018D Bonds is not included in corporations' calculations of adjusted current earnings of corporations 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 D.

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 that 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.

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 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 the noncompliance occurs or is discovered. The Agency will covenant that it shall 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 which will contain provisions relating to compliance with the requirements of the Code. The Agency also has required or will require recipients of the Housing Infrastructure Loans to make certain covenants relating to compliance with the requirements of the Code. No assurance can be given, however, that in the event of a breach of any such 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.

Certain Considerations With Respect to Series 2018A Bonds, Series 2018B Bonds and Series 2018D Bonds

Low Income Set-Aside Requirements under the Code. The Series 2018A Bonds, the Series 2018B Bonds and the Series 2018D Bonds are "exempt facility bonds" that are subject to certain low income set-aside requirements of the Code. This section includes brief summaries of the low income set-aside requirements and certain 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, or containing single room occupancy units, that are available to the general public (subject to preferences for homeless, disabled and similar classes of tenants that do not violate United States Department of Housing and Urban Development policies respecting non-discrimination and applicable Fair Housing requirements) 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 2018A Bonds, the Series 2018B Bonds or the Series 2018D 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 2018A Bonds, the Series 2018B Bonds or the Series 2018D 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 each development expected to be financed with the proceeds of the Series 2018A Bonds, the Series 2018B Bonds and the Series 2018D Bonds. In addition, all of the units in a 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 by the operator of the development to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Expenditures for Rehabilitation. The Code requires that the owner of an existing development spend a minimum sum of money for rehabilitation expenditures with regard to the development. The minimum amount of rehabilitation expenditures that must be incurred is equal to 15 percent of the amount of Series 2018A Bond proceeds, Series 2018B Bond proceeds, or Series 2018D Bond proceeds, as the case may be, if any, applied to pay for the cost of acquiring an existing building (including the building fixtures and equipment within, but not including the cost of land). That minimum amount of rehabilitation expenditures must be incurred no later than two years after the later of the date of issuance of those Series Bonds or the date that the building is acquired by the owner. The Code also requires that less than 25 percent of the net proceeds of each of the Series 2018A Bonds, the Series 2018B Bonds and the 2018D Bonds be used to acquire land.

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 such 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 2018A Bonds, the Series 2018B Bonds and the Series 2018D 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 those 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 2018A Bonds, the Series 2018B Bonds and the Series 2018D Bonds to become taxable by Minnesota and the market value of the Series 2018A Bonds, the Series 2018B Bonds and the Series 2018D Bonds to decline.

Considerations with Respect to the Series 2018C Bonds

Assuming compliance with the following covenants, the Series 2018C Bonds will not be treated as private activity bonds within the meaning of Section 141 of the Code.

(1) If either (a) or (b) below is true with respect to the Series 2018C Bonds:

(a) No more than 10 percent of the proceeds of the Series 2018C Bonds (net of costs of issuing the Series 2018C Bonds and any reserve funds established with proceeds of the Series 2018C Bonds) will be used for any private business use (as contemplated by Section 141(b)(1) of the Code). For this purpose, use of the proceeds by a Section 501(c)(3) entity is considered private business use.

(b) Payment of the principal of or interest on no more than 10 percent of the proceeds of the Series 2018C Bonds (net of costs of issuing the Series 2018C Bonds and any reserve fund established with the proceeds of the Series 2018C Bonds) is (under the terms of the Series 2018C Bonds or any underlying arrangement) directly or indirectly (i) secured by any interest in (A) property used or to be used for a private business use (as contemplated by Section 141(b)(1) of the Code) or (B) payments in respect of that property or (ii) to be derived from payments (whether or not to the Agency) in respect of property or borrowed money used or to be used for a private business use (as contemplated by Section 141(b)(1) of the Code). For this purpose, the loan of the proceeds to, or the use of the property by, a Section 501(c)(3) organization is considered property or borrower money used for a private business use.

(2) The proceeds of the Series 2018C Bonds, if any, that are to be used for any private business use (as contemplated by Section 141(b)(1) of the Code) that is not related to any government use, plus the proceeds of the Series 2018C Bonds, if any, that are to be used for any private business use (as contemplated by Section 141(b)(1) of the Code) that is related to any government use but disproportionate to the related government use that is financed by the proceeds of the Series 2018C Bonds, will not exceed five percent of the proceeds of the Series 2018C Bonds (net of costs of issuing the Series 2018C Bonds and any reasonably required reserve funds established with the proceeds of the Series 2018C Bonds).

(3) No portion of the proceeds of the Series 2018C Bonds will be used by the Agency with respect to any output facility within the meaning of Section 141(b)(4) of the Code unless, in the opinion of nationally recognized bond counsel, that use will not result in the inclusion in gross income of interest on the Series 2018C Bonds for federal income tax purposes.

(4) No portion of the proceeds of the Series 2018C Bonds will be used (directly or indirectly) to make or finance loans to any person, other than persons that are governmental units.

With respect to clause (4) above, the Housing Infrastructure Loans financed with proceeds of the Series 2018C Bonds are treated as grants.

Notwithstanding the foregoing, the Agency may make repayable loans to organizations of the type described in Section 501(c)(3) of the Code (the “Nonprofit Organizations”). To the extent that more than 5 percent of the net proceeds of the Series 2018C Bonds (or \$5,000,000, whichever is less) are used to make repayable loans to Nonprofit Organizations, and not used in an unrelated trade or business of such Nonprofit Organizations (as defined in Section 513 of the Code), such Series 2018C Bonds will be classified for federal income tax purposes as qualified 501(c)(3) bonds within the meaning of Section 145 of the Code. As a condition to the exclusion from gross income of interest on the Series 2018C Bonds for federal income tax purposes, all of the following must be satisfied:

- (1) If either (a) or (b) below is true with respect to the Series 2018C Bonds:
 - (a) No more than five percent of the proceeds of the Series 2018C Bonds (net of the costs of issuing the Series 2018C Bonds and any reserve fund that is funded with proceeds of the Series 2018C Bonds) will be used for any private business use (as contemplated by Section 141(b)(1) of the Code); or
 - (b) Payment of the principal of or interest on no more than five percent of the proceeds of the Series 2018C Bonds (net of the costs of issuing the Series 2018C Bonds and any reserve fund that is funded with proceeds of the Series 2018C Bonds) is (under the terms of the Series 2018C Bonds or any underlying arrangement) directly or indirectly (1) secured by any interest in (i) property used or to be used for a private business use (as contemplated by Section 141(b)(1) of the Code) or (ii) payments in respect of such property or (2) derived from payments (whether or not to the Agency) in respect of property or borrowed money used or to be used for a private business use (as contemplated by Section 141(b)(1) of the Code).
- (2) No more than five percent of the proceeds of the Series 2018C Bonds (net of the costs of issuing the Series 2018C Bonds and any reserve fund that is funded with proceeds of the Series 2018C Bonds) are used to make loans to entities that are neither a state or local governmental entity or a Nonprofit Organization.

No portion of the proceeds of the Series 2018C Bonds will be used by the Agency with respect to an output facility within the meaning of Section 141(b)(4) of the Code, unless, in the opinion of nationally recognized bond counsel, such use will not result in the inclusion in gross income of the interest on the Series 2018C Bonds for federal income tax purposes.

Bond Premium

Certain of the Series Bonds may be sold at a premium. An amount equal to the excess of the issue price of a Series Bond over its stated redemption price at maturity constitutes premium on that Series Bond. An initial purchaser of a Series Bond must amortize any premium over that Series Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Series Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in that Series Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes, upon a sale or disposition of that Series Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series Bond.

Original Issue Discount

Any Series Bonds that are sold at an initial public offering price that is less than the stated amount to be paid at maturity will constitute “Discount Bonds.” The difference between the initial public offering prices of any such Discount Bond and the stated amount to be paid at maturity constitutes original issue discount treated as

interest which is excluded from gross income for federal income tax purposes to the same extent as interest on such Discount Bond.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days that are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield to maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts that have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

Changes in Federal 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 such 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 such 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.

CONTINUING DISCLOSURE

The Agency will covenant in a continuing disclosure undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix C hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the State and to provide notices of the occurrence of certain enumerated events. That information and notices are to be filed by the Agency with the Municipal Securities Rulemaking Board through its internet repository named "Electronic Municipal Market Access" (EMMA). (See "Appendix C — Summary of Continuing Disclosure Undertakings.") The Agency and the State will enter into a separate agreement pursuant to which the State will agree to provide to the Agency the information needed for the Annual Report described in Appendix C. (See "Appendix C — Summary of Continuing Disclosure Undertakings.")

These covenants have been made in order to assist the Underwriters in complying with the Rule (as defined in Appendix C hereto). Breach of the covenants will not constitute a default or an "Event of Default" under the

Series Bonds or the Indenture. A broker or dealer is to consider a known breach of the covenants, however, before recommending the purchase or sale of the Series Bonds in the secondary market. Thus, a failure on the part of the Agency or the State to observe the covenants may adversely affect the marketability and liquidity of the Series Bonds and their market price. 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). In undertakings where the State is the obligated person, the Agency cannot provide annual financial information and operating data of the State until received from the State. For information on the State's record of compliance with its continuing disclosure obligations, its submission of a report to the Securities and Exchange Commission (the "SEC") in response to its Municipal Continuing Disclosure Cooperation Initiative (the "MCDC"), and the issuance of a Cease-and-Desist Order by the SEC and related State undertakings under the MCDC describing certain misstatements contained in several of the State's final official statements, with regard to the State's compliance with its continuing disclosure undertakings, see the disclosure under the section heading "CONTINUING DISCLOSURE" in the August 7, 2018 State Official Statement included as Appendix E hereto.

LITIGATION

There is not now pending or, to the best knowledge of the officers of the Agency or the State, overtly threatened any litigation against the Agency or the State 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.

While at any given time, including the present, there are numerous civil actions pending against the State, that could, if determined adversely to the State, affect the State's expenditures, and, in some cases, its revenues, the State Attorney General is of the opinion that, except for the actions described in Note 19 to the State Financial Statements for Fiscal Year Ended June 30, 2017, set forth in Appendix F of the August 7, 2018 State Official Statement included as Appendix E hereto, and additional actions, if any, discussed in the section entitled "LITIGATION" in the August 7, 2018 State Official Statement, no pending actions are likely to have a material adverse effect in excess of \$15 million on the State's expenditures or revenues during the current biennium.

CERTAIN LEGAL MATTERS

The validity of, and the tax exemption of interest on, the Series Bonds are subject to the opinion of Kutak Rock LLP, Bond Counsel. The opinion of Bond Counsel will be provided in substantially the form set forth in Appendix D attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Cozen O'Connor.

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 these rating agencies. For an explanation of the ratings as described by those rating agencies, please contact the rating agencies. The ratings are subject to change or withdrawal by either of the rating agencies at any time. Therefore, after the date hereof, investors should not assume that those ratings are still in effect. A downward revision or withdrawal or suspension of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds.

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 assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series Bonds and provided other advice to the Agency. 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.

UNDERWRITING

RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Piper Jaffray & Co. and Wells Fargo Bank, National Association (collectively, the “Underwriters”) will purchase the Series Bonds at an aggregate purchase price of \$_____ (which price reflects an underwriting discount of \$_____ and net original issue of \$_____). The Underwriters 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.

Each of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the Agency, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, each of the Underwriters and their respective affiliates 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 their own account and for the accounts of their 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 Agency.

Wells Fargo Bank, National Association, acting through its Municipal Products Group (“WFBNA”), one of the underwriters of the Series Bonds, has entered into an agreement (the “WFA Distribution Agreement”) with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name “Wells Fargo Advisors”) (“WFA”), for the distribution of certain municipal securities offerings, including the Series Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing compensation, as applicable, with respect to the Series Bonds with WFA. WFBNA also entered into an agreement (the “WFSLLC Distribution Agreement”) with its affiliate, Wells Fargo Securities, LLC (“WFSLLC”), for the distribution of municipal securities offerings, including the Series Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC’s expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company (“WFC”).

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of WFC and its subsidiaries, including WFBNA, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Products Group, a separately identifiable department of WFBNA, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

WFBNA is serving both as one of the Underwriters and as Trustee under the Indenture (which includes acting as paying agent for the Series Bonds). WFBNA will be compensated separately for serving in each capacity.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series Bonds that that firm sells.

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 purposes. Any statement made or incorporated 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 owners 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

Dated: _____, 2018.

APPENDIX A
SUMMARY OF CERTAIN PROVISIONS
OF THE INDENTURE

The Indenture contains various definitions, covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Indenture for a full and complete statement of its provisions.

Certain Defined Terms

Agency Certificate: As the case may be, a document signed by an Authorized Officer either (i) attesting to or acknowledging the circumstances, representations or other matters therein stated or set forth, (ii) setting forth matters to be determined by the Agency or an Authorized Officer pursuant to the Indenture, or (iii) requesting or directing the Trustee or other party to take action pursuant to the Indenture.

Agency Resolution: A copy of a resolution certified by an Authorized Officer to have been duly adopted by the members of the Agency and to be in full force and effect on the date of such certification, and delivered to the Trustee.

Authorized Officer: The Chairperson, Vice Chairperson, Commissioner or Deputy Commissioner of the Agency or any other person authorized by resolution of the Agency to perform an act or sign a document.

Bond Compliance Agreement: A Bond Compliance Agreement, if any, entered into by the Agency and a borrower with respect to a loan funded with proceeds of Bonds deemed to be “private activity bonds” under the Code.

Bond Counsel: Any attorney or firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds selected by the Agency.

Bond Fund: The Bond Fund created under the Indenture within the Agency’s Housing Development Fund.

Bondowner: A Person in whose name a Bond is registered in the Bond Register.

Business Day: Any day (a) other than a Saturday, Sunday or other day that is a legal holiday in the State, and (b) on which banks in the city in which the designated principal corporate trust office of the Trustee are located are not required or authorized by law to be closed.

Code: The Internal Revenue Code of 1986, as amended and the applicable temporary, proposed and final Treasury regulations promulgated thereunder or applicable thereto.

Default: An Event of Default and an event or condition, the occurrence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

Fiscal Year: The 12-month period commencing July 1 and concluding on June 30 in the next succeeding calendar year, or any other 12-month period designated by the State as its fiscal year.

Government Obligations: Direct obligations of the United States of America or obligations the principal of and interest on which are guaranteed by the United States of America (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury).

Interest Payment Date: The date on which interest is payable on any Bonds (other than upon redemption of a Bond on a date other than a regularly schedule interest payment date).

Investment Obligations: Any of the following securities and other investments, if and to the extent the same are at the time legal for the investment of the Agency’s moneys:

- (a) Government Obligations;
- (b) Obligations (i) that are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not adversely affect the Rating of the Bonds;
- (c) Interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including the Trustee) provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such depository has combined capital and surplus of at least \$75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not adversely affect the Rating of the Bonds or (iii) the deposit of funds with such depository will not adversely affect the Rating of the Bonds;
- (d) Repurchase agreements and reverse repurchase agreements with banks that are members of the Federal Deposit Insurance Corporation, 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 (a) and (b) of this definition;
- (e) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in clause (a), (b) or (d) above, or (ii) 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 \$75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in clause (a), (b) or (d) above;
- (f) Any investment contract with any provider as long as such investment contract does not adversely affect the Rating of the Bonds; and
- (g) Any other investment that will not adversely affect the Rating of the Outstanding Bonds.

Opinion of Counsel: A written opinion of counsel selected by the Agency and acceptable to the Trustee or selected by the Trustee.

Outstanding: When used with respect to Bonds, as of the date of determination, all Bonds theretofore authenticated and delivered under the Indenture *except*:

- (i) Bonds theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Bonds for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee in trust for the Owners of such Bonds; *provided* that if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Indenture or provision therefor satisfactory to the Trustee has been made;
- (iii) Bonds which have been defeased within the meaning of the Indenture; and
- (iv) Bonds in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Indenture;

provided, however, that in determining whether the Owners of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Agency shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded.

Owner: With respect to any Bond, the Bondowner.

Person: Any individual, corporation, limited liability company, partnership, limited liability partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Program Fund: The Program Fund created under the Indenture.

Rating: With respect to any Bonds, the rating issued by a Rating Agency in force immediately prior to the proposed action to be taken by the Agency under the Indenture, and an action that does not “impair” the Rating with respect to any Bonds shall be an action that will not cause the Rating Agency to lower, suspend or withdraw the rating it has assigned to the Bonds.

Rating Agency: Any nationally recognized entity that, upon the request of the Agency, has issued a credit rating on any Bonds issued pursuant to the Indenture.

Rebate Fund: The Rebate Fund created under the Indenture.

Record Date: The 15th day, whether or not a Business Day, of the month immediately preceding the month in which each Interest Payment Date, or any Redemption Date, occurs.

Redemption Date: When used with respect to any Bond to be redeemed, the date fixed for such redemption by or pursuant to the Indenture.

Redemption Price: When used with respect to any Bond to be redeemed, the price at which it is to be redeemed pursuant to the Indenture.

Sinking Fund Payment Date: A date set forth in any applicable provision of the Indenture or a Supplemental Indenture for the making of a mandatory principal payment for the redemption of a Term Bond.

Special Record Date: A date fixed by the Trustee pursuant to the Indenture for the payment of any interest not paid at its Stated Maturity.

Stated Maturity: When used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

Tax Exemption Agreement: A Tax Exemption Agreement, if any, entered into by the Agency and a borrower with respect to a Loan funded with proceeds of Bonds not deemed to be “private activity bonds” under the Code.

Term Bonds: Any Bond for the payment of the principal of which mandatory payments are required by a Supplemental Indenture to be made at times and in amounts sufficient to redeem all or a portion of such Bond prior to its Stated Maturity.

Trust Estate: The assets, revenues and other property pledged pursuant to the Granting Clauses of the Indenture.

Program Fund

The Agency by the Indenture establishes an account with the Trustee to be designated the “Program Fund,” as a subaccount of the housing infrastructure bond account established by the Act, and is required to deposit with the Trustee to the credit thereof proceeds of the Series Bonds as provided in the Indenture. Income and profit from the investment of moneys in the Program Fund shall be credited to such Fund. The moneys in the Program Fund shall be held in trust by the Trustee and applied to the funding of the Housing Infrastructure Loans and payment of costs of issuance of the Series Bonds. The Trustee shall create specific accounts within the Program Fund, upon receipt of an Agency Certificate, to fund specific Housing Infrastructure Loans. The Trustee shall pay each item payable from the applicable account in the Program Fund to the Agency or at the Agency’s direction, or shall make arrangements for the transfer and deposit of the amount for such payment, as the Agency shall request. Upon receipt by the Trustee of an Agency Certificate stating that all amounts to be paid with respect to Housing Infrastructure Loans financed by

Bonds of such series has been paid, any balance remaining in the Program Fund with respect to such Bonds shall be transferred to the Bond Fund.

Bond Fund

The Agency by the Indenture establishes, and is required to maintain, so long as any of the Bonds are outstanding, with the Trustee, a separate account within the Agency's Housing Development Fund to be designated the "Housing Infrastructure State Appropriation Bond Fund," as a subaccount of the housing infrastructure bond account established by the Act, into which the Agency and Trustee shall make certain deposits pursuant to the Indenture, including, as received each year, all Housing Infrastructure State Appropriations paid by the State. The moneys and investments in the Bond Fund are irrevocably pledged to and shall be used by the Trustee, from time to time, to the extent required, for the payment of principal of, premium (if any) on and interest on the Bonds, as and when such principal, premium and interest shall become due and payable. Except as otherwise provided in the Indenture (see "Compensation of Trustee" and "Application of Revenues and Other Moneys After Event of Default" hereinafter), so long as all principal, premium and interest on the Bonds have been paid when due, and the amount in the Bond Fund is sufficient to pay the principal of and interest on Outstanding Bonds in the current Fiscal Year, upon the written direction of the Agency pursuant to an Agency Certificate, the Trustee may use moneys in the Bond Fund in excess of such amount to pay fees, charges and expenses with respect to the Bonds. Upon the written direction of the Agency, the Trustee may use moneys in the Bond Fund to purchase Bonds maturing or subject to redemption on a Sinking Fund Payment Date on either of the next two Interest Payment Dates after such purchase, provided that such Bonds are delivered to the Trustee for cancellation upon such purchase.

Investment of Moneys in Program Fund and Bond Fund

The Trustee shall invest the moneys on deposit in the Program Fund or held as a part of the Bond Fund, respectively, at the written request and direction of an Authorized Officer in Investment Obligations. The type, amount and maturity of Investment Obligations shall conform to any instructions of the Authorized Officer. The Trustee may, from time to time, cause any such investments to be sold or otherwise be converted into cash, whereupon the proceeds derived from such sale or conversion shall be credited to the respective Fund. Any interest or profit derived from investments shall be credited to the respective Fund. Investments permitted under the Indenture may be purchased from the Trustee or from any of its affiliates. No portion of the Program Fund or the Bond Fund representing proceeds of the Bonds shall be invested or used in such manner that no part of a series of Bonds would be "arbitrage bonds" under the Code; the Trustee may conclusively rely on the written direction of an Authorized Officer as to compliance with the Code. The Trustee shall be entitled to assume that any investment that at the time of purchase is an Investment Obligation remains an Investment Obligation thereafter, absent receipt of written notice or information to the contrary. If no investment direction is received for a Fund, the funds shall be held uninvested. The Trustee shall have no liability or responsibility for any loss or for failure to maximize earnings resulting from any investment for a Fund made in accordance with the Indenture.

Rebate Fund

The Trustee shall establish a special fund designated as the "Rebate Fund." The Rebate Fund is not a trust fund, is not part of the Trust Estate and is not subject to the lien of the Indenture. For each series of Bonds that is subject to the rebate requirements of Section 148(f) of the Code, or its equivalent, a separate account shall be established in the Rebate Fund. The Trustee shall make information regarding the investments thereunder available to the Agency and shall make deposits in and disbursements from the Rebate Fund in accordance with written instructions in an Agency Certificate delivered from time to time, shall invest the Rebate Fund pursuant to said written instructions, and shall deposit income from such investments immediately upon receipt thereof in the Rebate Fund. The Trustee shall upon receipt of an Agency Certificate transfer moneys from the Bond Fund or moneys representing interest income from the Program Fund, as directed by the Agency Certificate, to the Rebate Fund in the amount of any required deposit. Records of transactions with respect to the separate account within the Rebate Fund for a series of Bonds shall be retained by the Trustee until six years after the Bonds of such series are no longer outstanding.

Payment of Bonds

The Agency covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Indenture and in each and every Bond executed, authenticated and delivered thereunder; will pay or cause to be paid, solely from the Trust Estate, including Housing Infrastructure State Appropriations, the principal of, premium (if any) on and interest on every Bond issued thereunder on the dates, at the places and in the manner prescribed in the Bonds in any coin or currency that, on the respective dates of payment of such principal and interest, is legal tender for the payment of public and private debts; and will cause such amounts received to be deposited with the Trustee prior to the due date of each installment of principal and interest and prior to the maturity of any Bond in amounts sufficient to pay such installment; provided, however, that the principal of and interest on any Bond are not and shall not be an indebtedness or other obligation of the State and the Bonds are not public debt of the State, and the full faith and credit of the State are not pledged to their payment or for any annual transfers of Housing Infrastructure State Appropriations to the Agency. The Agency covenants that it will take all actions required by the Act to cause the Housing Infrastructure State Appropriations to be received on or prior to the dates such amounts are required to pay, with other amounts available in the Bond Fund, principal of and interest of Outstanding Bonds and will deposit all Housing Infrastructure State Appropriations as received in the Bond Fund.

Covenant to Request Housing Infrastructure State Appropriations

On or prior to each June 30 while any Bonds remain Outstanding, the Agency covenants that it will certify to the Commissioner of Management and Budget of the State the amount of principal, premium, if any, and interest on each series of the Bonds, and the fees, charges, and expenses related to each series of the Bonds, payable in the next succeeding Fiscal Year, less the amount on hand in the Bond Fund and available to pay such amounts.

Covenants Relating to Housing Infrastructure Loans

The Agency covenants that the proceeds of the Bonds will be used solely to pay costs of issuance of the Bonds, to pay interest on the Bonds prior to the first date Housing Infrastructure State Appropriations are received and to fund Housing Infrastructure Loans meeting such criteria for Housing Infrastructure State Appropriations as shall be set forth in Section 462A.37 of the Act. Proceeds of the Bonds may also be used for other purposes authorized by the Act as amended from time to time.

Tax Covenants with Respect to Series Bonds

The Agency shall not take any action or fail to take any action or permit any action to be taken on its behalf or cause, or permit any circumstance within its control to arise or continue, if such action or inaction would adversely affect the exclusion from gross income for federal income purposes of the interest on the Series Bonds. These covenants will survive the payment of the Series Bonds.

The Agency shall not use or permit the use of any proceeds of the Series Bonds or any other funds of the Agency, directly or indirectly, to acquire any securities, obligations, or other investment property, and shall not use or permit the use of any amounts received by the Agency or the Trustee with respect to the Series Bonds in any manner, and shall not take or permit to be taken any other action or actions, that would cause the Series Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. 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.

The Agency shall not use or permit the use of any proceeds of the Series Bonds or any other funds of the Agency, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, that would result in any Development financed with proceeds of the Series Bonds not being treated as a “qualified residential rental project” as such phrase is used in Sections 147(a)(7) and 142(d) of the Code. In furtherance of this covenant the Agency will enter into a Bond Compliance Agreement with respect to each Housing Infrastructure

Loan to be funded with the proceeds of the Series Bonds in order for the interest on the Series Bonds to be excluded from gross income of the owners for purposes of federal income taxation.

Events of Default

Each of the following events is defined as, and is declared to be and to constitute, an “Event of Default” under the Indenture:

(a) If payment of the principal of, or premium, if any, on any of the Bonds, when the same shall become due and payable, whether at Stated Maturity or upon a Sinking Fund Payment Date, or otherwise, shall not be made.

(b) If payment of any interest on the Bonds when the same shall become due and payable shall not be made.

(c) If default shall be made in the performance or observance of any other of the covenants, agreement or conditions on the part of the Agency in the Indenture, or in the Bonds contained, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than 10% in principal amount of the Bonds Outstanding, provided that if (i) the Agency is proceeding with due diligence to remedy the same, (ii) the default is able to be remedied, and (iii) the Agency has commenced action during the 60-day period necessary to remedy such default, such 60-day period shall be increased to such extent, but not more than an additional 180 days, as shall be necessary to enable the Agency to cure the default through the exercise of due diligence.

(d) The Agency shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State.

(e) The State has limited or altered the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Indenture, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Remedies

Upon the occurrence and continuation of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (a) Suit upon all or any part of the Bonds;
- (b) Suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners;
- (c) Suit to enjoin any acts or things that may be unlawful or in violation of the rights of the Bondowners; and
- (d) Enforcement of any other right of the Bondowners conferred by law or by the Indenture.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Bondowners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts that may be unlawful or in violation of the Indenture, or (ii) to preserve or protect the interests of the Bondowners, provided that such request is in accordance with law and the provisions of the Indenture.

Application of Revenues and Other Moneys After Event of Default

The Agency covenants that if an Event of Default shall happen and shall not have been remedied, the Agency, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee, as promptly as practicable after receipt thereof, any Housing Infrastructure State Appropriations and other payments or receipts pledged under the Indenture. During the continuation of an Event of Default the Trustee shall apply such moneys, securities, revenues, payments and receipts and the income therefrom as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee in the performance of duties under the Indenture;

(b) To the payment of the interest and principal or Redemption Price then due and payable on Outstanding Bonds, as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due and payable in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Outstanding Bonds that shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Outstanding Bonds due and payable on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever all principal amounts of and interest on all Bonds have been paid under the above provisions, and any required arbitrage rebate and all fees, expenses and charges of the Trustee have been paid, any balance remaining under the Indenture shall be paid to the Agency.

Majority of Bondowners Control Proceedings

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Indenture to the contrary, the Bondowners of at least a majority in aggregate principal amount of Bonds then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Indenture or for the appointment of a receiver or any other proceedings under the Indenture, provided that such direction is in accordance with law and the provisions of the Indenture and provided that nothing in the Indenture shall impair the right of the Trustee in its discretion to take any other action under the Indenture that it may deem proper.

Individual Bondowner Action Restricted

No Bondowner of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(1) an Event of Default has occurred (a) under section (a) or (b) of the Events of Default subheading above, (b) as to which the Trustee has actual notice, or (c) as to which the Trustee has been notified in writing, and

(2) the Bondowners of at least a majority in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and

(3) such Bondowners shall have offered the Trustee indemnity, and

(4) the Trustee shall have failed or refused to exercise the powers in the Indenture granted or to institute such action, suit or proceedings in its own name for a period of 60 days after receipt by it of such request and offer of indemnity.

No one or more Bondowners shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner in the Indenture provided and for the equal benefit of the Bondowners of all Bonds Outstanding appertaining thereto.

Nothing contained in the Indenture shall affect or impair, or be construed to affect or impair, the right of a Bondowner (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Bondowner may institute or prosecute any such suit or enter judgment therein, if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein, under applicable law, would result in the surrender, impairment, waiver or loss of the lien of the Indenture on the moneys, accounts and properties pledged under the Indenture for the equal and ratable benefit of all Bondowners.

Waiver and Non-Waiver of Event of Default

No delay or omission of the Trustee or of any Bondowner to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein. Every power and remedy given by the Indenture with respect to remedies to the Trustee and the Bondowners, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee may waive any Event of Default that in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

Notwithstanding anything contained in the Indenture to the contrary, the Trustee, upon the written request of the Bondowners of at least a majority of the aggregate principal amount of Bonds then Outstanding (including, if more than one series of Bonds shall at the time be Outstanding, the Bondowners of a majority in principal amount of the Bonds of each such Series), shall waive any Event of Default under the Indenture and its consequences; provided, however, that except under the circumstances set forth in the paragraph above, a default in the payment of the principal, or Redemption Price, if any, of or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Owner of such Bond.

In case of any waiver by the Trustee of an Event of Default under the Indenture, the Agency, the Trustee and the Bondowners shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with these provisions.

Notices of Defaults

Within 10 Business Days after the receipt of notice of an Event of Default or the occurrence of an Event of Default of which the Trustee has actual notice or is deemed to have notice, the Trustee, unless such Event of Default shall have theretofore been cured, shall give written notice thereof by first class mail to each Owner of Bonds then Outstanding, provided that, except in the case of a default in the payment of principal or the Redemption Price of or interest on any of the Bonds, the Trustee may withhold such notice if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondowners. The Trustee shall immediately notify the Agency of any Default or Event of Default known to the Trustee.

Trustee May Rely Upon Certain Documents and Opinions

Except as otherwise specifically provided in the Indenture, the Trustee may rely and shall be protected in acting upon certain resolutions, certificates, statements, instruments, opinions, reports, notices, requests, consents,

orders, bonds or other papers or documents and may consult with counsel and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel. Before being required to take any remedial action, the Trustee may require an opinion of counsel reasonably acceptable to it, which opinion of counsel shall be made available to the other parties to the Indenture upon request, or a verified certificate of any such party, or both concerning proposed actions.

Compensation of Trustee

All advances, counsel fees and other expenses reasonably made or incurred by the Trustee in and about the execution of the trust created by the Indenture and reasonable compensation to the Trustee for its services in the premises, including extraordinary fees such as default fees, if any, shall be paid by the Agency from the Trust Estate. The compensation of the Trustee shall not be limited to or by any provision of law in regard to the compensation of trustees of an express trust. The Trustee shall have a first lien, with right of payment prior to payment on account of interest or principal of any Bond issued under the Indenture, for reasonable compensation, expenses, advances and counsel fees incurred in and about the execution of the trusts created thereby and exercise and performance of the powers and duties of the Trustee thereunder and the cost and expense incurred in defending against any liability in the premises of any character whatsoever (unless such liability is adjudicated to have resulted from the negligence or willful default of the Trustee). The Trustee's right to receive compensation, reimbursement, indemnification of money due and owing under the Indenture shall survive the Trustee's resignation or removal.

Resignation or Removal of Trustee

The Trustee may resign and be discharged from the trusts created by the Indenture by giving to the Agency 30 days' notice in writing, and to the Bondowners 30 days' notice by certified mail at its or his address as set forth on the registration books of such resignation, specifying a date when such resignation shall take effect. Such resignation shall take effect on the day specified in such notice, if a successor Trustee has been appointed, or upon such later date as a successor is appointed. If no successor Trustee shall have been appointed and have accepted appointment within 90 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee may petition a court of competent jurisdiction to appoint a successor Trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

Any Trustee may be removed at any time by an instrument or instruments in writing, appointing a successor to the Trustee so removed, filed with the Trustee and executed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds secured by the Indenture and then Outstanding.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or otherwise shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver of the Trustee or of its property shall be appointed, or if a public supervisory office shall take charge or control of the Trustee or of its property or affairs, a vacancy shall forthwith and ipso facto be created in the office of such Trustee, and a successor may be appointed by either (i) the Agency, if it is not then in Default under the Indenture; or (ii) the Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or instruments in writing filed with the Trustee and notification thereof being given to the Agency. In the event the Trustee has been removed by action of the Bondowners, until a new Trustee shall be appointed by the Bondowners as authorized in the Indenture, the Agency may, subject to the provisions thereof, appoint a Trustee to fill such vacancy. After any such appointment by the Agency, the Trustee so appointed shall cause notice of its appointment to be mailed within 30 days of such appointment to the Owners of the Bonds, and any new Trustee so appointed by the Agency shall immediately and without further act be superseded by a Trustee appointed in the manner above provided by the Owners of a majority in principal amount of said Bonds whenever such appointment by said Bondowners shall be made.

If, in a proper case, no timely appointment of a successor Trustee shall be made pursuant to the foregoing provisions the Owner of any Bond may apply to any court of competent jurisdiction to appoint a successor trustee. The court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor trustee.

Payment and Discharge of Indenture

If the Agency, its successors or assigns, shall

(a) pay or cause to be paid the principal of and premium, if any, and interest on the Bonds at the time and in the manner stipulated therein and in the Indenture, or

(b) provide for the payment of principal and premium, if any, of the Bonds and interest thereon by depositing with the Trustee at or at any time before maturity amounts sufficient in cash and/or in Government Obligations (the principal and interest on which when due and payable or redeemable at the option of the holder thereof) and without consideration of any reinvestment thereof shall be sufficient to pay the entire amount due or to become due thereon for principal and premium, if any, and interest to maturity of all said Bonds Outstanding, or

(c) deliver to the Trustee (1) proof satisfactory to the Trustee that notice of redemption of all of the Outstanding Bonds to be called for redemption not surrendered or to be surrendered to it for cancellation has been given or waived as provided in the Indenture, or that arrangements satisfactory to the Trustee have been made ensuring that such notice will be given or waived, or (2) a written instrument executed by the Agency and expressed to be irrevocable, authorizing the Trustee to give such notice for and on behalf of the Agency, or (3) file with the Trustee a waiver of such notice of redemption signed by the Owners of all of such Outstanding Bonds, and in any such case, deposit with the Trustee before the date on which such Bonds are to be redeemed, as provided in the Indenture, the entire amount of the Redemption Price, in cash and/or Government Obligation (which do not permit the redemption thereof at the option of the issuer) in such aggregate face amount, bearing interest at such rates and maturing at such dates as shall be sufficient to provide for the payment of such Redemption Price on the date such Bonds are to be redeemed, and on such prior dates when principal of and interest on the Outstanding Bonds is due and payable, or

(d) surrender to the Trustee for cancellation all Outstanding Bonds for which payment is not so provided, and shall also pay all other sums due and payable under the Indenture by the Agency,

then and in that case, if all required arbitrage rebate has been paid in respect of the Bonds, all the Trust Estate shall revert to the Agency, and the entire estate, right, title and interest of the Trustee and of the Owners of the Bonds shall thereupon cease, determine and become void; and the Trustee in such case, upon the cancellation of all Bonds for the payment of which cash or securities shall not have been deposited in accordance with the provisions of the Indenture, shall, upon receipt of a written request of the Agency, and at its cost and expense, execute to the Agency, or its order, proper instruments acknowledging satisfaction of the Indenture and surrender to the Agency all cash and deposited securities, if any (other than cash or securities for the payment of the Bonds and interest thereon), which shall then be held under the Indenture as a part of the Trust Estate.

In case of any discharge of the lien of the Indenture pursuant to paragraphs (b) or (c) above, there shall be submitted to the Trustee an opinion of Bond Counsel to the effect that the interest on the Bonds being discharged will not become includable in gross income for federal income tax purposes.

Bonds Deemed Not Outstanding After Deposits

When there shall have been deposited at any time with the Trustee in trust for the purpose, cash or Government Obligations the principal and interest on which shall be sufficient to pay the principal of any Bonds (and premium, if any) when the same become due, either at maturity or otherwise, or at the date fixed for the redemption thereof and to pay all interest with respect thereto at the due dates for such interest or to the date fixed for redemption, then upon such deposit all such Bonds shall cease to be entitled to any lien, benefit or security of the Indenture except the right to receive the funds so deposited, and such Bonds shall be deemed not to be Outstanding thereunder; and it shall be the duty of the Trustee to hold the cash and securities so deposited for the benefit of the Owners of such Bonds.

Purposes for Which Supplemental Indentures May be Executed

The Agency, by Agency Resolution, and the Trustee from time to time and at any time, subject to the conditions and restrictions contained in the Indenture, may enter into such indentures supplemental thereto as the

Agency may or shall deem necessary or desirable without notice to or consent of any Bondowner for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Agency in the Indenture or any Supplemental Indenture other covenants and agreements to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(b) To add to the limitations and restrictions in the Indenture or any Supplemental Indenture other limitations and restrictions to be observed by the Agency that are not contrary to or inconsistent with the Indenture or the applicable Supplemental Indenture as theretofore in effect;

(c) To surrender any right, power or privilege reserved to or conferred upon the Agency by the terms of the Indenture, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained in the Indenture;

(d) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture or any Supplemental Indenture, of the Housing Infrastructure State Appropriations or of any other part of the Trust Estate;

(e) To cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any Supplemental Indentures that may be defective or inconsistent with any other provision contained in the Indenture or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under the Indenture or any Supplemental Indenture as the Agency may deem necessary or desirable and which shall not be inconsistent with the provisions of the Indenture or any Supplemental Indenture and which shall not impair the security of the same;

(f) To modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter enacted, and to add to the Indenture such other provisions as may be expressly permitted by said Trust Indenture Act of 1939, excluding, however, the provisions referred to in Section 316(a)(2) of said Trust Indenture Act of 1939;

(g) To provide for the issuance of Bonds pursuant to the Indenture;

(h) To make any other change in the Indenture as shall not be, in the opinion of the Trustee, materially adverse to the security or other interests of the Bondowners. With respect to the foregoing, the Trustee may rely upon the opinion of the Rating Agency with respect to whether the Rating of the Bonds has been adversely affected as conclusively establishing whether the change is materially adverse to the security or other interests of the Bondowners.

The Trustee shall not enter into a Supplemental Indenture under these provisions unless it obtains an Opinion of Counsel stating that such Supplemental Indenture has been duly and lawfully adopted in accordance with the provisions of the Indenture and is authorized or permitted by the Indenture.

Modification of Indenture with Consent of Bondowners

Subject to the terms and provisions below, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, to consent to and approve the execution by the Agency and the Trustee of such indenture or indentures supplemental thereto as shall be deemed necessary or desirable by the Agency for the purpose of modifying, altering, amending, adding to or deleting in any particular, any of the terms or provisions contained in the Indenture or in any Supplemental Indenture; provided, however, that, notwithstanding any other provision of the Indenture, nothing therein contained shall permit or be construed as permitting, without the consent of the Owners of all Outstanding Bonds affected thereby, (i) an extension of the maturity of any Bond issued under the Indenture, or (ii) a reduction in the principal amount of any Bond or the redemption premium or the rate of interest thereon, or (iii) the creation of a lien upon or a pledge of revenues ranking prior to or on a parity with the lien or pledge created by the Indenture, or (iv) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) a reduction in the aggregate principal amount of

the Bonds required to consent to Supplemental Indentures, or (vi) a reduction in the aggregate principal amount of the Bonds required to waive an Event of Default.

If the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding at the time of the execution of such Supplemental Indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Owner of any Bond shall have any right to object to the execution of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Agency from executing the same or from taking any action pursuant to the provisions thereof.

APPENDIX B

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond of each series for each maturity in the aggregate principal amount of such 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 of a series, references herein to the Bondowners, Owners or registered owners of the Series Bonds mean Cede & Co. or such other nominee and do 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 Series Bonds of a series 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 such other 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 such 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 those 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 of a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series Bonds of the series and maturity 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 and redemption price of and interest on the Series Bonds will be made to Cede & Co., or other 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 the payments to Direct Participants will be the responsibility of DTC, and disbursement of the payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The above information contained in this Appendix B is based solely on information provided by DTC. No representation is made by the Agency, the State or the Underwriters 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 State, the Underwriters 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 State, the Underwriters 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 Indenture to be given to Owners 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 Bondowner.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to all or any series of 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, that series of Series Bonds are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of those Series Bonds held in the Beneficial Owner's name, will become the Bondowner.

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

APPENDIX C

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKINGS

The following statements are extracted provisions of the Continuing Disclosure Undertaking (the “Disclosure Undertaking”) to be executed by the Agency in connection with the issuance of the Series Bonds. The Agency and the Minnesota Department of Management and Budget (“MMB”) have entered into a separate Continuing Disclosure Agreement (the “State Agreement”) under which MMB has agreed to undertake the Annual Financial Information Disclosure in order that the Agency can satisfy the Annual Financial Information Disclosure obligation described below.

Purpose

This Disclosure Undertaking is executed and delivered by the Agency for the benefit of the holders and owners (the “Bondowners”) 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 Indenture, which apply to any capitalized term used in this Disclosure Undertaking, the following capitalized terms shall have the following meanings:

(a) “*Annual Financial Information*” means the following financial information and operating data (to the extent not included in Audited Financial Statements): the information in Appendix B to the State of Minnesota Official Statement dated August 7, 2018 included as Appendix E to the Official Statement of the Agency relating to the Series Bonds, Appendix C to such State Official Statement and Appendix F to such State Official Statement.

(b) “*Annual Financial Information Disclosure*” means the dissemination of disclosure concerning Annual Financial Information and the dissemination of the Audited Financial Statements as described under “Annual Financial Information Disclosure” herein.

(c) “*Annual Financial Information Disclosure Date*” means December 31 of each year, beginning December 31, 2018.

(d) “*Audited Financial Statements*” means the audited financial statements of the State, prepared pursuant to the standards and as described under the caption “Annual Financial Information Disclosure.”

(e) “*Beneficial Owners*” means (1) in respect of a Series Bond subject to a book-entry-only registration system, any person or entity that (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.

(f) “*Commission*” means the Securities and Exchange Commission.

(g) “*Exchange Act*” means the Securities Exchange Act of 1934, as amended.

(h) “*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.

(i) “*Listed Events Disclosure*” means dissemination of a notice of a Listed Event as described under the heading “Listed Events Disclosure” in this Appendix C.

(j) “*MSRB*” means the Municipal Securities Rulemaking Board.

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

(l) “*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.

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

(n) “*Undertaking*” means the obligations of the Agency described under the headings “Annual Financial Information Disclosure” and “Listed Events Disclosure” in this Appendix C.

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), on or before each Annual Financial Information Disclosure Date, to the MSRB.

The Agency shall deliver such information in Prescribed Form and by such time so that the MSRB receives the information by the Annual Financial Information Disclosure Date.

If any part of the Annual Financial Information can no longer be generated because the operations of the State to which it is related have been materially changed or discontinued, the Agency shall 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, including official statements of debt issues of the State or related public entities, 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 by the Annual Financial Information Disclosure Date. 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 State, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

Listed Events Disclosure

The Agency shall 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 Indenture.

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 Bondowner 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 Series Bonds or the Indenture 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. None of the agreements or obligations of the Agency or of the State shall be construed to constitute a waiver of the State's sovereign immunity.

or a waiver of any of the limitations contained in Minnesota Statutes, Section 3.736, except as provided under the laws of the State. Neither a default by the Agency under the Disclosure Undertaking nor a default by the State under the State Agreement shall constitute a default or an Event of Default under the Series Bonds or the Indenture.

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 Bondowners of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondowners 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 Indenture at the time of the amendment; or

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

Termination of Undertaking

This Disclosure Undertaking shall terminate 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 the Undertaking is so terminated before the final stated maturity of the Series Bonds.

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 Bondowners 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.

The State Agreement

Under the State Agreement the State agrees to provide the information needed for the Annual Financial Information which the Agency is required to provide under the Disclosure Undertaking. The State may satisfy this obligation either by providing the Annual Financial Information to the Agency or by identifying any other disclosure document which may be included or incorporated by reference in order to satisfy the Annual Financial Information requirement.

APPENDIX D
FORM OF OPINION OF BOND COUNSEL

[To be dated the date of issuance of the Series Bonds]

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
State Appropriation Bonds (Housing Infrastructure), 2018 Series A, 2018 Series B, 2018 Series C
and 2018 Series D

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 State Appropriation Bonds (Housing Infrastructure), 2018 Series A, in the aggregate principal amount of \$_____ (the “2018 Series A Bonds”), its State Appropriation Bonds (Housing Infrastructure), 2018 Series B, in the aggregate principal amount of \$_____ (the “2018 Series B Bonds”), its State Appropriation Bonds (Housing Infrastructure), 2018 Series C, in the aggregate principal amount of \$_____ (the “2018 Series C Bonds”), and its State Appropriation Bonds (Housing Infrastructure), 2018 Series D, in the aggregate principal amount of \$_____ (the “2018 Series D Bonds” and, together with the 2018 Series A Bonds, the 2018 Series B Bonds and the 2018 Series C Bonds, the “Series Bonds”). The Series Bonds are being issued in accordance with Minnesota Statutes, Chapter 462A, as amended (the “Act”), an Indenture of Trust, dated as of August 1, 2013, as heretofore and hereafter amended and supplemented (the “General Indenture”), by and between the Agency and Wells Fargo Bank, National Association, as trustee (the “Trustee”), and a Seventh Supplemental Indenture of Trust, dated as of September 1, 2018 (the “Supplemental Indenture”), by and between the Agency and the Trustee. The General Indenture and the Supplemental Indenture are referred to herein, collectively, as the “Indenture.”

The Series Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Indenture. The Series Bonds are subject to redemption prior to maturity, as provided in the Indenture.

The Series Bonds are being issued to make loans to certain recipients (the “Housing Infrastructure Loans”) to pay for all or a portion of the costs of acquisition, construction, rehabilitation and equipping, as applicable, of related developments, including facilities related and subordinate thereto, with respect to abandoned or foreclosed properties or for supportive housing, all as defined in the Act, or to finance or refinance the costs of acquisition and rehabilitation of federally assisted rental housing, and other authorized purposes under the Act; provided, however, that the Housing Infrastructure Loans financed with proceeds of the 2018 Series C Bonds are deemed to be “grants” for federal income tax purposes.

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 Resolution No. MHFA 16-029, adopted July 28, 2016, Resolution No. MHFA 17-024, adopted August 31, 2017, and Resolution No. MHFA 18-___, adopted August 30, 2018 (together, the “Bond 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 recipients of the Housing Infrastructure Loans with the covenants contained in the Indenture and the loan documentation relating to each 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 has been duly and validly adopted by the Agency; (3) the Indenture has been duly authorized and executed and is valid and binding upon the Agency in accordance with its terms, and creates the valid pledge and security interest it purports to create with respect to the Revenues, moneys, securities and other Funds held and to be set aside under the Indenture; (4) the Series Bonds are duly and lawfully authorized to be issued and are valid and binding special, limited obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Indenture, and are payable solely, and equally and ratably, from specified transfers expected to be made by the State of Minnesota (the “State”) pursuant to legislation providing for the appropriation of such transfers from the general fund of the State to the Agency and

moneys and securities held from time to time in the funds and accounts established and pledged thereto under the Indenture; and (5) the interest payable on the Series 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 2018 Series A Bond, 2018 Series B Bond or 2018 Series D Bond for any period during which such 2018 Series A Bond, 2018 Series B Bond or 2018 Series D Bond is held by a person who is a “substantial user” of a development financed by the 2018 Series A Bonds, the 2018 Series B Bonds or the 2018 Series D 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 Series 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 interest on the 2018 Series A Bonds, the 2018 Series B Bonds and the 2018 Series D Bonds 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 Series 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 Series Bonds. All owners of Series 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 Series Bonds.

Noncompliance by the Agency or the recipient of a Housing Infrastructure Loan financed by the Series Bonds with their covenants in the Indenture or applicable loan documentation relating to a development may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the Series Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the Series Bonds and the Indenture 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.

Dated: ____, 2018.

Respectfully yours

APPENDIX E
OFFICIAL STATEMENT OF THE STATE OF MINNESOTA
DATED AUGUST 7, 2018

RESOLUTION NO. MHFA 18-055

RESOLUTION RELATING TO STATE APPROPRIATION BONDS (HOUSING INFRASTRUCTURE); AUTHORIZING THE ISSUANCE AND SALE OF ADDITIONAL SERIES AND APPROVING THE EXECUTION AND DELIVERY OF RELATED DOCUMENTS; AUTHORIZATION OF ADDITIONAL DEVELOPMENTS TO BE FUNDED WITH PROCEEDS OF PRIOR SERIES

BE IT RESOLVED BY THE MINNESOTA HOUSING FINANCE AGENCY (the “Agency”), as follows:

Section 1. Recitals.

1.01. State Appropriation Bonds; Authority; Purpose. The Agency is authorized under Minnesota Statutes, Chapter 462A, including, without limitation, Section 462A.37 thereof, as amended (the “Act”) to issue bonds from time to time (the “State Appropriation Bonds”) secured by standing appropriations of the State of Minnesota (the “State”) for the purpose of financing loans to borrowers (the “Borrowers”) to pay for all or a portion of the costs of acquisition, construction, rehabilitation and equipping, as applicable, of related developments, including facilities related and subordinate thereto (the “Developments”), with respect to abandoned or foreclosed properties or for supportive housing, all as defined in the Act, or to finance or refinance the costs of acquisition and rehabilitation of federally assisted rental housing, and other purposes authorized by the Act. Such State Appropriation Bonds shall be equally and ratably secured solely by the pledge of certain appropriations expected to be made by the State pursuant to the Act and other available funds under the Indenture (as hereinafter defined). The State Appropriation Bonds will not constitute or give rise to a pecuniary liability of the Agency, except to the extent of appropriations from the State made pursuant to the Act and received by the Agency and other funds held under the Indenture (as hereinafter defined), or of the State or any political subdivision thereof, or be a general obligation of the Agency or constitute an indebtedness or other obligation of the State or public debt of the State. The full faith and credit and taxing powers of the State are not pledged to the payment of the State Appropriation Bonds.

1.02. Authority; Purpose. The Agency desires to issue its State Appropriation Bonds under Section 462A.37 of the Act for the purpose of financing loans to Borrowers, who shall be the owners (“Owners”) of the related Developments listed in Exhibit A hereto (or such other entities designated by such Owners which entities agree to make, directly or through intermediaries, corresponding loans to the Borrowers); provided, however, that loans may be made to different or additional Owners with respect to different or additional Developments upon the adoption of a resolution supplemental hereto. The amount of each loan shall be in such amount approved by the Agency and any loan may be forgivable upon such terms as shall be determined by an Authorized Officer of the Agency. The bonds herein authorized shall consist of one or more series of State Appropriation Bonds of the Agency, the first of which is to be designated as “State Appropriation Bonds (Housing Infrastructure), 2018 Series A,” in the aggregate principal amount to be determined pursuant to the terms of Section 2.02 of this resolution. Additional series of State Appropriation Bonds issued pursuant to this resolution

shall be designated “State Appropriation Bonds (Housing Infrastructure), _____ Series _____” and completing the first blank with the calendar year of issuance and the second blank with an uppercase letter as appropriate for the order of such issuance. The maximum collective aggregate principal amount of all series of State Appropriation Bonds issued pursuant to this resolution shall not exceed \$40,000,000; the number of series of State Appropriation Bonds and their corresponding principal amounts shall be as determined by the Authorized Officer (as defined herein) pursuant to Section 8 of this resolution, and as set out in the Supplemental Indenture delivered pursuant to this resolution. All such series of State Appropriation Bonds issued pursuant to this resolution are the “Series Bonds.”

The Series Bonds will be secured solely, and equally and ratably with the Agency’s State Appropriation Bonds hereafter authorized, by the pledge of certain appropriations expected to be made by the State pursuant to the Act and other available funds under the Indenture. The Series Bonds will not constitute or give rise to a pecuniary liability of the Agency, except to the extent of appropriations from the State made pursuant to the Act and received by the Agency and other funds held and pledged thereto under the Indenture, or of the State or any political subdivision thereof, or be a general obligation of the Agency or constitute an indebtedness or other obligation of the State or public debt of the State. The full faith and credit and taxing powers of the State are not pledged to the payment of the Series Bonds.

1.03. Sale of Series Bonds. The Agency will negotiate for the sale of the Series Bonds to RBC Capital Markets, LLC, J.P. Morgan Securities LLC, Piper Jaffray & Co. and Wells Fargo Bank, National Association (collectively, the “Purchasers”). The Agency will issue and sell the Series Bonds to the Purchasers pursuant to one or more Contracts of Purchase to be entered into between the Agency and the Purchasers (the “Purchase Contract”), subject to the parameters set forth in Section 2.02 hereof.

1.04. Documentation. The Series Bonds will be issued pursuant to the Indenture of Trust dated as of August 1, 2013, by and between the Agency and the Trustee (hereinafter defined) and relating to State Appropriations Bonds (Housing Infrastructure) (as amended and supplemented, the “Master Indenture”). Draft forms of the following documents (collectively and together with the Master Indenture, the “Bond Documents”) relating to the State Appropriation Bonds and the Series Bonds have been prepared and submitted to the Agency and are hereby directed to be filed with the Agency:

(a) A proposed form of a Supplemental Indenture of Trust (the “Supplemental Indenture”), to be entered into between the Agency and the Trustee, to establish the form and terms of one or more series of the Series Bonds (the Master Indenture and the Supplemental Indenture are collectively referred to herein as the “Indenture”);

(b) A proposed form of the Purchase Contract between the Agency and the Purchasers relating to the sale and purchase of one or more series of the Series Bonds;

(c) A proposed form of a Continuing Disclosure Agreement to be entered into by the Agency and the Trustee; and

(d) A proposed form of Agreement to be entered into between the Agency and the State regarding the State's agreement to provide annual updates of financial information and operating data of the State contained in or incorporated in the Official Statement (as hereinafter defined).

Section 2. Authorization of the Series Bonds and Approval of the Bond Documents.

2.01. Authorization. To provide sufficient funds to be used and expended for the purposes set forth in Section 1.02, the Agency is hereby authorized to issue the Series Bonds in an aggregate principal amount not to exceed \$40,000,000. The Agency is hereby authorized to sell the Series Bonds to the Purchasers to provide funds to be used to make a loan to or for the benefit of each of the Owners to finance the Developments and pay costs of issuance of the Series Bonds.

2.02. Terms of Series Bonds. The Series Bonds shall be initially dated the date of delivery to the Purchasers and shall be in the form prescribed by the Indenture. The final terms of the Series Bonds have not been established as of the date of adoption of this resolution. Any of the Chair, the Commissioner or the Chief Financial Officer of the Agency (each an "Authorized Officer") is hereby authorized to approve the final terms of the Series Bonds, including the redemption provisions of the Series Bonds, subject to the following parameters:

- (i) the principal amount of each series of the Series Bonds; provided that the aggregate principal amount of the Series Bonds is not in excess of \$40,000,000;
- (ii) the maturity schedule of each series of the Series Bonds (including any mandatory sinking fund redemption schedule); provided that the Series Bonds mature at any time or times in such amount or amounts not later than August 1, 2040;
- (iii) the interest rates borne by each series of the Series Bonds; provided that the net interest cost on a series of the Series Bonds does not exceed 5.00% per annum and the aggregate maximum annual debt service (A) relating to \$5,000,000 aggregate principal amount of the Series Bonds, together with the Agency's State Appropriation Bonds authorized pursuant to Resolution No. MHFA 16-029, shall not exceed \$800,000 and (B) relating to \$35,000,000 aggregate principal amount of the Series Bonds shall not exceed \$2,800,000; and
- (iv) the fee or other compensation payable to the Purchasers of the Series Bonds; provided that the fee or other compensation does not exceed 1.00% of the principal amount of the applicable series of Series Bonds.

Such approval shall be conclusively evidenced by the execution of the applicable Purchase Contract with the Purchasers by an Authorized Officer.

2.03. Approval of Bond Documents. The forms of the Bond Documents are hereby approved, subject to such modifications as are deemed appropriate and approved by an Authorized Officer, subject to the limitations contained in Section 2.02, which approval shall be

conclusively evidenced by execution of the Bond Documents by an Authorized Officer. Copies of all the documents shall be delivered or filed as provided therein. An Authorized Officer is also authorized and directed to execute such other documents and certificates as may be required to give effect to the transactions herein contemplated.

2.04. Preliminary Official Statement; Official Statement. The Agency has also received and examined a draft Preliminary Official Statement containing information relating to the Agency, the State and the Series Bonds. An Authorized Officer is hereby authorized to approve a final version of the Preliminary Official Statement and the use thereof by the Purchasers in the public offering of the Series Bonds is hereby approved. A final Official Statement, substantially in the form of the Preliminary Official Statement except for revisions required or approved by counsel for the Agency and an Authorized Officer and insertion of the terms of the Series Bonds as provided in the Purchase Contract, is approved and authorized to be signed by an Authorized Officer, and furnished to the Purchasers for distribution to investors.

Section 3. Appointment of Trustee. Wells Fargo Bank, National Association serves as Trustee under the Indenture and is vested with all the property, rights, powers and duties granted, pledged and assigned to it by the Indenture, in trust for the owners of the State Appropriation Bonds, including the Series Bonds and any additional bonds issued and to be issued thereunder.

Section 4. General Tax Covenant. The Agency covenants to not take, or permit or cause to be taken, any action that would adversely affect the exclusion of interest on the Series Bonds from federal income taxation, and to take or cause to be taken any action within its control necessary to maintain such exclusion.

Section 5. Authentication of Proceedings. The Chair, Commissioner or Chief Financial Officer and other officers of the Agency are authorized and directed to furnish to the Purchasers and bond counsel certified copies of all proceedings and records of the Agency relating to the Series Bonds, and such other affidavits and certificates as may be required to show the facts relating to the legality and validity of the Series Bonds as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the Agency as to the truth of all statements of fact contained therein.

Section 6. Limitations of the Agency's Obligations. Notwithstanding anything contained in the State Appropriation Bonds, the Series Bonds or the Bond Documents, the State Appropriation Bonds, including without limitation, the Series Bonds, shall not constitute general obligations of the Agency and shall not be payable from nor constitute a charge, lien or encumbrance, legal or equitable, upon any funds or any property of the Agency other than the appropriations of the State specifically pledged to the payment thereof pursuant to the Bond Documents and the Act and any other funds held under the Indenture expressly pledged thereunder to such payment, and no holder of the State Appropriation Bonds, including without limitation, the Series Bonds, shall ever have the right to enforce payment thereof against any property of the Agency other than those rights and interests of the Agency which have been pledged to the payment thereof pursuant to the Indenture.

Section 7. Advance of Agency Funds. If the Agency desires to fund loans before proceeds of the Series Bonds are available therefor, Agency funds legally available therefor shall be advanced by the Agency to fund such loans 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 8. Discretion of Authorized Officer. An Authorized Officer shall determine the number and aggregate principal amount of each series of the Series Bonds, subject to the limitations in Section 2.02 of this resolution. Notwithstanding anything contained in the foregoing sections of this 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 any of the Series Bonds authorized pursuant to this resolution (subject to any applicable provisions of any purchase contract theretofore executed), then such Series Bonds will not be issued or sold in accordance with this resolution.

Section 9. Approval of Additional Developments for State Appropriation Bonds (Housing Infrastructure) Authorized Pursuant to Resolution No. MHFA 15-001, Resolution No. MHFA 16-029 and Resolution No. MHFA 17-024. Section 1.02 of each of the Agency's Resolution No. MHFA 15-001, Resolution No. MHFA 16-029 and Resolution No. MHFA 17-024, each relating to prior series of State Appropriation Bonds (together, the "Prior Authorizing Resolutions") provides that proceeds of State Appropriation Bonds authorized pursuant to the respective Prior Authorizing Resolutions may be used to finance loans to Borrowers, who shall be the Owners of Developments (a) listed in Exhibit A of each of the respective Prior Authorizing Resolutions and (b) different or additional Developments upon the adoption a resolution supplemental to each such Prior Authorizing Resolution. The Agency herein approves the Developments listed in Exhibit A of this resolution as different and additional Developments eligible to receive loans made from proceeds of State Appropriation Bonds authorized pursuant to each of the Prior Authorizing Resolutions; this Section 9 shall act as a resolution supplemental to each of the Prior Authorizing Resolutions.

[Remainder of page intentionally left blank]

Adopted by the Minnesota Housing Financing Agency this 30th day of August, 2018.

By _____
Chairman

Attest: _____
Commissioner

[Resolution No. MHFA 18-055]

EXHIBIT A**DEVELOPMENTS AND OWNERS¹**

<u>Development</u>	<u>Owner²</u>	<u>Location</u>	<u>Type of Development</u>
Garfield Square Apartments	Garfield Square LLLP	Duluth, MN	Supportive Multifamily; New Construction
Hanson Apartments	Hanson Apartments Limited Partnership	Willmar, MN	Multifamily; Acquisition/Rehab
Minnehaha Commons	Minnehaha Commons Limited Partnership	Minneapolis, MN	Supportive Multifamily; New Construction
Park 7	House of Charity, Inc.	Minneapolis, MN	Supportive Multifamily; New Construction
The Hylands	The Hylands II, Limited Partnership	Rochester, MN	Multifamily; Acquisition/Rehab
Willow Grove	Willow Grove of North Branch Limited Partnership	North Branch, MN	Supportive Multifamily; New Construction

¹ In addition, it is anticipated that proceeds of the Series Bonds will be used to make loans to one or more Community Land Trusts for the purchase of land upon which will be constructed one or more condominium units, townhouses, or structures consisting of one to four single family dwellings.

² Or an affiliate thereof or successor thereto.



Board Agenda Item: 8.A
Date: 8/30/2018

Item: Draft 2019 Affordable Housing Plan

Staff Contact(s):

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

Request Type:

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

Summary of Request:

Staff has attached for your review and discussion the draft 2019 Affordable Housing Plan

Fiscal Impact:

None

Meeting Agency Priorities:

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

Attachment(s):

- 2019 Affordable Housing Plan: Draft for Public Comment



2019 Affordable Housing Plan

Draft for Public Comment

August 17, 2018

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Summary – 2019 at a Glance

We are creating a prosperous Minnesota, where people succeed and communities thrive. Housing plays a critical role in this future because *housing is the foundation for success*. When homes are safe, stable, and affordable, Minnesotans have positive outcomes in employment, school, health and other areas of life. However, we have a lot of work to do because about 550,000 Minnesota households, roughly 1 in 4, are cost burdened, paying more than 30% of their income on housing.

In 2019, we will complete the last year of our 2016-19 Strategic Plan. The four years have been successful. We are currently on track to:

- Serve about 175,000 Minnesota households;
- Increase our annual mortgage lending from 4,089 to 4,324 loans;
- Increase our annual lending to first-time homebuyers of color from 1,141 to 1,286 loans;
- Finance the construction of 4,196 new rental units;
- Rehabilitate 17,239 owner-occupied and rental homes;
- Retain 99% of the state's 37,000 units with federal project-based rent assistance;
- Reduce homelessness by 8% (the reduction in the three most recent years);
- Address several other critical housing issues, including manufactured and senior housing;
- Finance the development of workforce housing in Greater Minnesota;
- Sponsor several broad-based collaborations, including the Governor's Task Force on Housing, the Interagency Council on Homelessness, the Olmstead subcabinet; and
- Make significant internal process improvements in both the single-family and multifamily areas.

This coming year will be the capstone for our 2016-19 strategic plan. We have our largest program investment plan ever, over \$1.3 billion, and will serve over 69,000 Minnesota households.

Table 1: Funding by Activity

Program Category	Original 2018 AHP	Proposed 2019 AHP
Homebuyer Financing and Home Refinancing	\$663,000,000	\$840,000,000
Homebuyer/Owner Education and Counseling	\$2,802,000	\$2,777,000
Home Improvement Lending	\$24,794,000	\$26,494,000
Rental Production - New Construction and Rehabilitation	\$135,654,833	\$173,912,004
Rental Assistance Contract Administration	\$189,555,000	\$178,810,000
Housing Stability for Vulnerable Populations	\$32,539,903	\$29,909,723
Multiple Use Resources	\$76,678,015	\$83,876,274
Other	\$1,960,314	\$2,430,003
Total	\$1,126,984,065	\$1,338,209,004

In 2019, we plan to:

- Operate an \$800 million home mortgage program. In 2018, we originally forecasted \$630 million of lending activity. However, through program adjustments, effective implementation, and outreach, we significantly increased it to about \$800 million. We expect to reach a similar level in 2019 and serve 4,324 borrowers.
- Maintain 35% of our first-time homebuyer mortgages going to households of color. In the overall Minnesota mortgage industry, only 14% of all home-purchase mortgages go to households of color.
- Award over \$200 million for rental development and rehabilitation (\$174 million from the rental production program and additional funds from the multiple-use-resource programs). We expect to develop and rehabilitate about 3,821 rental units.
- Continue implementing the state’s Plan to Prevent and End Homelessness and the Olmstead Plan (an interagency effort to provide people with disabilities the choice and opportunity to live, learn, work, and enjoy life in integrated settings in the community).

The year will also be a time for transition and planning. We will:

- Have a new Governor,
- Develop our 2020-2023 Strategic Plan, and
- Review and assess the recommendations of the Governor’s Task Force on Housing, identifying how we can incorporate certain recommendations into our work.

As we complete the 2016-19 Strategic Plan, we will take stock of where we are, look to the future, and plan our next steps.

Chapter 1 – Home and a Prosperous Minnesota

We are building a better Minnesota, where people flourish, children succeed in school, and communities thrive. We are fortunate to already have committed partners, and we call on others – individuals, community groups, faith-based organizations, businesses, and government – to engage on this community-wide effort to build a stronger foundation for success.

Our prosperity and future depend on,

All Minnesotans living in a safe, stable home they can afford in a community of their choice.

With safe, stable homes that are affordable:

- Newly hired workers will find a place to live, allowing economic expansion to continue;
- Day care providers will live in homes near work, reducing their commute time and making it easier to care for our children;
- Children experiencing housing instability and frequent moves will regularly attend school, making class room instruction more consistent for all our students;
- Family and friends struggling with chemical dependency or a mental illness will have a stable place to call home, allowing them to focus on their treatment;
- Young families will find homes to buy, allowing them to achieve the benefits of homeownership; and
- Seniors will be able to make home modifications and arrange for in-home services, allowing them to age in place and stay near family.

To build a prosperous Minnesota for everyone, we are committed to collaborating with individuals, communities and partners to create, preserve and finance affordable housing.

Chapter 2 – Our Approach

In our 2016-19 Strategic Plan, we created the “big, audacious goal” of:

All Minnesotans living in a safe, stable home they can afford in a community of their choice

While we still have a lot more work to do, 2019 will be a strong conclusion to a successful plan. We will continue to make significant advancements in each of our core activities and strategic priorities.



The infographic consists of three vertical panels, each with a blue icon at the top, a title, and a list of bullet points.

- Panel 1: OUR CORE ACTIVITIES** (Icon: Handshake over bar chart)
 - Promote and support successful homeownership
 - Finance new affordable rental opportunities
 - Preserve the existing housing stock
 - Provide housing resources to support community and economic development
 - Lead, collaborate and take action on critical housing issues
 - Strengthen our financial and organizational capacity
- Panel 2: OUR STRATEGIC PRIORITIES** (Icon: Lightbulb)
 - Reduce Minnesota’s racial and ethnic homeownership disparity
 - Preserve housing with federal project-based rent assistance
 - Prevent and end homelessness
 - Finance housing responsive to Minnesota’s changing demographics
 - Address specific and critical local housing needs
- Panel 3: HOW WE WORK** (Icon: House with magnifying glass)
 - Be flexible and responsive
 - Develop effective partnerships
 - Remove barriers and provide equitable access to programs and opportunity
 - Solve problems through innovation and creativity
 - Leverage our strong financial and operational capacity

The work of Minnesota Housing and its partners is extensive, reaching all four corners of the state and serving the full continuum of low- and moderate-income housing needs. During the 2016-19 Strategic Plan, we are on track to assist roughly 175,000 Minnesota households, with 2019 being a strong year – serving over 69,000.¹

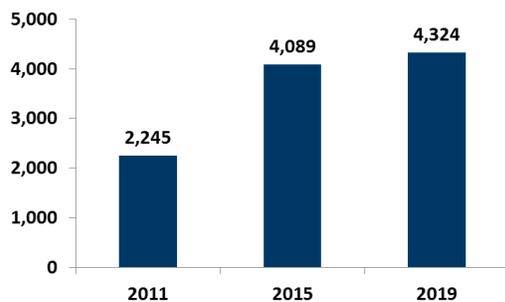
The following sections highlight our work under each core activity  and strategic priority .

PROMOTE AND SUPPORT SUCCESSFUL HOMEOWNERSHIP

Homeownership increases housing stability and connections to the community and is the primary way most families build wealth. Each year of successful homeownership increases household wealth by an average of \$9,500.² It also frees up affordable rental housing. Roughly 27,000 of the 110,000 Minnesota’s rental units that are affordable to the lowest-income households are occupied by households that can afford homeownership.³ If these households with more resources successfully transition to homeownership, affordable rental housing would become available for Minnesota’s lowest-income individuals and families.

Our record level of mortgage lending is a great success, nearly doubling from 2,245 mortgages in 2011 to an expected 4,324 in 2019. This dramatic increase occurred despite the inventory of homes selling for less than \$250,000 was cut in half between 2014 and 2017.⁴

Table 1: Home Mortgages Financed by Minnesota Housing



Achieving Homeownership. A mother of three wanted to become a homeowner; however, she was passed over by several real estate agents because she lacked resources for the downpayment and closing costs. She had resigned herself to paying \$1,700 per month to rent a townhome. Fortunately, she was eventually referred to a real estate agent who had the expertise and knowledge to connect her with a Minnesota Housing participating lender. Despite losing out in several multiple-offer situations, she finally became the owner of a three-bedroom, two-bath townhome in the fall of 2017. The new homeowner and her real estate agent cohosted a well-attended housewarming party.

Our Commitment to Action in 2019:

- Maintain record levels of home mortgage lending through continuous improvement in program design, business development, and operations.

REDUCE MINNESOTA’S RACIAL AND ETHNIC HOMEOWNERSHIP DISPARITY

While Minnesota benefits from having the 3rd highest homeownership rate in the country, we also have the 5th highest homeownership disparity between white/non-Hispanic households and households of

color.⁵ To help all Minnesotans have equitable access to the benefits of homeownership, we and our program partners reach out to households of color to increase their:

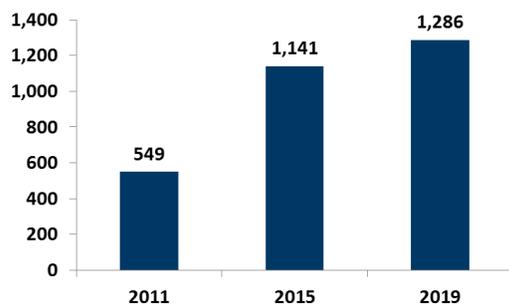
- Knowledge and comfort with the home buying process,
- Savings and credit scores,
- Access to down-payment and closing-cost loans, and
- Access to quality and affordable mortgages.

We have created innovative and effective programs, including the Enhanced Homeownership Capacity Initiative (Homeownership Capacity), a program that provides intensive financial coaching to underserved populations. The program has been very successful.

- 87% of clients are households of color.
- Median credit scores have increased from 611 at program entry to 658 at program completion.
- Clients who completed the program improved their financial picture on average by \$3,600 through increased savings and reduced debt collections.
- Nearly 60% of the clients who completed the program with a reported outcome bought a home within a year.

Since 2011, we will more than doubled our lending to households of color who are first-time homebuyers.

Figure 2: Loans to First-Time Homebuyers of Color



Currently, about 35% of our mortgages for first-time homebuyers go to households of color, when only 14% of all home-purchase mortgages in Minnesota do.⁶ Since our mortgages only account for about 5% of the industry total in Minnesota, a broader, industry-wide effort is needed to substantially reduce the homeownership gap in Minnesota.

Overcoming Poor Credit and High Debt. A Hispanic father of four had dreamed of being a homeowner and was referred to a Homeownership Capacity administrator by his real estate agent in the spring of 2015. When he and his coach first met, they learned that his credit report was 11 pages long, he had been the victim of identity theft, and his credit score was only 594. By late fall, he cleaned up the identify theft accounts on his report, established a budget, reduced his debt from \$18,000 to \$6,000, and increased his credit score to 648. He was ready for homeownership and bought a home two months later. He acknowledged that it was a tough process but becoming a homeowner was worth it.

Our Commitment to Action in 2019:

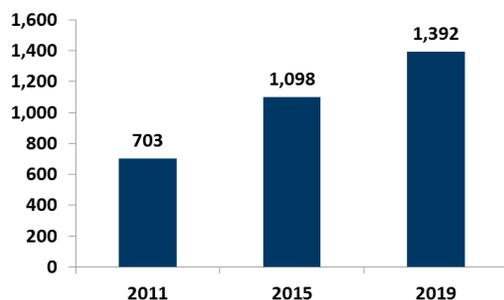
- Maintain 35% of our first-time homebuyer mortgages going to households of color.
- Continue Homeownership Capacity as a permanent program.
- Fund our downpayment and closing-cost loans, which are critical in supporting underserved populations.
- Continue to lead the Homeownership Opportunity Alliance, an industry-wide coalition to expand homeownership for households of color, and implement its new campaign – “Get Ready. Be Ready!”

FINANCE NEW AFFORDABLE RENTAL OPPORTUNITIES

The ideal, balanced rental market has a 5% vacancy rate, allowing renters to have choices when searching for an apartment but filling vacancies relatively quickly for landlords. For the last few years, Minnesota’s statewide vacancy rate has been about 4%, and much lower in some markets. To bring the rental vacancy rate up to the ideal 5% in all markets, Minnesota needs to build an additional 3,000 rental units annually for the next five years on top of the 8,000 annual units currently being built.⁷ About 70% of the new units need to be affordable to households with an income at or below 80% of AMI to match the incomes of the Minnesota renters who will occupy these units.⁸ However, only about 20% of new construction is currently affordable for these lower-income households.⁹

Since 2011, we have significantly increased our annual financing of new rental construction.

Figure 3: New Rental Construction Financed by Minnesota Housing



During the 2016-19 Strategic Plan, we are on pace to finance the construction of 4,196 new rental units.

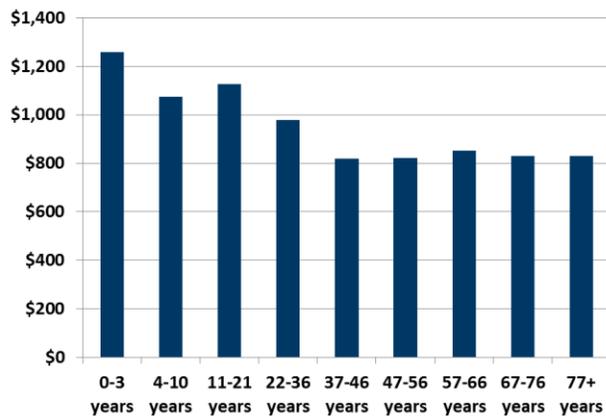
Addressing the Shortage of Rental Housing. In the fall 2016, we awarded Low-Income Housing Tax Credits and a deferred loan through the Economic Development and Housing/Challenge program to Valley High Flats, a three-story, 60-unit new development in northwest Rochester with a mix of one to three bedroom units. The development will serve Rochester’s growing population and job market. According to a local market analysis, job growth has resulted in a need for over 2,400 units of new affordable housing in the area. Valley High Flats is well located in a higher-income community with quality schools and access to transit. Four of the two-bedroom units will serve families who have experienced long-term homelessness, with these tenants paying no more than 30% of their income on rent, which will provide them with a foundation for success.

Our Commitment to Action in 2019:

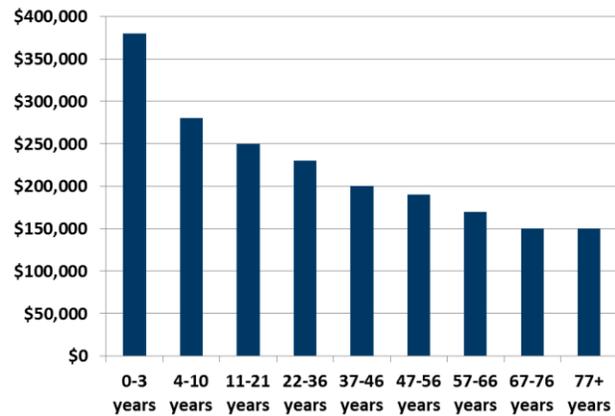
- Award up to \$60 million of Housing Infrastructure Bond (HIB) proceeds for housing development. The state’s 2018 bonding bill was very supportive of affordable housing needs, adding senior housing as a new use of funds on top of the current uses (supportive housing and preservation) and emphasizing supportive housing for people with behavioral health issues as a funding priority. We will award some of the HIB funds this year and, with new uses, reserve some for next year. The 2019 resources will finance about 500 rental units, with a majority being new construction.
- Award \$12.4 million Low-Income Housing Tax Credits, which are the primary resource for developing affordable rental housing. This year’s allocation is our largest ever (due to an additional allocation from Congress), will generate about \$110 million in investor equity, and should finance about 700 rental units, mostly new construction.
- Award about \$2 million from the Workforce Housing Development program. Last year, we selected five developments, creating 191 new apartments in Pelican Rapids, Luverne, Duluth, Albert Lea, and Baudette.

PRESERVE THE EXISTING HOUSING STOCK

It is far more cost effective to maintain and improve an existing home than to build a new one. In Greater Minnesota, the average cost of developing a new affordable rental unit with Low-Income Housing Tax Credits is about \$190,000, while the average cost to acquire and rehabilitate an existing unit is only \$120,000.¹⁰ Minnesota has an extensive stock of affordable housing. About 290,000 units rent for \$875 per month or less (which is affordable to a family earning \$35,000) and about 900,000 homes have a value of \$200,000 or less (which is affordable to buy for a family earning \$60,000).¹¹ Many of these affordable units are in older properties. As shown in Figures 4 and 5, older homes are generally more affordable, but they can deteriorate to the point that they are no longer decent places to live.

Figure 4: Median Rent by Age of Property

Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2016 1-year sample, microdata, iPums.org)

Figure 5: Median Home Value by Age of Property

Source: Minnesota Housing analysis of data from the Census Bureau's American Community Survey (2016 1-year sample, microdata, iPums.org)

During the 2016-19 Strategic Plan, we are on track to improve or rehabilitate:

- 5,195 owner-occupied homes
- 12,044 rental units

Stabilizing a Home and a Family. The Community Homeownership Impact Fund (using Economic Development and Housing/Challenge appropriations) recently financed the rehabilitation of a home owned by a retired senior citizen, who has two children and a nephew living with her. Each has a serious medical condition, including traumatic brain injury, stage-3 cancer, and diabetes. While she keeps an immaculate home, it was starting to fall into disrepair, and she could not afford the necessary work with much of her fixed income dedicated to the family's medical bills. Throughout the project, the owner was dumbfounded that she received the help.

Our Commitment to Action in 2019:

- Increase lending under the Home Improvement Loan program by implementing recent improvements that make it easier to administer and more beneficial to borrowers.
- Increase the reach of the Rehabilitation Loan Program, which serves the lowest-income homeowners, by implementing recent improvements that make it easier to administer.
- Redesign the Rental Rehabilitation Deferred Loan (RRDL) program, which focuses on rehabilitating smaller properties. Statewide, about 60% of rental units are in properties with 19 or fewer units, and 42% are in properties with 4 or fewer units.¹²

PRESERVE HOUSING WITH FEDERAL PROJECT-BASED RENT ASSISTANCE



Minnesota has about 138,000 renter households with an income at or below 30% of AMI who spend more than 30% of their income on rent and utilities, leaving limited resources for food, clothing, health care, and necessities.¹³ Rent assistance, which pays the difference between the market rent and what a tenant can afford, is a direct way to guarantee that people are not cost burdened. Through HUD's project-based Section 8 and USDA Rural Development (RD) programs, almost 37,000 Minnesota households receive rent assistance that is tied to a specific apartment; however, the assistance is at risk of being lost as the contracts providing the assistance expire/mature or properties deteriorate.

We and our partners are effectively preserving this assistance. So far, during this current strategic plan, Minnesota has only lost about 1% of these units (30 of the 30,000+ Section 8 units and 350 of the 6,700 Rural Development units) due to contract opt-outs or maturing/pre-paid mortgages. We also successfully manage Minnesota's project-based Section 8 units for HUD through our performance based contract, achieving a near perfect performance assessment from HUD and earning all the possible contract fees and performance incentives. High quality contract administration ensures that the properties are well run, payments are made in a timely fashion, and tenant and owner issues are quickly resolved, which increases the likelihood that the owners will extend their contracts with HUD.

Preserving Critical Rental Housing. Como by the Lake is 99-unit property in St. Paul with of the 57 units having project-based Section 8 rent assistance. The property serves seniors and people with disabilities. In 2015, the owner gave notice to opt out of their Section 8 contract, leaving the residents frightened they could not remain in their homes and the community. They organized and made it clear that they wanted their housing preserved as affordable for the long-term. Fortunately, the non-profit Aeon agreed to purchase the property in 2016. In the fall of 2016, Minnesota Housing awarded \$2.6 million of federal HOME funds to support the \$14.9 million acquisition and rehabilitation of the property. The financing from Minnesota Housing will ensure that the Section 8 contract will go until 2053.

Our Commitment to Action in 2019:

- Maximize the use of PARIF (Preservation Affordable Rental Investment Fund) and HIB (Housing Infrastructure Bond) funds. These are our two primary resources for rehabilitating and preserving properties with federal project-based rent assistance.
- Retain our Section 8 performance-based contract with HUD. The current contract is due to expire on December 31, 2018.

LEAD, COLLABORATE AND TAKE ACTION ON CRITICAL HOUSING ISSUES



Our mission is clear: **Housing is the foundation for success, so we collaborate with individuals, communities, and partners to create, preserve, and finance affordable housing.** Affordable housing

provides individuals, families, and communities with the stability to thrive in all areas of life, including health, education, and employment. To maximize these benefits and create synergies, we lead, collaborate and take action.

Minnesota Housing is home to both the Interagency Council on Homelessness and the Olmstead Subcabinet, with Commissioner Tingerthal serving as a chair for both interagency efforts. The Council is a collaboration of 11 state agencies, the Metropolitan Council, and the Governor’s Office with the goal of preventing and ending homelessness. The Olmstead Subcabinet is a similarly structured eight-agency collaboration with the goal of providing people with disabilities the choice and opportunity to live, learn, work, and enjoy life in integrated settings in the community.

At the local level, we have a statewide network of about 400 organizations administering our programs, including lenders, developers, service providers, and community organizations. To ensure that we have a strong capacity in every corner of the state, we fund the Capacity Building Initiative to help communities across Minnesota where a lack of organizational capacity creates the risk that geographic areas and constituencies will be underserved. Through the Initiative, we annually have a competitive process through which we provide local capacity-building projects up to \$40,000 in one-time funding.

We will also support and collaborate with communities, cities, and counties, who are more active than ever in identifying potential affordable housing strategies.

Sponsoring the Governor’s Task Force on Housing. Last winter, Governor Dayton created a Housing Task Force to take on Minnesota’s growing housing instability, which puts the state’s economic competitive advantage at risk. The non-partisan Task Force of housing experts, business leaders and community stakeholders held meetings across the state, explored best practices, policies, gaps, and new strategies, and proposed recommendations. The effort was supported by a collaborative that included Minnesota Housing, the Governor’s Office, Itasca Project, Greater Minnesota Housing Fund, Family Housing Fund, Metropolitan Council, McKnight Foundation, Blandin Foundation, and St. Paul Foundation. Minnesota Housing played a key leadership role by providing funding, about half of the staff support, and office and meeting space.

Our Commitment to Action in 2019:

- Identify recommendations from the Governor’s Task Force on Housing that can be incorporated into our work.
- Continuing implementing the Plan to Prevent and End Homelessness and the Olmstead Plan.

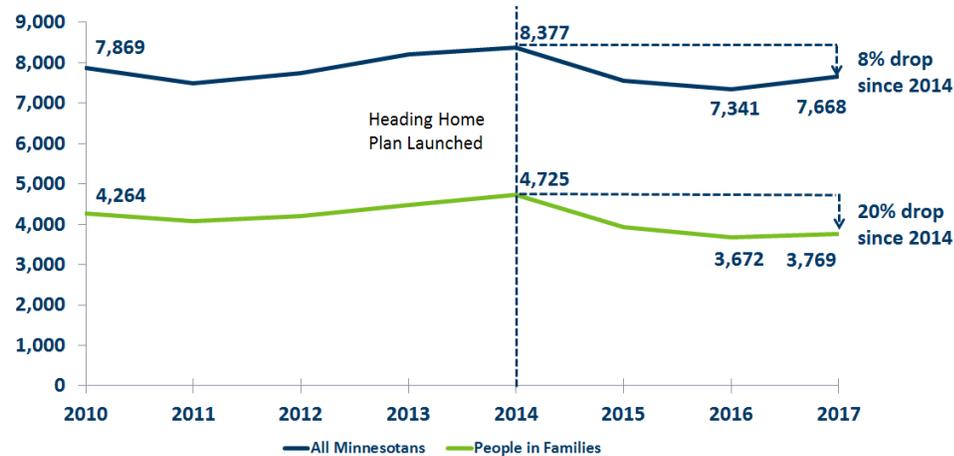
PREVENT AND END HOMELESSNESS

Homelessness is the most severe form of housing instability, causing massive disruption in the lives of single-adults, parents, children, and youth. At least, 7,600 Minnesotans experience homelessness on any given night, and a much larger group is precariously housed and one crisis away from homelessness.

Homelessness occurs for many reasons, but a lack of affordable housing is a primary cause. While the lack of affordable housing is critical, the shortage of any rental housing is making the situation worse. Landlords have multiple people applying for single vacancy, allowing them to screen out people with imperfections in their histories, including those with unstable employment, low credit scores, criminal records, or evictions.

In 2014, the Interagency Council on Homelessness released its first Plan to Prevent and End Homelessness, which aligned, coordinated, and leveraged the work of 11 state agencies and the Metropolitan Council. Since the first plan was released in 2014, homelessness in Minnesota has declined by 8%.

Figure 6: Homelessness in Minnesota



Each year, Minnesota housing supports about 15,000 households through homelessness prevention, rent assistance, and permanent supportive housing activities. In the last few years, we have also carried out several pilots to test and evaluate innovative strategies to address homelessness.

- **Homework Starts with Home** is a new pilot that was launched in 2018 and will provide rent assistance and other supports for students and their families experiencing homelessness, with the twin goals of stabilizing their housing and improving educational outcomes. The pilot is a cooperative effort of Minnesota Housing, the departments of Education and Human Services, and philanthropy, and the results will be evaluated by a team from the University of Minnesota. It will test and evaluate a “progressive engagement” model that calibrates and adjusts the level of support to the needs of the students and families. The pilot will serve about 237 families through five local administrators in Clay, Beltrami, Hennepin, and Ramsey counties.
- The **Landlord Risk Mitigation Fund** provides financial incentives and other supports to landlords that rent to people struggling to find housing, including people with criminal histories or experiencing homelessness. The fund pays for lost rent or damages not covered by the security deposit. The goal is to serve 180 households through three local administrators in suburban metro, the Brainerd area, and St. Louis County.

- The **Step Down** pilot provides rent assistance and a transition out of services for people currently in supportive housing who no longer require this level of support. The goal is to free up supportive housing for those currently needing these services. The pilot annually serves just over 20 households. In 2017, the pilot received a national award from the National Council of State Housing Agencies (NCSHA).

Preventing Homelessness. A couple was recently struggling with homelessness. While both had a history of employment, the woman had struggled with mental health issues and lost her job, and the man had his hours reduced, making rent unaffordable. A local administrator of the Family Homeless Prevention and Assistance (FHPAP) program provided them with 6 months of temporary rental assistance. During that time, she received therapeutic support. Today, both are employed. FHPAP enabled them to overcome their barriers and maintain housing stability. Their case manager stated, “We are given the opportunity to walk with people who have walked a long way alone. It is pretty amazing when they let us join them.”

Our Commitment to Action in 2019:

- Carry out the actions we have committed to in the recently adopted *Heading Home Together: Minnesota’s 2018-2020 Action Plan to Prevent and End Homelessness*. This plan goes beyond coordinating the work of state agencies and now includes broader multi-sector strategies involving local organizations and philanthropy. The goal is to effectively end homelessness by preventing it whenever possible, and when that is not possible, making the experience rare, brief, and one-time.
- Continue pursuing the goal of creating 5,000 new housing opportunities by 2020 for households experiencing homelessness or at risk.
- Implement the Homework Starts with Home pilot program and measure results for the students and their families.

PROVIDE HOUSING RESOURCES TO SUPPORT COMMUNITY AND ECONOMIC DEVELOPMENT

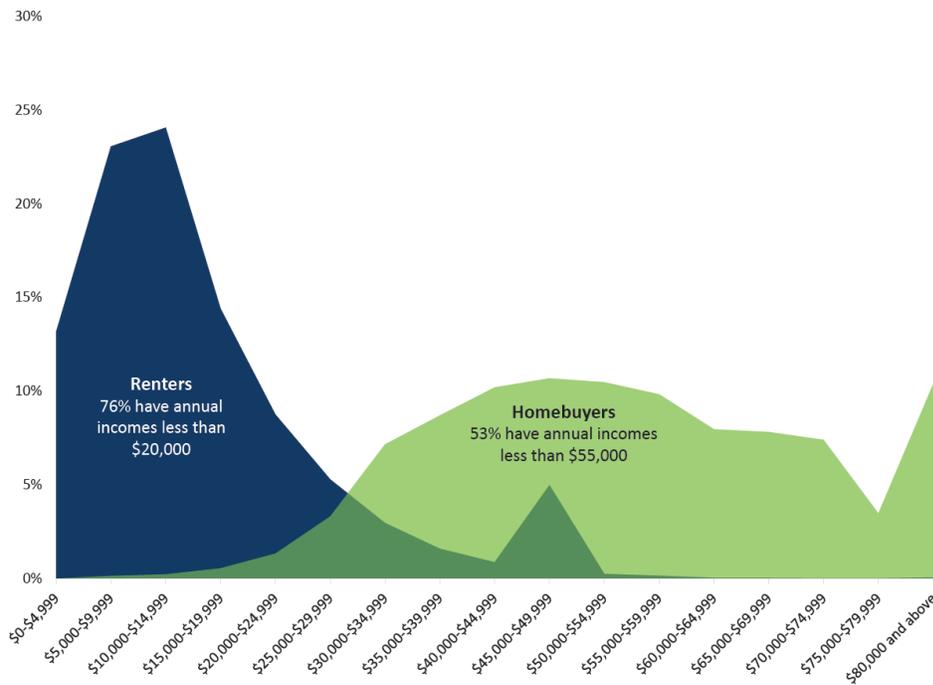
Safe, stable, and affordable housing is a critical component of a vibrant community. Communities thrive when they have a full array of housing choices that meets the needs of all residents. Communities need:

- Gap financing to develop new affordable rental and ownership housing that will serve the growing workforce,
- Supportive housing for a people with disabilities,
- Rent assistance for single parents who work full time in low-wage jobs and need stable homes for their children,

- Resources to preserve manufactured home parks,
- Downpayment and closing-cost loans paired with affordable mortgages for young families who want to buy their first home, and
- Home improvement and rehabilitation loans for senior homeowners who want to stay in the community and live near their families.

To meet these needs, we offer a suite of programs that serve the full continuum of housing needs for low- and moderate-income Minnesotans.

Figure 7: Income Distribution of Households Served in 2017



Adding Workforce Housing to a Growing Community. In 2018, we awarded \$680,000 for the construction of Town Square Apartments (a new three-story building with 27 units in Luverne) under our Workforce Housing Development Program. The award will help bridge the gap between the construction costs and the rent revenue the units will generate. The city has an estimated rental vacancy rate of 1.5% and a demand for an additional 72 rental units. In 2017, truShrimp announced plans to build a facility in Luverne, which will add nearly 100 jobs to the local economy, adding demand on an already tight rental market. The project is part of a larger redevelopment plan for Luverne that will include a mix of commercial, retail, housing and mixed use buildings.

Our Commitment to Action in 2019:

- Maintain a suite of programs that serve the full continuum of housing needs for low- and moderate-income Minnesotans.

- Continue engaging, listening to, and supporting communities looking for ways meet their housing needs.

FINANCE HOUSING RESPONSIVE TO MINNESOTA’S CHANGING DEMOGRAPHICS

Minnesota’s demographics are changing rapidly. By 2035, Minnesota’s population of color is projected to increase by 50%, while the white/non-Hispanic population will increase by only 4%. We are also becoming older. By 2036, the State Demographer expects Minnesota to have almost 485,000 more seniors than the current 840,000.

Figure 8: Minnesota Population Growth (2015-2035) by Race

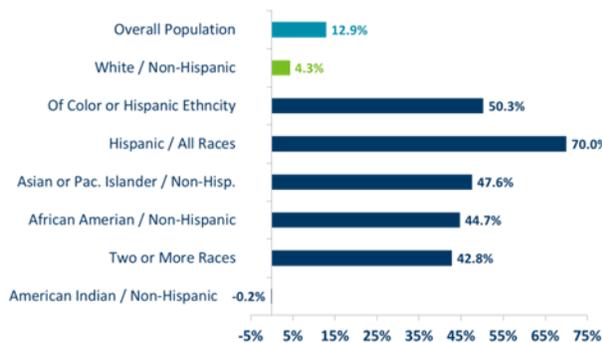
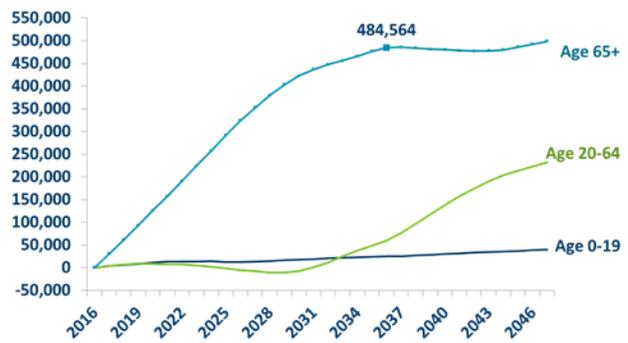


Figure 9: Additional Minnesotans by Age Above 2016 Levels



As described earlier, we have more than doubled our mortgage lending to households of color in the last eight years. In 2016, we also carried out a pilot that funded the development of two senior projects – Mysa House in Mora and The Glen at Valley Creek in Woodbury. The financing of these developments prepared us for using Housing Infrastructure Bond (HIB) proceeds to finance senior housing, which the Legislature added as an eligible use in 2018 and will be available under the 2019 Consolidated Request for Proposals.

Building Senior Housing. Mysa House is a 24-unit senior development in Mora, Minnesota, owned by the Housing and Redevelopment Authority (HRA). The development serves an important policy goal of providing senior housing with services. St. Clare Living Community will offer a-la-carte service options that can be purchased individually either by private pay or through Kanabec-Pine Community Health programs for qualified households. The development is part of a larger senior campus that is also owned by the Mora HRA that includes a senior activity center, assisted living and memory care. Mysa House will serve lower income households, with twelve households also benefitting from project-based Housing Choice Vouchers (most serving extremely-low income seniors).

Our Commitment to Action in 2019:

- Start using HIB proceeds to develop senior housing.

- Identify additional and more-effective ways to link housing and services for seniors and others.
- Continue financing rental housing for large families.

ADDRESS SPECIFIC AND CRITICAL LOCAL HOUSING NEEDS

While more affordable housing is needed across Minnesota, each community has its own priorities. One community may need to focus on the shortage of workforce housing, while another may need larger rental units for its growing population of large immigrant families. We partner with communities across the state to assess needs, identify solutions, and access resources.

- Each year, we co-host housing dialogues in communities across Minnesota to identify needs and discuss solutions. In 2018, we rolled these into the eight Regional Housing Forums sponsored by the Governor’s Task Force on Housing, with about 500 Minnesotans attending in total.
- On our website, we have an interactive Community Profiles tool that provides housing data and maps for every community in Minnesota, helping them plan and apply for housing resources.
- As outlined throughout this plan, we offer a full range of financing tools to serve low- and moderate-income Minnesotans. We want our programs to be broad and flexible enough to meet each community’s needs.
- We also provide technical assistance before applications for funding are submitted. Developing affordable housing is complicated, and our applications can be demanding as we collect the information we need to ensure that our programs are well run and the housing developments will financially succeed and effectively meet critical needs. We offer technical assistance to all applicants so that each has the opportunity to submit a strong application.

Building Housing Driven by Community Need. Park Place of Bemidji is a two-story, 60-unit apartment building, serving people suffering from chronic alcoholism and addiction, including many American Indians, through a “Housing First” approach with culturally-appropriate services and a uniquely-designed property that creates a home-like atmosphere. The creation of Park Place was community driven, involving an expansive private-public partnership that included Center City Housing, Sanford Health, Minnesota Department of Human Services via the Muhabe Collaborative, the Tribal Collaborative and the Housing Support program, the City of Bemidji, Beltrami County HRA, Beltrami County Sherriff’s Department, Beltrami County Health & Human Services, City of Bemidji Police Department, Bemidji HRA, Headwaters Regional Development Corporation, Red Lake Nation, Leech Lake Band of Ojibwe, Minnesota Housing, Minnesota Equity Fund, Federal Home Loan Bank, Greater Minnesota Housing Fund, Enterprise, and Ottertail Power Company. The project was primarily financed with Housing Infrastructure Bond proceeds and Low-Income Housing Tax Credits from Minnesota Housing. It was the 2018 winner of the State Government Innovation Award.

Our Commitment to Action in 2019:

- Host a series of Housing and Community Dialogues around the state, which will focus on how our work can best address local needs, as well as receiving input for the development of our 2020-23 Strategic Plan.

STRENGTHEN OUR FINANCIAL AND ORGANIZATIONAL CAPACITY

We depend on our staff, systems and financial strength to fulfill our mission. These backroom operations allow our programs to improve the lives of Minnesotans in every corner of the state. Over the last few years, we have carried out two major process improvements. On the multifamily side, the Remodel project is a comprehensive, multiyear initiative to streamline all the processes in the division, starting with the selection and funding processes for housing developments, everything from project concept and application to construction and lease-up. For example, we created a customized online portal to receive funding applications for the multifamily consolidated RFP. On the single family side, we are putting in place a new loan origination system, which we and our lending partners will use to commit and purchase loans. These projects will improve both internal efficiencies and the experience of our external partners.

Our strong financial position allows us to not only access capital on favorable terms to finance our programs but also make strategic investments and loans. For example, in June 2017, we committed \$5 million for an investment to preserve naturally occurring affordable rental housing through the Greater Minnesota Housing Fund. Minnesota has well over 200,000 rental units that are affordable without government subsidies, and these units are typically in older properties that lack modern amenities. We estimate that Minnesota is annually losing about 2,000 of these affordable units when their rents increase after properties are sold and rehabilitated.¹⁴ In 2018, we also provided Twin Cities Habitat for Humanity with a \$25 million line of credit to expand their business model.

Improving Internal Processes. We recently purchased and started installing a new system from Mortgage Cadence that we and our lending partners will use to commit and purchase home mortgages. The system is very “configurable” and will support first mortgage products that are standard for the industry, as well as our unique products, such as deferred, zero-interest loans. As part of the project, we are also developing supporting applications that will:

- Track and manage the details of each loan with accounting and reporting functions, and
- Reconcile loan payments.

The implementation of these data and process integrations is critical to supporting viable home mortgage programs across the state.

Our Commitment to Action in 2019:

- Go live with our new loan origination system for our single-family activities early in calendar year 2019.

- Continue implementing the multifamily Remodel project.
- Find opportunities to make other strategic investments and loans that provide a strong risk-adjusted rate of return and align with our mission.

Chapter 3 – Resources for Our Work

For 2019, we have a \$1.3 billion program investment plan, our largest ever. Eight years ago, the plan was only \$700 million. We have built this investment plan by improving the lives of Minnesotans with successful programs that have bi-partisan support in the state Legislature and Congress and by effectively managing our financial assets. This allows us to efficiently access the capital markets and earn returns that we can reinvest in housing across Minnesota.

Overview of Our Program Investment Plan

We provide a wide continuum of tools for financing affordable housing, ranging from grants for homelessness prevention and rent assistance to mortgages for home purchase and improvements. As shown in Table 2, three programs account for a majority of the 2019 program investment plan.

- **Home Mortgage Loans** (line 1) will produce about \$800 million of lending and support an estimated 4,324 homebuyers in 2019.
- **Rental Assistance Contract Administration** (line 21 and 22) will provide nearly \$180 million of federal project-based rent assistance for 28,000 of the state’s lowest income households. With this assistance, households generally spend no more than 30 percent of their income on rent and utilities.
- **Low-Income Housing Tax Credits** (line 13) is our primary program for developing and rehabilitating affordable rental housing. The \$12.4 million of 9% credits that we receive from the federal government will generate an estimated \$110 million in private equity and leverage other financial resources to construct or rehabilitate about 700 units of affordable rental housing.

4% Tax Credits. While not in our program investment plan, we also award 4% credits to rental housing developments that are financed with tax-exempt private activity bonds. Unlike 9% credits, awards of 4% credits are not directly capped, but there are statewide volume limitations on use of tax-exempt private activity bonds used to finance housing. On a yearly basis, the use of 4% credits can generate a significant amount of private equity for affordable housing.

Table 2 also shows, by program, the median incomes of the low- and moderate-income households that we served in 2017, which ranged from \$8,000 to \$70,000. The statewide median family income in 2017 was \$80,400.

ProgramMedian Income

- Rent assistance programs (lines 23 to 25 and 35 to 36) \$8,070 to \$12,603
- Rehabilitation Loan Program (line 9) \$14,826
- Low-Income Housing Tax Credits (line 13) \$22,682
- Habitat for Humanity Initiative (line 5) \$34,909
- Home Mortgage Loans (line 1) \$54,349
- Home Improvement Loan Program (line 8) \$69,732

Table 2: Overview of the 2017 and 2018 Program Investment Plans

		2018 Original Funding Level	2019 Funding Level	Activity	Median Income Served (2017)	Percentage Served from Communities of Color (2017)
Homebuyer Financing and Home Refinancing		\$663,000,000	\$840,000,000			
1	Home Mortgage Loans	\$630,000,000	\$800,000,000	First Mortgage	\$54,349	31.8%
2	Mortgage Credit Certificates (MCC)	\$1,000,000	\$0	Tax Credit on Home Mortgage Interest	\$66,810	19.1%
3	Deferred Payment Loans	\$18,500,000	\$22,000,000	Downpayment and Closing Cost Loans	\$47,708	34.8%
4	Monthly Payment Loans	\$11,000,000	\$18,000,000	Downpayment and Closing Cost Loans	\$70,034	28.3%
5	Habitat for Humanity	\$2,500,000	Rolled into Strategic Investments/Loans	Homebuyer Financing	\$34,909	30.8%
Homebuyer/Owner Education and Counseling		\$2,802,000	\$2,777,000			
6	Homebuyer Education, Counseling & Training (HECAT)	\$1,552,000	\$1,527,000	Education & Counseling	\$36,000	46.5%
7	Enhanced Homeownership Capacity Initiative	\$1,250,000	\$1,250,000	Education & Counseling	\$34,158	83.6%
Home Improvement Lending		\$24,794,000	\$26,494,000			
8	Home Improvement Loan Program	\$15,300,000	\$17,000,000	Home Improvement Loan	\$69,732	12.0%
9	Rehabilitation Loan Program (RLP)	\$9,494,000	\$9,494,000	Home Improvement Loan	\$14,286	9.6%
Rental Production- New Construction and Rehabilitation		\$135,654,833	\$173,912,004			
10	Multifamily First Mortgages	\$70,000,000	\$105,000,000	Amortizing Loan	\$25,129	52.9%
11	Flexible Financing for Capital Costs (FFCC)	\$0	\$0	Deferred Loan	N/A	N/A
12	Multifamily Flexible Capital Account	\$8,500,000	\$5,000,000	Deferred Loan	N/A	N/A
13	Low-Income Housing Tax Credits (LIHTC)	\$9,598,835	\$12,413,026	Investment Tax Credit	\$22,682	44.1%
14	National Housing Trust Fund	\$3,118,428	\$3,445,781	Deferred Loans and Operating Grants	N/A	N/A
15	HOME	\$1,700,000	\$11,885,573	Deferred Loan	\$19,083	42
16	Preservation - Affordable Rental Investment Fund (PARIF)	\$16,623,916	\$13,378,145	Primarily Deferred Loan	\$17,826	44.3%
17	Asset Management	\$2,482,043	\$3,500,000	Loans & Grants	N/A	N/A
18	Rental Rehabilitation Deferred Loan Pilot (RRDL)	\$9,601,587	\$8,862,479	Deferred Loan	\$19,028	20.0%
19	Publicly Owned Housing Program (POHP) - GO Bonds	\$12,030,024	\$8,500,000	Deferred Loan	\$13,700	21.3%
20	Workforce Housing Development	\$2,000,000	\$1,927,000	Deferred Loans and Grants	N/A	N/A
Rental Assistance Contract Administration		\$189,555,000	\$178,810,000			
21	Section 8 - Performance Based Contract Administration	\$138,500,000	\$141,460,000	Rent Assistance	\$12,000	38.8%
22	Section 8 - Traditional Contract Administration	\$51,055,000	\$37,350,000	Rent Assistance	\$12,603	28.9%
Housing Stability for Vulnerable Populations		\$32,539,903	\$29,909,723			
23	Housing Trust Fund (HTF) - Net Activity	\$17,671,234	\$15,411,667	Rent Assistance and Operating Support	RA=\$9,186 OS=\$9,468	RA=65.2% OS=60.8%
23a	Funding for new contracts	\$6,889,986	\$26,890,000			
23b	Adj. to spread contracts over two years	\$10,781,248	-\$11,478,333			

		2018 Original Funding Level	2019 Funding Level	Activity	Median Income Served (2017)	Percentage Served from Communities of Color (2017)
24	Bridges - Net Activity	\$5,140,000	\$4,692,635	Rent Assistance	\$9,644	31.0%
24a	Funding for new contracts	\$0	\$9,385,270			
24b	Adj. to spread contracts over two years	\$5,140,000	-\$4,692,635			
25	Section 811 Supportive Housing Program	\$660,000	\$912,000	Rent Assistance	\$8,070	54.5%
26	Family Homeless Prevention and Assistance Program (FHPAP) - Net Activity	\$8,893,486	\$8,694,976	Grants	\$12,000	58.5%
26a	Funding for new contracts	\$250,000	\$17,123,286			
26b	Adj. to spread contracts over two years	\$8,643,486	-\$8,428,310			
27	Housing Opportunities for Persons with AIDS (HOPWA)	\$175,184	\$198,445	Grants	\$17,344	46.3%
Multiple Use Resources		\$76,678,015	\$83,876,274			
28	Economic Development and Housing/Challenge (EDHC) - Regular	\$20,653,959	\$15,451,274	Loans and Grants	MF=\$21,413 SF=\$40,265	MF=69.8% SF=45.3%
29	Single Family Interim Lending	\$4,400,000	\$1,900,000	Construction Loan	\$45,181	54.5%
30	Housing Infrastructure Bonds (HIB)	\$45,349,056	\$60,000,000	Primarily Deferred Loans	SH=\$9,688 Pres=\$15,211	SH=50.0% Pres=28.6%
31	Community-Owned Manufactured Home Parks	\$2,250,000	\$2,000,000	Amortizing Loans	N/A	N/A
32	Technical Assistance and Operating Support	\$2,525,000	\$2,525,000	Grants	N/A	N/A
33	Strategic Priority Contingency Fund	\$1,500,000	\$2,000,000	Loans & Grants	N/A	N/A
34	Strategic Investments / Loans	TBD	TBD	Investments / Loans	N/A	N/A
Other		\$1,960,314	\$2,430,003			
35	Manufactured Home Relocation Trust Fund	\$459,837	\$604,543	Grants	N/A	N/A
36	Disaster Relief Contingency Fund	\$1,500,477	\$1,825,460	Loans & Grants	\$18,534	6.7%
Total		\$1,126,984,065	\$1,338,209,004			

NOTE: The section of the table addressing "Housing Stability for Vulnerable Populations" has adjustments to reflect the two-year contracts for some of these programs. (See lines 23, 24, and 26.) All funds are committed in the first year of the contract, but activities are carried out over the two years of the contract. The "a" part of the program line shows all the funds that will be committed to execute the contract, while the "b" part is an adjustment to spread out the activities over the two years of the contract. The "Net Activity" line (the part without a letter) shows the net level of activity in a year after the adjustment. The Bridges (line 24) is the simplest example. In 2019, we expect to commit \$9,385,270 for the two-year contracts (line 24a). To reflect program activity, half of those funds (\$4,692,635) will shift out of 2019 (the negative number in line 24b) and into 2020. The net effect is the \$4,692,635 million of program activity in 2019 (top part of line 24). While displaying both funding and program activity adds a level of complexity, it is necessary. The "a" line is needed from a budgeting perspective to show the funds that are needed to enter into a contract, while the "Net Activity" line more accurately reflects annual program activity.

Our 2019 program investment plan is \$211 million higher than 2018. Three programs account for the increase.

- **In 2019, we expect home mortgage lending to be \$170 million higher than originally forecasted in 2018 (line 1).** In 2018, we originally estimated \$630 million of lending activity, which was \$50 million less than the \$680 million we reached in 2017. With rising home prices, a declining inventory of homes for sale that are affordable to our borrowers, and the prospect of rising interest rates, we expected lending to decline in 2018. However, through program adjustments, effective implementation and outreach, and continued low interest rates, we not only maintained our lending in 2018, we significantly increased it to roughly \$800 million. We expect to reach a similar level in 2019.
- **We are projecting up to \$15 million more from Housing Infrastructure Bond (HIB) proceeds (line 30).** The Legislature increased HIB funding from \$55 million in the 2017 bonding bill to \$80 million in the 2018 bill. We committed most of the 2017 funds in program years 2017 and 2018, but some funds will carry forward to 2019. We expect to commit the 2018 funds in program years 2019 and 2020.

- **We expect multifamily first mortgage lending to increase by \$35 million (line 10).** Through our business development activities, we have better aligned this program with the needs of our borrowers.

The funding levels shown in Table 2 for amortizing loans (including Home Mortgages, Monthly Payment Loans, Home Improvement Loans, Multifamily First Mortgages, and Strategic Investments / Loans) should be viewed as forecasts of expected lending volumes, rather than a fixed budget. Demand and need for these loans will largely determine the amount of funds used.

Table 2 also includes a few other notable funding changes.

- **With the scarcity of tax-exempt bonding authority, we ended the Mortgage Credit Certificate (MCC) program (line 2).** The program used tax-exempt bonding authority that would have otherwise expired to provide eligible first-time homebuyers a special tax credit on a portion of their mortgage interest payments.
- **We increased funding for down-payment and closing-cost loans by \$10 million (lines 3 and 4).** This will support the home mortgage lending that we expect in 2019.
- **HOME funding is \$10 million higher than last year (line 15).** Because of uncertainty in federal HOME funding in 2018, we only budgeted funds from loan repayments and uncommitted existing funds from previous years and did not budget any new appropriations. In 2019, we will budget the 2018 appropriations that have been finalized.
- **Funding for the Publicly Owned Housing Program is nearly \$4 million lower than last year (line 19).** In the most recent bonding bill, the Legislature provided \$10 million of general obligation bond proceeds for public housing. However, demand for this resource was so strong during the funding process that ended in April 2018 that we used a share of the new bonding resources in 2018, leaving about \$8.5 million for the 2019 AHP.
- **Funding for Section 8 contract administration is \$10 million lower in 2019 (Lines 21 and 22).** For budget reasons, HUD is taking over the administration of 24 Section 8 properties that were previously administered by Minnesota Housing.
- **We are projecting \$5 million less under the Economic Development and Housing/Challenge program (line 28).** In 2018, we committed a sizable balance of funds that carried forward from previous years. There is a smaller 2019 balance.

Household and Unit Projections

As show in Table 3, we expect to assist over 69,000 households in 2019.

Table 3: 2019 Forecast of Assisted Households or Housing Units, by Program

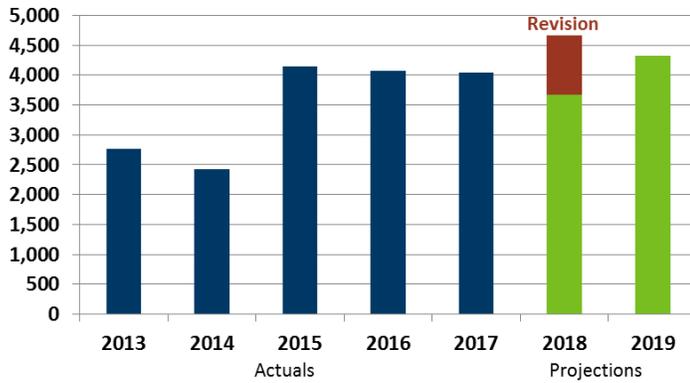
Program		Households or Units	Program	Households or Units
Homebuyer Financing and Home Refinancing		4,324	Rental Assistance Contract Administration	
1	Home Mortgage Loans	4,324	23	Section 8 - Performance Based Contract Administration
2	Deferred Payment Loans	Included in First Mortgage Count	24	Section 8 - Traditional Contract Administration
3	Monthly Payment Loans		Housing Stability for Vulnerable Populations	
Homebuyer/Owner Education & Counseling		20,224	25	Housing Trust Fund (HTF)
4	Homebuyer Education, Counseling & Training (HECAT)	19,088	26	Bridges
5	Enhanced Homeownership Capacity Initiative	1,136	27	Section 811 Supportive Housing Program
Home Improvement Lending		1,246	28	Family Homeless Prevention and Assistance Program (FHPAP)
6	Home Improvement Loan Program	895	29	Housing Opportunities for Persons with AIDS (HOPWA)
7	Rehabilitation Loan Program (RLP)	352	Multiple Use Resources	
Rental Production- New Construction and Rehabilitation		3,821	30	EDHC - Single Family RFP
8	Multifamily RFP/HTC/Pipeline Production	1,904	31	Single Family Interim Lending
9	First Mortgage - Low and Moderate Income Rental (LMIR)	Part of RFP/ HTC/ Pipeline Total	32	Housing Infrastructure Bonds (HIB) - Community Land Trusts
10	First-Mortgage - MAP Lending (Multifamily Accelerated Processing)		33	Community-Owned Manufactured Home Parks
11	Flexible Financing for Capital Costs (FFCC)		34	Technical Assistance and Operating Support
12	Multifamily Flexible Capital Account		35	Strategic Priority Contingency Fund
13	Low-Income Housing Tax Credits (LIHTC)		36	Strategic Investments/Loans
14	National Housing Trust Fund		Other	
15	Housing Infrastructure Bonds (HIB) - Multifamily RFP		37	Manufactured Home Relocation Trust Fund
16	Economic Development and Housing/Challenge (EDHC)		38	Disaster Relief Contingency Fund
17	HOME		Total	
18	Preservation - Affordable Rental Investment Fund (PARIF)		69,469	
19	Asset Management			
20	Rental Rehabilitation Deferred Loan (RRDL)			
21	Publicly Owned Housing Program (POHP)			
22	Workforce Housing Development			

Homebuyer Financing and Refinancing

Figure 10 shows our historical home mortgage lending, which was about 2,500 mortgages in 2013 and 2014. It then took off in 2015, reaching 4,000 mortgages in 2015 through 2017, and about 4,500 since

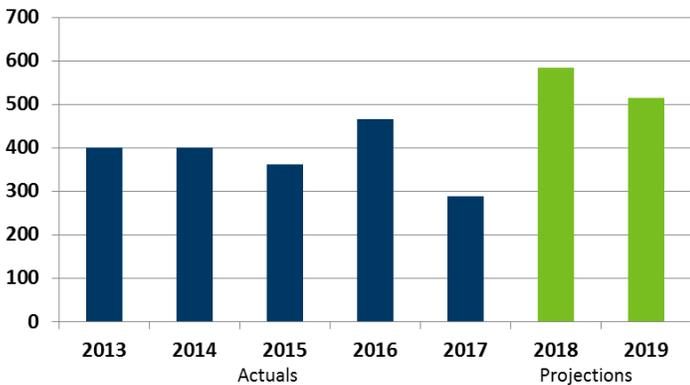
then. Despite a tight supply of homes, rising prices and interests, and regulatory changes, we have increased our lending.

Figure 10: Households/Home Assisted – Home Mortgage Loans



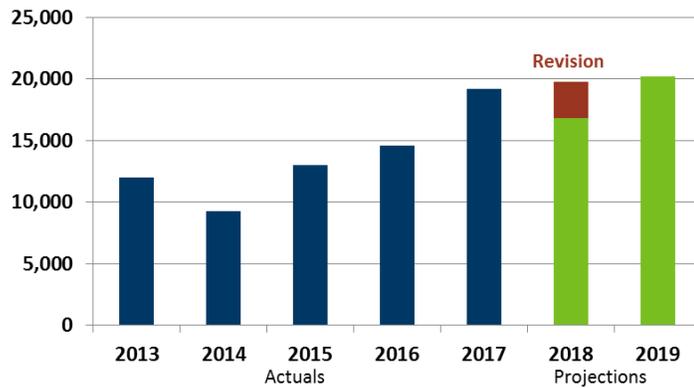
In 2019, we expect to serve just about 500 households under “other homeownership opportunities”, which is consistent with previous years. Activity and funding in 2018 was high with a large balance of Economic Development and Housing/Challenge funds carrying forward from the previous year. (Figure 11 includes the Habitat for Humanity Initiative, the single-family portion of the Economic Development and Housing/Challenge program, Housing Infrastructure Bond proceeds going to community land trusts, Single Family Interim Lending, and Community-Owned Manufactured Home Parks.)

Figure 11: Households/Homes Assisted – Other Homeownership Opportunities



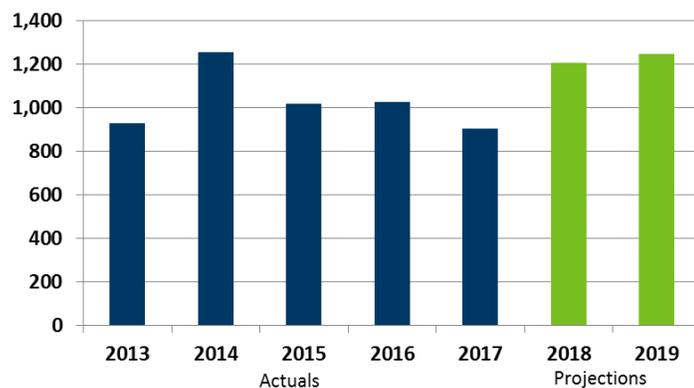
Homebuyer/Owner Education, Counseling, and Coaching

As shown in Figure 12, education and counseling declined in 2013 and 2014, reflecting less need for foreclosure prevention counseling. The need for homebuyer education continues and has increased since 2014. The addition of the Homeownership Center’s online course called Framework, which is an alternative to traditional classroom training, has supported the increase. (Figure 12 includes Homebuyer Education, Counseling & Training (HECAT) and the Enhanced Homeownership Capacity Initiative.)

Figure 12: Households Assisted – Homebuyer/Owner Education and Counseling

Home Improvement Lending

Home improvement production (Figure 13) was limited after the recession. Since then, production has increased, but the availability of home equity lines of credit and cash from mortgage refinancing has limited demand for our installment loans. Activity in 2014 was particularly strong because of a special program offering that our largest lender ran at the State Fair. Lending in 2018 will come in lower than originally projected, but we expect activity to increase in 2019 due to changes that made the program more desirable for borrowers and easier to administer. (Figure 14 includes both the Home Improvement Loan Program and the Rehabilitation Loan Program.)

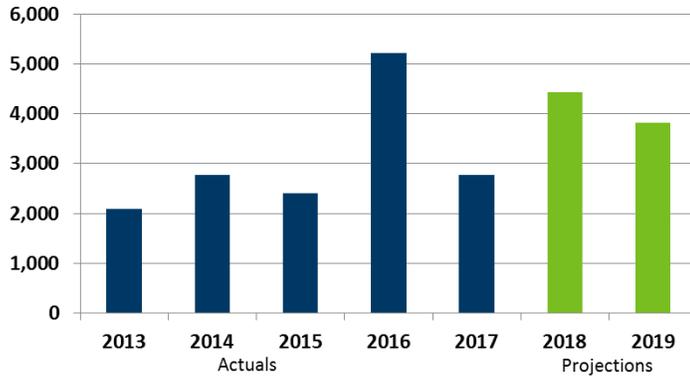
Figure 13: Households/Homes Assisted – Home Improvement Programs

Rental Production

In a typical year, rental unit production varies between 2,000 and 3,000 units, but we expect production to reach about 4,000 in 2018 and 2019 with the availability Housing Infrastructure Bond (HIB) and General Obligation Bond proceeds. A large allocation of Low-Income Housing Tax Credits (made possible by a temporary increase approved by Congress) is also supporting 2019 activity. Production in 2016 was particularly high with the completion of developments that received the last major round of bond proceeds (\$100 million). Production in 2018 and 2019 will be tempered a little because we will fund more new construction projects than we did a few years ago. New construction projects require more

funding per unit, which limits the number of assisted units. (Figure 14 captures all the programs in the rental production area and the multifamily portion of the Economic Development and Housing/Challenge and Housing Infrastructure Bond programs.)

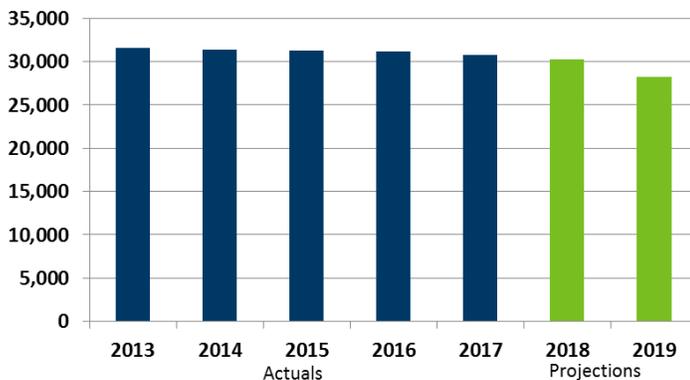
Figure 14: Units Assisted - Rental Production



Rent Assistance Contact Administration

Activity in the Section 8 and Section 236 contract administration has been very steady (Figure 15). These are ongoing contracts that we have administered, and the number of households served does not vary significantly from year to year. The number will drop slightly in 2019 because HUD has taken over administration of 24 Section 8 properties for budget reasons. The households in these 24 properties will continue to receive Section 8 assistance, but not from us. With the last Section 236 mortgages maturing in 2017, that program has closed out. It became a small program in recent years as it wound down.

Figure 15: Households Assisted – Rental Assistance Contract Administration

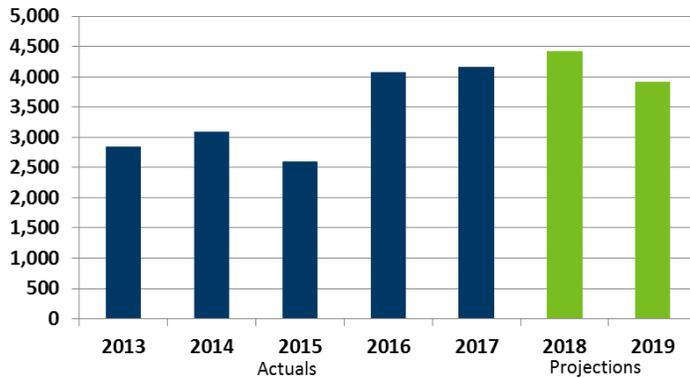


Housing Stability for Vulnerable Populations

Since 2015, there has been an increase in activity for state- and Agency-funded rent assistance and operating subsidies (Figure 16). Starting with the 2016-17 biennium, we have received an additional \$2.5 million for the Bridges program (rent assistance for people with very low incomes and a serious mental illness). We have also increased activity under Housing Trust Fund rent assistance, with most of the new

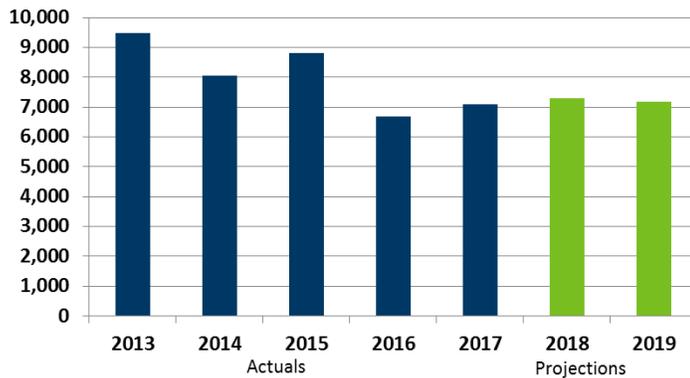
activity focused on pilot programs that test new approaches. Finally, we have added the Section 811 program that serves people with disabilities. As shown in Figure 16, overall activity in 2019 will decline modestly because the Minnesota Department of Human Services has taken over the administration of some operating subsidies in supportive housing developments that we had previously administered for them. (Figure 16 includes the three rent assistance programs and Housing Trust Fund operating subsidies.)

Figure 16: Households/Units Assisted – Agency Rental and Operating Assistance



The number of households assisted by the Family Homeless Prevention and Assistance Program (FHPAP) and Housing Opportunities for Persons with AIDS (HOPWA) (Figure 17) has declined in recent years because FHPAP has targeted harder-to-serve clients, which requires more funding per household.

Figure 17: Household Assisted – Targeted Assistance – FHPAP and HOPWA



Notes

¹ Recipients of rent assistance typically receive it for multiple years, and they are counted only once in the four year total.

² Christopher E. Herbert, 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 for Housing Studies, September 2013, HBTL-06) pp. 2 and 45-46.

³ Minnesota Housing analysis of HUD's CHAS data. For this analysis, we defined the lowest-income renter households are those with an income at or below 30% of the area median income (AMI), and the renter households able who are afford homeownership are those with an income over 50% of AMI.

⁴ Based on data for the 16-county Twin Cities metro area. The inventory dropped from 9,413 in June of 2014 to 4,314 in June of 2017.

⁵ Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample).

⁶ Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act (HMDA) data (2016).

⁷ Minnesota Housing estimate for the Governor's Task Force on Housing.

⁸ Minnesota Housing analysis of data from the U.S. Department of Housing and Urban Development's (HUD's) CHAS data (2010-14).

⁹ Based on Minnesota Housing Analysis of metro-area construction data from the Metropolitan Council; https://stats.metc.state.mn.us/data_download/DD_start.aspx.

¹⁰ Minnesota Housing, *2017 Cost Containment Report* (2017).

¹¹ Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample, microdata from IPUMS.com).

¹² Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016, 1-year sample, microdata from IPUMS.com)

¹³ U.S Department of Housing and Urban Development (HUD), Comprehensive Housing Affordability Strategy (CHAS) Data (2011-2015); <https://www.huduser.gov/portal/datasets/cp.html>.

¹⁴ Minnesota Housing, *The Loss of Naturally Occurring Affordable Housing (NOAH)* (May 2, 2018).

Appendix A-1

Overview of Funding Sources

Appendix A-1: Overview of Funding Sources

Our strong balance sheet and financial resources are a key strength. This Appendix describes each of our funding sources and outlines how we will use them in 2019. Table 1 shows our planned program investment by funding source and compares it with the original 2018 AHP. Appendix A-2 is a crosswalk that shows how we will allocate resources from each source to each program.

Table 1: 2019 Planned Program Investments by Funding Source

Program Category	Original 2018 AHP	Proposed 2019 AHP
Federal Resources	\$207,289,490	\$211,164,825
State Appropriated Resources	\$93,407,123	\$81,207,179
State Capital Investments (GO & Housing Infrastructure Bonds)	\$57,379,080	\$68,500,000
Pool 2, Agency Bond Proceeds, and Other Mortgage Capital	\$735,200,000	\$943,250,000
Housing Affordability Fund (Pool 3)	\$33,708,373	\$34,087,000
Total	\$1,126,984,065	\$1,338,209,004

Key Changes by Source:

- **Federal Resources** are \$3.9 million higher in 2018.
- **State Appropriated Resources** are \$12.2 million lower, primarily because the Economic Development and Housing/Challenge (EDHC), Preservation Affordable Rental Investment Fund (PARIF), and Housing Trust Fund (HTF) programs have smaller balances of funds carrying over from previous years.
- **State Capital Investments (General Obligation and Housing Infrastructure Bonds)** will be \$11.1 million higher. The Legislature increased funding from \$65 million in the 2017 bonding bill to \$90 million in the 2018 bill. We committed most of the funds from the 2017 bill in program years 2017 and 2018, but some unused funds will carry forward to 2019. We expect to commit all the funds from the 2018 bill in program years 2019 and 2020.
- **Housing Investment/Loan Resources: Pool 2, Agency Bond Proceeds, & Other Mortgage Capital** are projected to increase by over \$208 million, with increased home mortgage and multifamily first mortgage lending.
- **Housing Affordability Fund (Pool 3)** investments will increase by \$0.4 million.

The funding sources operate as described below. The precise amount of some resources is known at the time this plan is developed, while others (such as loan repayments) are estimates of resources that will become available during the year. Staff uses various analytical approaches (including fund cash flow analysis) to project the amount of resources available for housing programs.

Funding Source Descriptions

Federal Resources: There are various types of federal resources, including appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing and Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2019 funding will remain at its 2018 level; however, as described earlier, we did not budget the 2018 HOME funds until the 2019 AHP because of funding uncertainty. The amount of federal housing tax credits is based on a per capita formula and will be higher for the next four years due to a temporary increase approved by Congress.

State Appropriations: The amount of funding is based on the 2018-19 general fund budget adopted by the 2017 Minnesota Legislature. We generally split the appropriations evenly between state fiscal years 2018 and 2019. Repayments of loans from previous year appropriations are also a funding source.

State Capital Investments: These funds come from the state capital budget (bonding bill) and include General Obligation (GO) Bond and Housing Infrastructure Bond (HIB) proceeds. For HIBs, we are budgeting only a portion of the funds in 2019, reserving some for the 2020 program year.

Agency Bond Proceeds and Other Mortgage Capital: Bond proceeds are generated by the issuance of tax-exempt, taxable, and recycled bonds. Certain tax-exempt bonding activity is limited statewide by IRS rules, which cap the amount of new issuance, making it a scarce resource. We can also sell mortgage-backed securities backed by loans originated under our program on the secondary market. Finally, we are a MAP (Multifamily Accelerated Processing) lender, which allows us to originate FHA-insured multifamily mortgages that are financed through a third-party investor.

Agency Resources: We generate earnings from our lending and investment activities and reinvest them in wide variety of housing programs. Agency resources are currently categorized as follows:

Housing Investment Fund (Pool 2): Most of our investment-earning assets are carried in the Housing Investment Fund, and most assets in Pool 2 produce revenue that supports our operations and programs. We can transfer Pool 2 earnings to Pool 3 only to the extent that we project that our aggregate net position will satisfy our Board policy and rating agency stress tests. The earning assets that use Pool 2 funds are required to be of investment grade quality. Accordingly, the planned allocation of Pool 2 funds in a given AHP is primarily determined by the expected market opportunities that meet those loan and investment quality considerations and the projected earnings and net asset requirements for the future.

Housing Affordability Fund (Pool 3): Pool 3 resources come from: (1) transfers from Pool 2 that capture a portion of the Agency's earnings, and (2) repayments or prepayments from loans previously funded under Pool 3. Because Pool 3 has no earnings requirements, it is more flexible than Pool 2 and can be used for deferred loans and grants. However, Pool 3 is a more limited resource than Pool 2 because it is dependent on the transfer of earnings from Pool 2.

Table 2 shows the original funding amounts from Pool 3 under the 2018 and 2019 AHPs, along with the activity that we estimate will actually occur under the 2018 AHP.

Table 2: Pool 3 Funding and Activity

	2018 AHP Original Funding	2018 Estimated Commitments	2019 AHP Funding
Deferred Payment Loans (DPL)	\$14,115,000	\$19,440,000	\$18,115,000
Habitat for Humanity Initiative	\$1,000,000	\$0	\$0
Enhanced Homeownership Capacity Initiative	\$750,000	\$750,000	\$750,000
Rehabilitation Loan Program (RPL)	\$5,722,000	\$5,722,000	\$5,722,000
Multifamily Flexible Capital Account*	\$8,500,000	\$2,934,313	\$5,000,000
Single Family Interim Lending	\$0	\$0	\$650,000
Community Owned Manufactured Home Parks	\$250,000	\$250,000	\$0
Technical Assistance and Operating Support	\$1,850,000	\$1,680,500	\$1,850,000
Strategic Priority Contingency Fund*	\$1,500,000	\$0	\$2,000,000
Total	\$33,687,000	\$30,776,813	\$34,087,000
*All or a portion of 2018 Funds were reallocated to the DPL program to support our Home Mortgage lending.			

Appendix A-2: 2019 Program Funding by Source

	State Capital					
	2019 Total	Federal Resources	State Appropriations	Infrastructure Bonds	Housing Investment/Loan Resources (Agency Bond Proceeds, Other Mortgage Capital, & Pool 2)	Housing Affordability Fund (Pool 3)
Homebuyer Financing and Home Refinancing						
	\$840,000,000	\$0	\$3,885,000	\$0	\$818,000,000	\$18,115,000
1 Home Mortgage Loans	\$800,000,000	\$0	\$0	\$0	\$800,000,000	\$0
2 Deferred Payment Loans	\$22,000,000	\$0	\$3,885,000	\$0	\$0	\$18,115,000
3 Monthly Payment Loans	\$18,000,000	\$0	\$0	\$0	\$18,000,000	\$0
Homebuyer/Owner Education & Counseling						
	\$2,777,000	\$0	\$2,027,000	\$0	\$0	\$750,000
4 Homebuyer Education, Counseling & Training (HECAT)	\$1,527,000	\$0	\$1,527,000	\$0	\$0	\$0
5 Enhanced Homeownership Capacity Initiative	\$1,250,000	\$0	\$500,000	\$0	\$0	\$750,000
Home Improvement Lending						
	\$26,494,000	\$0	\$3,772,000	\$0	\$17,000,000	\$5,722,000
6 Home Improvement Loan Program	\$17,000,000	\$0	\$0	\$0	\$17,000,000	\$0
7 Rehabilitation Loan Program (RLP)	\$9,494,000	\$0	\$3,772,000	\$0	\$0	\$5,722,000
Rental Production- New Construction and Rehabilitation						
	\$173,912,004	\$31,244,380	\$24,167,624	\$8,500,000	\$105,000,000	\$5,000,000
8 Multifamily First Mortgage	\$105,000,000	\$0	\$0	\$0	\$105,000,000	\$0
9 Flexible Financing for Capital Costs (FFCC)	\$0	\$0	\$0	\$0	\$0	\$0
10 Multifamily Flexible Capital Account	\$5,000,000	\$0	\$0	\$0	\$0	\$5,000,000
11 Low-Income Housing Tax Credits (LIHTC)	\$12,413,026	\$12,413,026	\$0	\$0	\$0	\$0
12 National Housing Trust Fund	\$3,445,781	\$3,445,781	\$0	\$0	\$0	\$0
13 HOME	\$11,885,573	\$11,885,573	\$0	\$0	\$0	\$0
14 Preservation Affordable Rental Investment Fund (PARIF)	\$13,378,145	\$0	\$13,378,145	\$0	\$0	\$0
15 Asset Management	\$3,500,000	\$3,500,000	\$0	\$0	\$0	\$0
16 Rental Rehabilitation Deferred Loan (RRDL)	\$8,862,479	\$0	\$8,862,479	\$0	\$0	\$0
17 Publicly Owned Housing Program (POHP)	\$8,500,000	\$0	\$0	\$8,500,000	\$0	\$0
18 Workforce Housing Development	\$1,927,000	\$0	\$1,927,000	\$0	\$0	\$0
Rental Assistance Contract Administration						
	\$178,810,000	\$178,810,000	\$0	\$0	\$0	\$0
19 Section 8 - Performance Based Contract Administration	\$141,460,000	\$141,460,000	\$0	\$0	\$0	\$0
20 Section 8 - Traditional Contract Administration	\$37,350,000	\$37,350,000	\$0	\$0	\$0	\$0
Housing Stability for Vulnerable Populations						
	\$29,909,723	\$1,110,445	\$28,799,278	\$0	\$0	\$0
21 Housing Trust Fund (HTF) - Net Activity	\$15,411,667	\$0	\$15,411,667	\$0	\$0	\$0
21a Funding for new contracts	\$26,890,000	\$0	\$26,890,000	\$0	\$0	\$0
21b Adj. to spread two-year contracts over two years	-\$11,478,333	\$0	-\$11,478,333	\$0	\$0	\$0
22 Bridges - Net Activity	\$4,692,635	\$0	\$4,692,635	\$0	\$0	\$0
22a Funding for new contracts	\$9,385,270	\$0	\$9,385,270	\$0	\$0	\$0
22b Adj. to spread two-year contracts over two years	-\$4,692,635	\$0	-\$4,692,635	\$0	\$0	\$0
23 Section 811 Supportive Housing Program	\$912,000	\$912,000	\$0	\$0	\$0	\$0
24 Family Homeless Prevention and Assistance Program (FHPAP) - Net Activity	\$8,694,976	\$0	\$8,694,976	\$0	\$0	\$0
24a Funding for new contracts	\$17,123,286	\$0	\$17,123,286	\$0	\$0	\$0
24b Adj. to spread two-year contracts over two years	-\$8,428,310	\$0	-\$8,428,310	\$0	\$0	\$0
25 Housing Opportunities for Persons with AIDS (HOPWA)	\$198,445	\$198,445	\$0	\$0	\$0	\$0

Appendix A-2: 2019 Program Funding by Source

	2019 Total	Federal Resources	State Appropriations	State Capital		
				Investment (GO & Housing Infrastructure Bonds)	Housing Investment/Loan Resources (Agency Bond Proceeds, Other Mortgage Capital, & Pool 2)	Housing Affordability Fund (Pool 3)
Multiple Use Resources	\$83,876,274	\$0	\$16,126,274	\$60,000,000	\$3,250,000	\$4,500,000
26 Economic Development and Housing/Challenge (EDHC) - Regular	\$15,451,274	\$0	\$15,451,274	\$0	\$0	\$0
27 Single Family Interim Lending	\$1,900,000	\$0	\$0	\$0	\$1,250,000	\$650,000
28 Housing Infrastructure Bonds	\$60,000,000	\$0	\$0	\$60,000,000	\$0	\$0
29 Community-Owned Manufactured Home Parks	\$2,000,000	\$0	\$0	\$0	\$2,000,000	\$0
30 Technical Assistance and Operating Support	\$2,525,000	\$0	\$675,000	\$0	\$0	\$1,850,000
31 Strategic Priority Contingency Fund	\$2,000,000	\$0	\$0	\$0	\$0	\$2,000,000
33 Strategic Investments / Loans	TBD	\$0	\$0	\$0	TBD	\$0
Other	\$2,430,003	\$0	\$2,430,003	\$0	\$0	\$0
32 Manufactured Home Relocation Trust Fund	\$604,543	\$0	\$604,543	\$0	\$0	\$0
34 Disaster Relief Contingency Fund	\$1,825,460	\$0	\$1,825,460	\$0	\$0	\$0
2016 Proposed AHP Total	\$1,338,209,004	\$211,164,825	\$81,207,179	\$68,500,000	\$943,250,000	\$34,087,000

Appendix B

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Notes on reading the program descriptions:

- “Housing Investment Fund” and “Pool 2” refer to the same resource.
- “Housing Affordability Fund” and “Pool 3” refer to the same resource.
- The sum of the projections for the number of housing units or households assisted by individual programs during the plan period exceed the total number of households projected to be served across all programs. This occurs because some households or housing units will receive assistance from multiple programs to achieve needed affordability levels.
- The projections for the number of households or units assisted generally are based on the average assistance per unit or per household for the last five years, by program, adjusted for inflation and program trends and changes.
- The funding levels described in the narratives are the estimated amounts available for commitment in 2019. For amortizing loans (Home Mortgages, Monthly Payment Loans, Home Improvement Loans, Multifamily First Mortgages, Single Family Interim Lending, and Community Owned Manufactured Home Parks), the funding level is an estimate of demand and not a fixed budget.
- “Program” is used broadly throughout the AHP to refer to Minnesota Housing programs, initiatives, and activities.

Home Mortgage Loans

We offer two home mortgage programs, Start Up serving first-time home buyers, and Step Up for borrowers who do not qualify for Start Up. Step Up offers both purchase and refinance options. Under the programs, participating lenders originate fully-amortizing first mortgages throughout the state. To support home mortgage borrowers, we also offer downpayment and closing-cost loans that are structured to meet the needs of low- and moderate-income homeowners. To promote successful homeownership, our home mortgage programs also require at least one borrower in a first time homebuyer household to complete homebuyer education.

In our current business model for homeownership, we access capital to finance the purchase of mortgage-backed securities containing our program mortgages primarily by selling bonds in the municipal bond market. Program mortgages not eligible for bond sales are sold on the secondary market.

We remain committed through our programs to serve households of color or Hispanic ethnicity and households with incomes below 80 percent of area median income.

Current household income limits for Start Up:

<u>Property Location</u>	<u>Maximum Household Income</u>	
	<u>1-2 person</u>	<u>3 or more</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$94,300	108,400
Dodge & Olmstead Counties	90,500	\$104,000
All Other Counties	84,200	96,800

Current income limits for Step Up:

<u>Property Location</u>	<u>Maximum</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$141,000
Dodge & Olmstead Counties	\$141,000
All Other Counties	\$125,900

Purchase price limits:

<u>Property Location</u>	<u>Maximum</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$328,000
All Other Counties	\$271,100

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we financed:

- 4,035 loans
- \$661,274,817 total loan amount
- \$163,885 average loan
- Median household income of borrowers was \$54,349 or 68 percent of the statewide median income
- 32% percent were households of color or Hispanic ethnicity

Our home mortgage programs are experiencing high production, which is heavily supported by downpayment and closing-cost loans. Ninety-seven percent of home mortgage borrowers use some

type of downpayment and closing-cost loan, which is comparable with other top-producing housing finance agencies nationally.

Proposal for 2019

Expected 2019 funding is \$800,000,000

With the amount of funds requested to support downpayment and closing-cost loans, the 2019 home mortgage production forecast is \$800 million. This is a similar level of production to what we expect to achieve in 2018, which increased from an original forecast of \$630 million. If production strengthens, we will need additional funds in 2019 or program changes for downpayment and closing-cost loans.

Based on resources available for new activity in 2019, we expect to finance mortgages for 4,324 households. Reducing the homeownership disparity for households of color or Hispanic ethnicity will continue to be a priority in 2019.

Deferred Payment Loans

We offer two downpayment and closing-cost loans—Deferred Payment Loans and Monthly Payment Loans—that support homeowners receiving Start Up and Step Up first mortgage loans. For the past two years, 95-97% of our borrowers have received one of these downpayment and closing-cost loans.

The Deferred Payment Loan (DPL) provides an interest-free, deferred loan for downpayment and closing costs to income-eligible first-time homebuyers purchasing a home under the Start Up program. Borrowers that receive DPL lack the necessary funds for standard mortgage downpayment and closing costs. The maximum loan amount is \$10,000. The program serves lower income households than the amortizing Monthly Payment Loan (MPL) and is funded through a combination of state appropriations and Pool 3 funds.

To ensure that funds support successful homeownership, DPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or \$1,000 and have a credit score of at least 640.

Current income limits are adjusted by household size. Limits for households of one to two members are:

<u>Property Location</u>	<u>Maximum</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$68,000
Dodge & Olmstead Counties	\$68,000
All Other Counties	\$61,000

Current purchase price limits are:

<u>Property Location</u>	<u>Maximum</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$328,200
All Other Counties	\$271,100

Program Performance and Trends

The availability of DPL is a driver of overall home mortgage production, particularly among lower-income and more targeted borrowers. In 2016, we increased the maximum DPL loan amounts slightly to reflect higher downpayment and closing costs resulting from higher home prices and sellers who are no longer willing to pay a sale's transaction costs. The changes went into effective on June 29, 2016.

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing financed:

- 2,388 loans
- \$17,536,900 total loan amount
- \$7,344 average loan
- Median household income of borrowers was \$47,708 or 59 percent of the statewide median income
- 34 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$22,000,000.

If home mortgage demand remains very strong, additional resources may be needed to support DPL, or we will have to make program changes.

Based on resources available for new activity in 2019, we expect to support 2,675 households under this program.

Monthly Payment Loans

Monthly Payment Loans (MPLs) are interest-bearing, amortizing loans that provide downpayment and closing-cost funds. MPLs support our Start Up and Step Up home mortgage loan programs. Borrowers who qualify for MPLs receive up to \$15,000. MPLs use Pool 2 resources have a 10-year term with an interest rate equal to that of the first mortgage.

To ensure that funds support successful homeownership, MPL requires borrowers to contribute a minimum cash investment of the lesser of one percent of the purchase price or \$1,000 and have a credit score of at least 640.

Current household income limits are:

<u>Property Location</u>	<u>Maximum Household Income</u>	
	<u>1-2 person</u>	<u>3 or more</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$94,300	\$108,400
Dodge & Olmstead Counties	\$90,500	\$104,000
All Other Counties	\$84,200	\$96,800

Current purchase price limits are:

<u>Property Location</u>	<u>Maximum</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$328,200
All Other Counties	\$271,100

Program Performance and Trends

Demand for this program has remained strong since its introduction in late 2012.

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 1,360 loans
- \$11,174,300 total loan amount
- \$8,216 average loan
- Median household income of borrowers was \$70,034 or 87 percent of the statewide median income
- 29 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$18,000,000.

For 2019, we anticipate over one-third of overall home mortgage production will involve MPL, which would require \$18 million for MPL. MPL production is subject to overall home mortgage production trends, the interest rate environment, the overall percentage of our borrowers who need a downpayment and closing-cost loan, and program design. Given that MPL is available with both home mortgage options, the demand for MPL depends upon the demand for first mortgage loans. If home mortgage demand remains very strong, additional resources may be needed to support MPL, or we will have to make program changes.

Based on resources available for new activity in 2019, we expect to fund loans for 1,636 households under this program.

Homeownership Education, Counseling & Training (HECAT)

The Homeownership Education, Counseling and Training (HECAT) program supports comprehensive homebuyer education and counseling, including: pre-purchase homebuyer education (Home Stretch), pre-purchase homebuyer services (financial wellness or homebuyer counseling), home equity conversion (reverse mortgage) counseling, and foreclosure prevention counseling. Besides the regular state appropriation, the Greater Minnesota Housing Fund and the Homeownership Center have historically each contributed \$250,000 annually to the program, and the Family Housing Fund has contributed \$150,000. We award the funds through a competitive annual Request for Proposals (RFP) process. Homebuyer education also includes Framework, an online option.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 8,268 households through the traditional HECAT program and an additional 8,956 households through Framework
 - \$1,750,850 total funding
 - \$188 average Minnesota Housing assistance per household
-

- Median household income of participants was \$36,000 or 45 percent of the statewide median income
- 47 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$1,527,000.

Based on resources available for new activity in 2019, the program will assist 19,088 households (including online Framework training).

Enhanced Homeownership Capacity Initiative

Households of color or Hispanic ethnicity are an increasing share of the state's population, yet Minnesota's homeownership disparity (the homeownership rate differential between white/non-Hispanic households and households of color) is the fifth-highest in the nation. These households often struggle to access the mortgage market.

Homeownership Capacity has been a pilot program funded with state appropriations and Pool 3 resources that provides intensive financial education, comprehensive homebuyer/owner training, and case management services to prepare families for sustainable homeownership. It serves a range of households but has targeted efforts to reach households of color and low-to-moderate income households to increase their probability of successful homeownership.

In the most recent round of funding, thirteen organizations will provide services – nine in the Twin Cities metro, four in Greater Minnesota, and two in both areas.

Program Performance and Trends

This initiative supports new and expanded homeowner training efforts through existing organizations, which leverage funds from a number of sources.

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 868 households
- \$1,108,504 total grant amount
- \$1,277 average Minnesota Housing funding per household
- Median household income of borrowers was \$34,158 or 43 percent of the statewide median income
- 84 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$1,250,000.

In July 2018, Minnesota Housing's Board approved the conversion of this pilot into a permanent program.

Based on the resources available for new activity in 2019, we anticipate serving approximately 1,136 households.

Home Improvement Loan Program

The Home Improvement Loan Program (including Fix-Up and Community-Fix-Up Loans) uses Pool 2 resource to provide fully-amortizing home improvement loans to low- and moderate-income homeowners to improve the livability and energy efficiency of their homes. The Community-Fix-Up component is an add-on for eligible Fix-Up lending partners and provides affordable financing to support community partnerships that target resources. Lending partners working with Community Fix Up are able to offer a slightly lower interest rate compared to the regular Fix-Up Loan Program. Fix-Up and Community-Fix-Up loans are key tools for addressing the state’s aging housing stock.

The program serves a broad range of incomes and promotes economic diversity in lending. With higher loan-to-value limits than traditional loan products and an unsecured loan option, borrowers are able to improve and preserve their homes when other financing options may not be available to them.

Income limit:

<u>Property Location</u>	<u>Income Limit</u>
Minneapolis/Saint Paul Metro Area (11-county)	\$141,000
Dodge & Olmstead Counties	\$141,000
All Other Counties	\$125,900

(No Income limit for unsecured energy incentive and secured energy/accessibility loans.)

Maximum loan amount:

- \$50,000 for secured loans
- \$15,000 for unsecured loans and secured energy/accessibility loans.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 —September 30, 2017, Minnesota Housing financed:

- 644 loans
- \$12,489,603 total loan amount
- \$19,394 average loan
- Median household income of borrowers was \$69,732 or 87 percent of the statewide median income
- 12 percent were households of color or Hispanic ethnicity

Loan production has leveled off in recent years. Staff completed a program evaluation and is implementing changes in the last quarter of the 2018 program, year which includes:

- Changing income limits (see above)
- Form changes
- Interest rate changes (does not apply to Energy or Accessibility loans)
- Program changes

Proposal for 2019

Expected 2019 funding is \$17,000,000.

The recent program changes are designed to make the program easier for lenders to use and better meet borrowers' needs, and as a result, the projected demand for the program should increase. Staff will focus on lender training, increase outreach to new and existing lenders, and continue to promote Community Fix Up initiatives.

Based on the resources available for new activity in 2019, we anticipate serving approximately 895 households.

Rehabilitation Loan Program (RLP)

The Rehabilitation Loan Program (RLP) provides zero-percent deferred loans to extremely-low-income homeowners at or below 30 percent of area median income (AMI) to improve the safety, livability, or energy efficiency of their homes. The homes are rehabilitated to the greatest extent practicable to meet the rehabilitation standard adopted by the Agency in 2010. Homeowners who need emergency assistance or have an essential accessibility need are referred to the Emergency & Accessibility Loan (ELP) component of the program.

A network of over 30 lender partners, such as community action agencies and local units of government, administer RLP throughout the state. The maximum loan term is 15 years for properties taxed as real property and 10 years for manufactured homes taxed as personal property and located in a manufactured home park. All loans are forgiven after the loan term if the borrower does not sell, transfer title, or cease to occupy the property during the loan term.

Current income limits are adjusted by household size, from \$19,900 for a single person household to \$28,300 for a four-person household. Other borrower assets cannot exceed \$25,000.

Maximum loan amount: \$15,000 for an ELP and \$27,000 for an RLP loan.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 260 loans
- \$6,641,005 total loan amount
- \$25,542 average loan
- Median household income of borrowers was \$14,286 or 18 percent of statewide median income
- 10 percent were households of color or Hispanic ethnicity

Over the past year, staff completed a program assessment and redesigned the program to increase efficiency in program delivery and better meet the needs of our lender partners. The redesign streamlines the loan origination and review processes and increases the compensation for our lender

partners. Staff also completed three in-person lender trainings and conducted outreach to current and potential new lenders to address gaps in the program's coverage.

Proposal for 2019

2019 funding is \$9,494,000.

In 2019, staff will implement the program redesign, including providing training and technical assistance to lenders on the process enhancements and assessing the new redesign for further program improvements. Program staff will prioritize outreach to ensure statewide program coverage in urban, suburban and rural markets, as well as coverage to core demographics who often receive assistance, including seniors and households with a disabled member.

Based on resources available for the program in 2019, we expect to fund rehabilitation loans for approximately 352 households.

Multifamily First Mortgages

We make available Multifamily First Mortgages through our Low and Moderate Income Rental (LMIR) program and MAP (Multifamily Accelerated Processing) lending, using resource from Pool 2, Agency bond proceeds, and other mortgage capital.

Low and Moderate Income Rental (LMIR)

We have the ability to finance amortizing first mortgages. Traditionally, we have made direct loans through our Low and Moderate Income Rental Program (LMIR) using either Pool 2 resources or proceeds from the issuance of tax-exempt bonds. Direct loans are generally made under LMIR in combination with HUD's Risk Sharing Program.

The LMIR Program makes interest-bearing, amortizing first mortgages available for the refinance, acquisition, rehabilitation, new construction, or conversion of rental developments that house low- and moderate-income Minnesotans. We also finance construction (bridge) loans under this program. Financing is available to housing sponsors both through the Request for Proposals (RFP) process and on a year-round pipeline basis. To enhance LMIR loans, we may also offer a companion, low- or no-interest deferred loan under the Flexible Financing for Capital Cost (FFCC) program, resulting in a lower overall interest rate on a blended basis.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined "market rate".

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income (AMI);¹ or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be

¹ It is actually 60% of MTSP (Multifamily Tax Credit Subsidy Projects), which is very similar to AMI (area median income). We are using AMI in this explanation because it is a more widely used term.

occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible with loan amounts less than \$2 million on tax-exempt bond loans and \$350,000 on all others.

For the past several years, the bond market has not produced attractive interest rates for long-term bonds; as a result, we have issued short-term tax-exempt bonds to finance LMIR construction (bridge) loans. Bridge loans are later paid off by permanent LMIR loans funded from Pool 2 resources, a structure that allows developments to qualify for 4 percent housing tax credits and realize the benefit of very low short-term interest rates while protecting against interest rate risk on the permanent mortgages. This structure is subject to change as directed by our finance staff (as the bond market changes).

MAP Lending

The HUD Multifamily Accelerated Processing (MAP) program provides mortgage insurance through HUD's Federal Housing Administration to facilitate new construction, rehabilitation, acquisition, and refinance of multifamily rental housing. MAP transactions are fully-insured, fully-amortizing loan products. Through a partnership with Dougherty Mortgage, we complete the loan underwriting and then assign HUD's commitment to a third party for rate lock, closing, funding, and servicing. These loans may be paired with our other loan programs.

Eligibility requirements: The development must meet the underwriting standards as prescribed by HUD, including loan-to-value requirements and debt-service-coverage ratio. The development team must also meet HUD requirements regarding experience and financial strength.

There are no set minimum or maximum loan amounts; however, due to financing costs, loans are generally not feasible in amounts of less than \$1 million.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, under LMIR, Minnesota Housing financed:

- 10 loans for developments with 576 units
- \$26,139,250 total loan amount
- \$45,381 average LMIR assistance per unit
- Median household income of tenants was \$25,129 or 31 percent of the statewide median income
- 53 percent of households were of color or Hispanic ethnicity

One MAP loan for a development with 75 units closed October 1, 2016 – September 30, 2017. In the current interest rate environment, MAP loan volume is expected to remain level, both through the RFP and on a pipeline basis.

- 1 loan for a development with 75 units
- \$2,662,000 total loan amount
- \$35,493 average MAP assistance per unit

Proposal for 2019

2019 funding is \$105,000,000.

To broaden the benefit and flexibility of our first mortgage programs, we have improved the program to make it more beneficial to borrowers and began exploring ways to streamline our application and review processes. We have also developed a year-round funding approach to enhance the marketing and benefit of our mortgage products. We expect to pair deferred funding sources (including FFCC, PARIF, Assets Management loans, and possibly HOME) with amortizing mortgages to support this year-round approach.

We review funding applications to determine if they would be better served as LMIR or MAP loans. For 2019, we will continue to explore and implement additional mortgage products.

We anticipate that roughly 50 percent of the permanent financing will be awarded through the RFP process and 50 percent will be awarded through year-round funding.

Based on resources available in 2019, we expect to assist up to 1,875 units under permanent LMIR financing (excluding bridge loans) and MAP lending, which would include new construction, rehabilitation, and refinancing.

Flexible Financing for Capital Costs (FFCC)

We provide Flexible Financing for Capital Costs (FFCC) deferred loans at low or no interest, using Pool 3 resources. FFCC is available only in conjunction with Agency-originated first mortgage loans for the refinance, acquisition, rehabilitation, new construction, or conversion of rental developments that house low- and moderate-income Minnesotans.

We allocate FFCC funds through the Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be unnecessarily delayed if required to wait for the next RFP.

Current rent restrictions: a minimum of 40 percent of units must be affordable to households with incomes at 60 percent of the area median income; or 20 percent of units must be at affordable to households with incomes at 50 percent area median income; and the balance of units may have rents at the Minnesota Housing determined “market rate”.

Current tenant income restrictions: 40 percent of units must be occupied by households with incomes at 60 percent or less of the area median income; or 20 percent of units must be occupied by households with incomes at 50 percent or less of area median income; and 25 percent of units may be occupied by households with unrestricted incomes. The balance of the units may be occupied by households with incomes equal to or less than 100 percent of the area median income.

Maximum loan amount: no set limit, subject to funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing financed:

- 4 FFCC loan for a development with 203 units
- \$4,469,762 total loan amount
- \$22,019 average FFCC assistance per unit

Proposal for 2019

Expected 2019 funding will be determined at a later date.

Because the need for FFCC is largely dependent on which develops ask for and receive a first mortgage with gap financing from us, demand for FFCC is very uncertain. Thus, we are not allocating funds to FFCC at this time. As RFP selections are made, we will transfer Pool 3 funds from the Multifamily Flexible Capital Account to FFCC. (The next program description outlines this account.)

Of the FFCC funds that will eventually be made available, we anticipate that approximately 60 percent of the funds will be awarded through the 2018 RFP and up to 40 percent will be awarded through year round pipeline.

Until we determine the amount of funds needed for FFCC, we cannot estimate the number of units that would be assisted.

Multifamily Flexible Capital Account

Our multifamily underwriting team has the difficult challenge of funding as many high-quality rental developments each year as possible with available funds and varying program restrictions. Matching the right funds to the right development to maximize the number of affordable housing opportunities is a complex process. The Multifamily Flexible Capital Account, using resources from our Housing Affordability Fund (Pool 3), allows us to fill the last funding gaps in projects to maximize production. We will use this account to fund FFCC activity, Asset Management loans, and other gaps.

Program Performance and Trends

This is not a program but a funding source run through Asset Management and Flexible Financing for Capital Costs.

Proposal for 2019

Expected 2019 funding is \$5,000,000.

Based on the resources available, we expect to fund the development or rehabilitation of about 187 units.

Low-Income Housing Tax Credits (LIHTC)

Low-Income Housing Tax Credits (LIHTCs) provide federal income tax credits to owners and investors in the construction or acquisition/substantial rehabilitation of eligible rental housing. The housing must meet income and rent restrictions for a minimum of 30 years. The U. S. Department of Treasury (IRS) allocates tax credits based upon state population and a per capita amount that increases each year with

the cost of living. Syndication proceeds are the amounts of private equity invested in developments as a result of federal housing tax credits awarded and then sold to investors. The award of LIHTCs to developments is a highly competitive process, with requests far exceeding available credits.

The Minnesota Legislature designated Minnesota Housing as the primary allocating agency of LIHTC in Minnesota and qualified local cities and counties as suballocators.

We award tax credits in two rounds of a competitive allocation process held each year. Round 1 is held concurrent with our Request for Proposals, and a smaller Round 2 is traditionally held early in the next calendar year. We establish a waiting list of unfunded or partially funded applications at the conclusion of Round 2.

Section 42 of the Internal Revenue Code requires that tax credit allocating agencies develop an allocation plan for the distribution of the tax credits within the jurisdiction of the allocating agency. Our Qualified Allocation Plan (QAP) includes selection criteria and preferences required by Section 42 and deemed appropriate to local conditions and established by us based on input from the public, partners and stakeholders.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing financed or allocated:

- 828 LIHTC units
- \$94,957,135 in syndication proceeds (investor equity from the sale of credits)
- \$114,683 average syndication amount per unit
- Median household income of tenants in LIHTC units financed by Minnesota Housing was \$22,682 or 28 percent of the statewide median income
- 44 percent of households were of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$12,413,026 in credits, which should generate about \$110,000,000 in syndication proceeds). This year's allocation will be our largest ever.

We expect to allocate tax credits to support 717 rental units in 2019.

National Housing Trust Fund (NHTF)

The National Housing Trust Fund (NHTF) is an affordable housing production program that complements existing Federal, State, and local efforts to increase and preserve the supply of safe, affordable housing for extremely low-income households, including families experiencing homelessness. The Fund is capitalized through contributions from the government sponsored enterprises Fannie Mae and Freddie Mac and administered by U.S. Department of Housing and Urban Development.

Current Income Restrictions: NHTF-assisted units must be occupied by households with incomes at or below 30% of the area median income (AMI).

Current Rent Restrictions: Rents of an extremely low-income tenant shall not exceed affordability at 30 percent of AMI. HUD will publish the NHTF rent limits on an annual basis.

Program Performance and Trends

The first development closed in September 2017 and supports 16 units. The second development has an anticipated closing date of late fall 2018 and will support 19 units.

Proposal for 2019

Expected 2019 funding is \$3,445,781.

The program will provide financing for one to two developments that are:

- New construction,
- Acquisition with rehabilitation,
- Rehabilitation without acquisition, or
- Operating subsidies for one of the above developments that produces new units meeting the permanent supportive housing strategic priority (up to 30% of the grant)

Based on the available resources, funds are expected to support 26 units in 2019.

HOME

HOME provides deferred loans for new construction, rehabilitation or acquisition/rehabilitation of permanent affordable rental housing, including housing with state or federal project-based rental subsidies. The program is funded with federal appropriations.

We allocate HOME funds through the annual Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: The U.S. Department of Housing and Urban Development (HUD) annually sets limits for the HOME program.

Rent limits: HUD annually sets limits for the HOME program.

Maximum assistance amount: HUD annually sets the maximum per-unit subsidy.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 2 developments with 110 units
- \$4,403,000 total loan amount
- \$37,000 average HOME assistance per unit
- Median household income of tenants was \$19,083 or 24 percent of the statewide median income
- 42 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts, as well as other project-based assisted housing.

Proposal for 2019

Expected 2019 funding is \$11,885,573

In 2019, HOME funds will be used to support either new construction or rehabilitation needs. We anticipate assisting about 85 rent units.

Preservation Affordable Rental Investment Fund (PARIF)

PARIF provides loans to fund the preservation of: 1) permanent affordable rental housing with project-based federal subsidies that are in jeopardy of being lost, and 2) existing supportive housing developments. Eligible activities under PARIF include rehabilitation, acquisition and rehabilitation, and debt restructuring.

We allocate PARIF funds, which are state appropriations, through our annual Request for Proposals (RFP) process and on a year-round pipeline basis, allowing us to act more quickly to meet the immediate needs of developments that would be adversely impacted if required to wait for the next RFP.

Tenant income limit: PARIF is subject to the federal guidelines for the units being preserved.

Maximum assistance amount: None

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 11 developments with 688 units
- \$9,916,531 total loan amount
- \$14,414 average PARIF assistance per unit
- Median household income of tenants was \$17,826 or 22 percent of the statewide median income
- 44 percent were households of color or Hispanic ethnicity

This program is a critical tool in the long-term preservation of expiring project-based Section 8 contracts, properties with Rural Development rental assistance, and other project-based federally assisted housing.

Proposal for 2019

Expected 2019 funding is \$13,378,145.

We anticipate that approximately 80 percent of the funds will be awarded through the 2018 RFP and up to 20 percent will be awarded through the year-round pipeline.

Based on resources available for new activity in 2019, we expect to fund 334 units.

Asset Management

Under the Asset Management program, resources are available on a pipeline basis to fund deferred maintenance, capital improvements, or acquisition or to buy out partners. Eligible properties include those with financing from Minnesota Housing, including those with existing affordability restrictions or rental assistance contracts administered by Minnesota Housing. Because we prioritize properties already in Minnesota Housing's portfolio, referrals primarily come from Minnesota Housing's asset management and compliance staff.

Under the Asset Management program, we can provide a range of loan types, including interest-bearing, non-interest bearing, amortizing, and/or deferred loans.

Owners receiving funds under this program must agree to extend affordability restrictions to be coterminous with the new loan.

Funding for Asset Management comes from two sources: (1) Financing Adjustment Factor (FAF)/Financing Adjustment (FA), and (2) Pool 3. FAF/FA are federal funds and come from a financing agreement between the U.S. Department of Housing and Urban Development (HUD) and Minnesota Housing.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing provided asset management assistance for no developments. The program was inactive during this time, with staff preparing new guidelines and considerations.

Proposal for 2019

We expect to make available \$5,500,000 in FA/FAF funds to support 183 units. As needed, we will also transfer available Pool 3 funds from the Multifamily Flexible Capital Account to the Asset Management to assist additional rental units. The amount that we will transfer and the number of additional units that would be assisted are unknown at this time.

Rental Rehabilitation Deferred Loan Pilot Program (RRDL)

RRDL provides deferred loans at no interest to individuals, developers, nonprofits, units of government, and tribal housing corporations for the moderate rehabilitation of existing affordable rental housing throughout Greater Minnesota. The program is funded with state appropriations and designed to serve owners of smaller federally-assisted properties or naturally affordable properties that do not apply or would not be competitive in our regular Consolidated Request for Proposals process.

Program funds are available through a network of local administrators. For developments located in areas of the state that are not represented by a local program administrator, owners may apply directly to Minnesota Housing for RRDL funds as a project-specific applicant. Loan terms range from 10 to 30 years depending on the loan amount. Buildings that contain 1-4 units may apply for loans up to

\$100,000 and these loans are 100% forgivable. Properties containing five or more units, may apply for loans where 10 percent of the loan amount is forgiven after the loan term has been met.

Current tenant income limit: 80 percent of the greater of the statewide or area median income (AMI) for a family of four, not adjusted for family size.

Maximum loan amount: \$35,000 per unit for 1-2 unit properties or \$25,000 per unit up to a maximum loan of \$300,000 for other properties.

Program Performance and Trends

RRDL continues to not reach as many naturally affordable properties as intended, especially properties with 1-4 units. As we move into the 2019 AHP, staff are refining potential program changes and improvements, with the ultimate goal of serving more renter households, strengthen the delivery network, as well as streamline the application and underwriting processes.

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 2 loans for developments with 48 units
- \$574,517 total loan amount
- \$11,969 average RRDL assistance per unit
- Median household income of tenants was \$19,028 or 24 percent of the statewide median income
- 20 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$8,862,479.

We typically run the Request for Proposal (RFP) process for RRDL every other year. After the program changes have been refined and approved, agency staff will carry out an RFP for RRDL funds.

Based on resources available and current production trends, we expect to finance 591 units.

Publicly Owned Housing Program (POHP)

Through the Publicly Owned Housing Program (POHP), we provide deferred, forgivable loans at no interest to eligible public housing authorities or housing and redevelopment authorities to preserve/rehabilitate properties that they own and operate under HUD's Public Housing program. Funds are from the proceeds of state General Obligation Bonds and can be used only for eligible capital costs of a non-recurring nature that add value or life to the buildings.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 13 loans for 917 units

- \$5,251,450 total loan amount
- \$5,727 average POHP assistance per unit
- Median household income of tenants was \$13,700 or 17 percent of the statewide median
- 21 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$8,500,000.

The tentative RFP schedule for PHOP has applications due in December 2018 and funding recommendations going to our Board in April or May 2019.

Based on resources available for new activity in 2019, we expect to rehabilitate 1,063 units.

Workforce Housing Development Program

This competitive funding program targets small to mid-size cities in Greater Minnesota with rental workforce housing needs. Funds are spent on qualified expenditures for project-specific costs resulting in the direct development of rental properties, including: (1) acquisition of a property, (2) construction or improvements, or (3) provision of loans or subsidies, grants, interest rate subsidies, public infrastructure, and related financing costs. Funds target housing proposals with the greatest proportion of market rate units, but can be used to fund housing with rent and income restrictions imposed by other funding sources. There is a funding priority to communities with 30,000 or fewer residents.

Funding is available under a stand-alone request for proposals (RFP). Proposals are ranked and scored according to the Workforce Housing Development program statute. Proposed project rents are evaluated against the current and projected jobs and wages within the community. This program furthers Minnesota Housing's strategic priority of addressing specific and critical local housing needs by working with communities in Greater Minnesota that have a demand for workforce rental housing. Funding is solely from state appropriations.

Program Performance and Trends

In the first year of operation, Minnesota Housing projected deploying \$2,000,000 in funds for the development of approximately 80 units of housing. We selected five awards totaling \$2,073,000 and 191 new units of rental housing throughout Greater Minnesota.

Proposal for 2019

Expected 2019 funding is \$1,927,000.

Based on resources and past program performance, we expect the funds to support the development of 80 units of new rental housing in Greater Minnesota.

Section 8 – Performance Based Contract Administration (PBCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban

Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the contract rent of assisted units.

Under an agreement with HUD that has been extended several times, we administer existing Section 8 contracts for affordable rental units that were not part of our Section 8 Traditional Contract Administration (TCA) first mortgage portfolio as a Performance Based Contract Administrator. Our primary responsibilities under PBCA are performing management and occupancy reviews, processing contract renewals and annual rent adjustments, processing monthly payment vouchers, responding to tenant concerns, and following up on Real Estate Assessment Center physical inspections. These activities assist in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing reported:

- 21,443 households assisted
- \$137,065,490 in Housing Assistance Payments
- \$6,392 average assistance per household
- Median household income of tenants was \$12,000 or 15 percent of the statewide median income
- 39 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Proposal for 2019

Expected 2019 funding is \$141,460,000.

Our current agreement with HUD extends through December 31, 2018; we expect information on a new invitation to bid or an additional contract extension by year's end. We currently manage 406 PBCA contracts under this agreement. PBCA revenue earned through administration of the contracts pays 100 percent of the cost of administering the program.

Since 2007, about 100 TCA contracts have transitioned to PBCA. Funding levels will continue to change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction. Because PBCA outlays are based in part on the number of assisted units in the portfolio, outlays will increase as the portfolio increases. The transition from TCA to PBCA has been mitigated a little. For budget reasons, HUD is taking over the administration of 24 Section 8 properties, rather than adding them to our PBCA portfolio.

We expect to assist an estimated 21,763 units in 2019 under PBCA.

Section 8 – Traditional Contract Administration (TCA)

The Housing and Community Development Act of 1974 created the project-based Section 8 Housing Assistance Payments Program. Under the program, the U. S. Department of Housing and Urban Development (HUD) entered into contracts with property owners to provide rental assistance for a fixed period of time for families with incomes no greater than 80 percent of the area median income. No new development has been funded under this program since the mid-1980s; however, under existing contracts, tenants pay no more than 30 percent of adjusted household income for rent. HUD pays the difference between tenant rent payments and the fair market rent of assisted units.

We provided permanent mortgage financing for more than 235 Section 8 Traditional Contract Administration (TCA) properties developed from 1975 to the mid-1980s. We currently manage 121 of these TCA contracts. Our primary responsibilities under Section 8 TCA are to perform asset management functions, management and occupancy reviews, process contract renewals and annual rent adjustments, process monthly payment vouchers, and respond to tenant concerns. These activities assist us in identifying and planning for the preservation needs of developments with Section 8 assistance.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, we reported:

- 8,948 households assisted
- \$51,524,013 in Housing Assistance Payments
- \$5,758 average assistance per household
- Median household income of tenants was \$12,603 or 16 percent of the statewide median income
- 29 percent were households of color or Hispanic ethnicity

Geographic distribution of developments is important in understanding differences in assistance (and tenants assisted) between PBCA and TCA. A greater proportion of PBCA units are located in the Twin Cities Metropolitan Area than TCA units.

Funding levels will change as Section 8 contracts transition from the TCA portfolio to PBCA, per HUD's instruction.

Proposal for 2019

Expected 2019 funding is \$37,350,000.

We expect to assist an estimated 6,496 units in 2019 under TCA.

Housing Trust Fund (HTF)

Historically, funding for the HTF has been used to fund capital, rental assistance, and operating subsidy expenses. In recent years, we have used HTF state appropriations for rental assistance and some operating subsidies. HTF serves low-income families and individuals who are near-homeless, homeless, or long-term homeless.

Current tenant income limit: 60 percent of the area median income (AMI) for the Minneapolis/Saint Paul metro region, with priority for proposals at 30 percent of AMI and proposals to serve the long-term homeless.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 1,674 households
- \$9,266,305 in total disbursements
- \$7,402 average assistance per household
- Median household income of tenants was \$9,186 or 11 percent of the statewide median income
- 65 percent were households of color or Hispanic ethnicity

Proposal for 2019

Minnesota Housing typically provides HTF rental assistance and operating subsidies under two-year contracts with local administrators, and 2019 is a contract year. For rent assistance, we will enter into new two-year contracts. For operating subsidies, we will fund a one-year extension of current grants in order to change the timeline of the Request for Proposals (RFP) and complete an evaluation of the program. After the timeline change, the RFPs for rent assistance and operating subsidies will be in alternating years, not the same year.

We expect to make available \$26,890,000 for the new contracts, which annualizes to \$15,411,667 of assistance in 2019. All of the funding for operating subsidies is for 2019.

The rental assistance contracts will include the Step Down pilot, which helps households, who need a lower-level of support, move from supportive housing units with high service levels to scattered site units with rental assistance and lower-intensity supportive services. The “step down” transition will make the more intensive supportive housing units available for new households that need the higher level of support.

We will also make available \$500,000 for rental assistance that will be combined with funds from Margaret A. Cargill Philanthropies for a pilot program to serve homeless youth in northwestern Minnesota.

Based on resources available in 2019, we expect to provide rental assistance for an estimated 2,006 households through the core contracts and the pilots and assist 894 units through operating subsidies.

Bridges

Bridges is a state-funded rental assistance program for people with a serious mental illness. The goal of Bridges is to assist individuals so they can live in integrated settings in their communities until a permanent housing subsidy is available. Bridges operates in selected counties throughout the state and is administered through local housing organizations. The Minnesota Department of Human Services and Minnesota Housing collaborate in the administration of this program.

Tenants are responsible for a portion of the rent, which is generally equal to 30 percent of their income. Participants are required to be on a waiting list or eligible for a permanent rent subsidy, such as a Section 8 Housing Choice Voucher.

Bridges is a major component of Minnesota Housing's contribution to achieving the goals of Minnesota's Olmstead Plan, as well as a significant part of the state's Plan to Prevent and End Homelessness. In 2015, the program started prioritizing households with:

- Persons residing in an institution or other segregated setting who will be homeless upon discharge.
- Persons experiencing homelessness for one year or more, or multiple times in the last three years.
- People experiencing or at imminent risk of homelessness.

Current tenant income limit: 50 percent of area median income.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 882 households
- \$4,167,435 in total disbursements
- \$6,271 average assistance per household
- Median household income of tenants was \$9,644 or 12 percent of the statewide median income
- 31 percent were households of color or Hispanic ethnicity

Proposal for 2019

Bridges funds rent assistance under two-year contracts with local administrators. Minnesota Housing funded the most recent contracts in the 2017 AHP, and 2019 is a contract year.

We expect to make available \$9,385,270 for the new two-year contracts, which annualizes to \$4,692,635 of assistance in 2019.

Based on the resources available in 2019, we expect to assist an estimated 888 households.

Section 811 Supportive Housing Program

Section 811 is a federal program under which the U.S. Department of Housing and Urban Development (HUD) has provided funding to states for project-based rental assistance to create integrated, cost-effective supportive housing units for people with disabilities. The goals of the program are to:

- Increase housing opportunities for people with disabilities,
- Transition people with disabilities from institutions to community-based settings,
- Reduce public costs of homelessness and institutional care,
- Create a centralized outreach and referral system, and
- Develop new service linkages.

We implement the program in partnership with the Minnesota Department of Human Services (DHS). DHS staff coordinates all outreach, screening, and referrals for 811 units and works with property owners to ensure support services are offered to tenants.

Eligible applicants for Minnesota's allocation of 811 funding include private and public owners of multifamily housing. The project-based rent assistance covers the difference between the tenant's payment and the approved gross rent.

Eligible tenants include extremely low-income households with one or more disabled members, who are either participating in the Minnesota Department of Human Services' Money Follows the Person demonstration program or are experiencing long-term homelessness.

The Section 811 program is a key tool for achieving the goals of the Olmstead Plan to provide integrated housing options for people with disabilities. It is a unique opportunity to expand supportive housing for people with disabilities and leverage Medicaid resources for services.

The state will enter into contracts with selected owners for a minimum of 20 years, with initial funding for a period of five years. Funding beyond the first five years is subject to federal appropriations. A small portion of the grant is used to pay for administrative expenses.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 71 households
- \$362,022 in total disbursements
- \$5,099 average assistance per household
- Median household income of tenants was \$8,070 or 10 percent of the statewide median income
- 55 percent were households of color or Hispanic ethnicity

HUD initially awarded Minnesota \$3 million for up to 85 units of project-based rental assistance. We have awarded all of this funding for 84 project-based rental assistance subsidies (one unit less than the original goal of 85 units). Lease up of 811 units began in early 2016 with 71 households in housing by the end of June 2017.

In 2015, we received a second round of funding for an additional 75 units, which were awarded to existing or new properties through the Multifamily Consolidated RFP process. We selected nine properties with 48 units for the 811 program in the 2015 and 2016 RFPs, and the remaining 27 units were awarded in the 2017 funding rounds.

Proposal for 2019

The Section 811 funds spread over five years will support \$1.2 million of annual activity. We expect to disburse about \$912,000 in 2019 and support roughly 127 households, as lease up is still occurring.

Family Homeless Prevention and Assistance Program (FHPAP)

Under FHPAP, we assist families with children, unaccompanied youth, and single adults who are homeless or are at imminent risk of homelessness. Funds are used for a broad range of purposes aimed at preventing homelessness, shortening the length of stay in emergency shelters, eliminating repeat episodes of homelessness, and assisting individuals and families experiencing homelessness to secure permanent affordable housing.

FHPAP assists extremely low-income people primarily through short-term rent assistance (limited to 24 months but typically less than three months), security deposits, utilities and transportation assistance, and case management services. FHPAP grants also encourage and support innovations at the county, region, or local level for a more seamless and comprehensive homelessness response system.

Grant funds are awarded through a competitive Request for Proposals process. In the seven-county Twin Cities metro area, only counties are eligible to apply for funding. In Greater Minnesota, eligible applicants include counties, groups of contiguous counties acting together, or community-based nonprofit organizations or tribal nations.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 6,914 households
- \$8,667,049 in total disbursements
- \$1,254 average FHPAP assistance per household
- Median household income was \$12,000 or 15 percent of the statewide median income
- 59 percent were households of color or Hispanic ethnicity

The total number of households served has declined over the past few years because the program has targeted assistance to households with higher needs and utilized rapid rehousing as a strategy. Rapid rehousing provides short term rental assistance, housing case management and housing navigation services.

As of the end of state fiscal year 2017, 44 percent of funds allocated to providers were used for direct cash assistance including rent and mortgage assistance, security deposits, and transportation and utility assistance; 48 percent of funds were used for support services; and 8 percent of funds were used for program administration.

Available data, collected through Minnesota's Homeless Management Information System (HMIS), indicate that only 6 percent of assisted households returned to shelter within one year of exiting the program. HMIS also tracks the percentage of households stably housed at program exit.

Percentage of FHPAP Households Stably Housed At Exit

Biennium	% Stably Housed at Exit
2016-17	80%
2014-15	77%
2012-13	78%
2010-11	78%

Proposal for 2019

FHPAP also operates under two-year contracts with local administrators, and 2019 is a contract year.

We expect to make available \$17,123,286 for the new two-year contracts, which annualizes to \$8,694,976 of assistance in 2019.

Based on resources available in 2019, we expect to assist an estimated 6,956 households.

Housing Opportunities for Persons with AIDS (HOPWA)

The Housing Opportunities for Persons with AIDS (HOPWA) program provides grants for housing assistance and services (including short-term rent, mortgage, and utility assistance) for people with Acquired Immune Deficiency Syndrome (AIDS), HIV-positive status, or related diseases and their families. The U.S. Department of Housing and Urban Development allocates formula funds to local jurisdictions based on the number of individuals living with HIV or AIDS. The City of Minneapolis receives and administers a direct award for the 13-county Minneapolis/Saint Paul Metropolitan Statistical Area. We receive a direct award for the portion of the state not covered by the City of Minneapolis grant and contract with the Minnesota AIDS Project to administer these funds.

Current tenant income limit: 80 percent of area median income, adjusted for family size.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing assisted households in 50 counties, as follows:

- 178 households
- \$154,842 of assistance disbursed
- \$870 average assistance per household
- Median household income was \$17,344 or 22 percent of the statewide median income
- 46 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$198,445.

Based on resources available for new activity in 2019, we expect to assist an estimated 209 households.

Economic Development and Housing/Challenge (EDHC) – Regular

Under the Economic Development and Housing/Challenge Program (EDHC), we provide grants or deferred loans for construction, acquisition, rehabilitation, interest rate reduction, interim or permanent financing, refinancing, and gap funding. Funds are used to support economic and community development within an area by meeting locally identified housing needs for either renter or owner-occupied housing.

Our Multifamily and Single Family divisions allocate these resources to proposals submitted through competitive Request for Proposals (RFP) processes. Staff evaluate proposals according to EDHC selection standards and our strategic priorities. RFP funding for single family housing is available under the Community Homeownership Impact Fund (“Impact Fund”), which is the umbrella program for EDHC and interim construction financing for homeownership activities.

We make EDHC loans and grants to cities, private developers, tribal and urban Indian housing authorities, nonprofit organizations, or owners of housing (including individuals) for both multifamily (minimum of four units) and single family projects. EDHC requires that 50 percent of the funds be used for projects that have leveraged funds from non-state resources. Preference is given to proposals with the greatest portion of costs covered by non-state resources.

Current income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Maximum loan amount: None beyond funding availability.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

Multifamily EDHC

- 7 loans to developments with 255 units
- \$16,877,296 total loan amount
- \$66,185 average EDHC assistance per unit
- Median household income of \$21,413 or 27 percent of the statewide median income
- 70 percent were households of color or Hispanic ethnicity

Single Family EDHC – Impact Fund

- 275 loans
- \$5,651,266 total loan/grant amount
- \$20,550 average EDHC assistance per home
- Median household income was \$40,280 or 50 percent of statewide median income
- 45 percent were households of color or Hispanic ethnicity

Proposal for 2019

Expected 2019 funding is \$15,451,274.

We will allocate funds for Impact Fund projects and to affordable rental housing through our 2018 Single Family and Multifamily RFPs, with any remaining funds made available on a pipeline basis in multifamily and through an incentive fund in Single Family.

Based on resources available for new activity in 2019, we expect to fund an estimated 522 units.

Single Family Interim Lending

Single Family Interim Lending provides loans, most often to smaller nonprofit organizations, to acquire, rehabilitate, demolish, or construct owner-occupied housing under the Community Homeownership Impact Fund program. The homes are then sold to households with incomes at or below 115% of the area median income (AMI). Interim loans are financed with Agency resources and have a term of 26 months. Funds are awarded annually through the Single Family Request for Proposals process in

accordance with our mission and priorities. While two-thirds of the units supported in the past year have been affordable to households with incomes at or below 80 percent AMI, the ongoing need for workforce housing may mean that a greater portion of units supported in the coming year will serve households with incomes between 80 percent and 115 percent of AMI.

Program Performance and Trends

Performance data on interim lending are reported under the Community Homeownership Impact Fund in the EDHC program. The Impact Fund is the umbrella program under which we deliver the Economic Development and Housing/Challenge Program and interim construction financing, primarily for single family owner-occupied housing.

Proposal for 2019

Expected 2019 funding is \$1,900,000.

For 2019, Single Family Interim Lending will be funded through both interest-earning Pool 2 resources and interest-free Pool 3 resources, enabling the Agency to maximize returns on Pool 2 investments while still meeting the mission-oriented need of supporting the development of single family homes that are affordable.

Based on resources available for new activity in 2019, we anticipate making interim or construction loans to administrators for approximately 19 housing units.

Housing Infrastructure Bonds (HIBs)

We have allocated Housing Infrastructure Bond (HIB) proceeds for the following project types:

- The acquisition, construction, or rehabilitation of affordable permanent supportive housing. Funding priority is given to housing proposals that serve households experiencing long-term homelessness and households at risk of becoming homeless;
- The preservation of existing federally subsidized rental housing by funding acquisition, rehabilitation, and refinancing; and
- The acquisition of land by community land trusts and used for affordable single-family homeownership opportunities.

In its 2018 session, the Legislature added two new uses for HIB proceeds: (1) senior housing, and (2) improvements and infrastructure for manufactured home parks. They also placed an emphasis on supportive housing for people with behavioral health needs.

HIB funds are allocated through the annual multifamily and single-family Request for Proposal (RFP). HIBs can be issued as governmental, 501c3, and private activity bonds. If the bonds are issued as private activity bonds, applicants also may access 4 percent housing tax credits. HIB proceeds are provided as deferred, no interest loans.

Current income limit: 115 percent of the state median income for owner-occupied housing and 80 percent of the greater of area or state median income for rental housing.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing financed two supportive housing developments:

- 103 units
- \$12,178,056 total loan amount
- \$118,234 average HIB assistance per unit
- Median household income of tenants was \$9,688 or 12 percent of the statewide median income
- 50 percent of households were of color or Hispanic ethnicity

Minnesota Housing financed one preservation project:

- 75 units
- \$3,134,528 total loan amount
- \$41,794 average HIB assistance per unit
- Median household income of tenants was \$15,211 or 19 percent of the statewide median income
- 50 percent of households were of color or Hispanic ethnicity

Minnesota Housing financed land acquisition by community land trusts:

- 14 homes
- \$383,821 total grant/loan amount
- \$27,416 average HIB assistance per unit
- Median household income of tenants was \$38,838 or 48 percent of the statewide median income
- 29 percent of households were of color or Hispanic ethnicity

Proposal for 2019

The Legislature provided \$80 million of HIB funding in their 2018 bonding bill. We plan to commit these funds and some uncommitted funds from previous bonding bills under the 2019 and 2020 AHPs. After this fall's RFP selections, future funding rounds will include senior and manufactured housing projects.

For 2019, we are budgeting up to \$60,000,000 in HIB resources and, and with the new uses, we will reserve the remaining funds for the following year. We estimate that the 2019 funds will support the development or rehabilitation of about 551 units.

Overall, we expect to allocate approximately 95% of the funds through the RFP, with the remaining amount available for funding modifications.

Community Owned Manufactured Home Parks

We are a participating lender investing in loans made by Resident Owned Capital, LLC (ROC-USA), a national nonprofit. ROC-USA lends to resident manufactured home cooperatives to enable them to purchase, own, and manage the parks that they occupy. ROC-USA acts as a lead lender and is responsible for loan servicing and loan origination and takes a lead role in due diligence review. In addition, ROC-USA contracts with Northcountry Cooperative Foundation (NCF), a local nonprofit, to

engage cooperatives in development activities, such as organizing the cooperative entity and contracting for third party reports. NCF is retained after closing to provide ongoing technical assistance to the cooperative.

Program Performance and Trends

The program had no activity in 2017.

Proposal for 2019

Expected 2019 funding is \$2,000,000.

Based on resources available in 2019, we estimate being able to support about 133 homes in manufactured home parks.

Technical Assistance and Operating Support

The Technical Assistance and Operating Support program provides grants that enhance the ability of housing and community development organizations to meet Minnesota's affordable housing needs.

This program supports all our strategic priorities by:

- Providing resources for the state's homeless response system – including the state's Homeless Management Information System, the regional Continuum of Care's homelessness assistance planning, and coordinated entry;
- Providing grants to specific organizations – including the Homeownership Center for its statewide counseling network and HousingLink for its statewide affordable housing website; and
- Supporting capacity building programs and initiatives – including the Capacity Building Initiative, Community Developer Capacity, and the Capacity Building Intermediary program.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded \$1,310,119 under this program.

Proposal for 2019

Expected 2019 funding is \$2,525,000.

Strategic Investments / Loans

Periodically, we have the opportunity to make strategic investments/loans with Pool 2 resources or other mortgage capital to help address an affordable housing issue. For example, in 2017, we committed up to \$5 million to help fund an initiative through the Greater Minnesota Housing Fund to preserve naturally-occurring affordable housing. In 2018, we provided Twin Cities Habitat for Humanity with a \$25 million line of credit to expand their business model. These investment opportunities and

initiatives are not always known when the Affordable Housing Plan is developed, but we want to have the ability to respond quickly when good opportunities arise.

Under this activity, we will have the authority to make these investments/loans, but only after the Minnesota Housing Board of Directors has received a briefing on the parameters governing the initiative. While the precise details of the initiative may not be completely fleshed out at the time of the briefing, it will provide the Board with information on the purpose, nature, and scope of the investment/loan. This will give us the flexibility to work out the final details and act quickly.

Program Performance and Trends

In 2017, we budgeted up to \$10 million for an investment in a fund to preserve naturally-occurring affordable housing. We ended up committing up to \$5 million.

Proposal for 2019

The type and size of these of these investments/loans will be determined as opportunities arise. At this time, we do not have an estimate of the amount that we will potentially invest.

Strategic Priority Contingency Fund

During any given year, we anticipate that some programs are likely to need additional resources. To be nimble and more responsive, we set aside contingency funds to meet unexpected needs. As needed, we transfer these funds to those programs.

Proposal for 2019

Expected 2019 funding is \$2,000,000.

Manufactured Home Relocation Trust Fund

The Manufactured Home Relocation Trust Fund requires owners of manufactured home parks to pay \$15 per licensed lot into a Trust Fund each year if the fund's balance is below \$1,000,000. The park owner is authorized to collect funds from each manufactured homeowner either monthly or in a lump sum that is paid to Minnesota Management and Budget for deposit into the Trust Fund. The Trust Fund is available to homeowners who must relocate because the park they live in is being closed.

The statute sets out a process for determining the amount of money for which a homeowner is eligible for either moving or selling their home. Minnesota Management and Budget collects the assessment, and we make payments to homeowners, with claims overseen by an appointed neutral third party, for eligible costs.

Program Performance and Trends

State law suspends collection of the fee if the balance in the account is equal to or exceeds \$1 million. Due to significant payments from the trust fund in 2017, the balance in the fund is below the \$1 million required to trigger collection of fees.

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded:

- 101 households
- \$995,450 total disbursements
- \$9,856 average assistance per household

Proposal for 2019

The 2019 available funds are expected to be \$604,543.

Flood Disaster

Disaster response programs provide funding for the repair or replacement of renter or owner-occupied housing damaged by natural disasters such as flood or tornado. We distribute these funds through the Quick Start Disaster Recovery program for single family properties and also assist in repairing damaged rental buildings, providing relocation services to renters displaced or homeless due to disasters, building organizational capacity to respond to disasters, and covering administrative costs related to disaster outreach.

Funds are typically delivered through administrators under contract to deliver ongoing Agency programs for the areas impacted by a disaster. These include administrators for the Single Family Rehabilitation Loan Program, the Multifamily Rental Rehabilitation Deferred Loan Program (RRDL), and the Family Homeless Prevention and Assistance Program (FHPAP).

Quick Start provides homeowners and smaller rental property owners with deferred loans at no interest for repair costs that are not covered by federal assistance or insurance proceeds. The loan is forgiven if the homeowner remains in the property for 10 years, or for rental properties, if property owners keep rents affordable for 10 years. There are no income limits under Quick Start.

Program Performance and Trends

Typically, activities have been funded by special appropriations from the Minnesota Legislature following a federal disaster declaration and determination of the level of available federal funding from the Federal Emergency Management Agency and the Small Business Administration. State appropriations have ranged from \$1,000,000 for the May 2011 Minneapolis tornado to \$12,720,000 for the August 2012 flooding in northeast Minnesota.

For the program assessment period October 1, 2016 – September 30, 2017, Minnesota Housing did not fund any loans under this program.

Proposal for 2019

Typically, the Minnesota Legislature appropriates funds following the declaration of a disaster.

Disaster Relief Contingency Fund

The Minnesota Legislature established this fund in 2001 as the account into which we deposit all repayments of previously made disaster relief loans or grants. Funds deposited in this account are used to assist with rehabilitation or replacement of housing that is damaged by a natural disaster in areas covered by a presidential declaration of disaster. Funding also may be used for capacity building grants for disaster response and flood insurance payments.

The terms and conditions under which the funds are made available are at the sole discretion of Minnesota Housing. Eligible uses of funds have included writing down the interest rate on Home Improvement Loans and activating the Quick Start Disaster Recovery program.

Program Performance and Trends

For the Program Assessment period of October 1, 2016 – September 30, 2017, Minnesota Housing funded 30 loans for \$401,316.

Proposal for 2019

Expected 2019 funding is \$1,825,460.

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Item: 2018 Affordable Housing Plan and 2016-19 Strategic Plan: Third Quarter Progress Report

Staff Contact(s):

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

Request Type:

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

Summary of Request:

Staff has attached for your review the third quarter progress report for the 2018 Affordable Housing Plan and the 2016-19 Strategic Plan.

Fiscal Impact:

None

Meeting Agency Priorities:

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

Attachment(s):

- 2018 Affordable Housing Plan and 2016-19 Strategic Plan: Third Quarter Progress Report

2018 Affordable Housing Plan and 2016-19 Strategic Plan

Third Quarter Progress Report

(October 1, 2017 – September 30, 2018)

August 23, 2018

Overview

Overall, program activity and production is on track with our original forecasts through the first three quarters of the program year. The only area where actual activity is substantially different than expectations is home mortgage lending:

- Under the 2017 AHP, we committed \$670 million to finance 4,035 home mortgages.
- For the 2018 AHP, we originally forecasted \$630 million of lending and 3,663 mortgages, anticipating that rising prices and interest rates and a very limited supply of affordable homes would start to slow production.
- We are currently anticipating about \$800 million of home mortgage lending for the year, which will finance about 4,600 mortgages.

All our other programs are generally performing as expected. Lending for single family home improvement is slow but should pick with recent program changes.

Tables 1 through 3 present key program activity through the first three quarters of the year and are followed by notes that provide details for each line item in the tables. For programs that have activity throughout the year, we generally approach 75% of the year-end forecast after the third quarter. However, some programs have already had their once-a-year RFP and will not see an increase in activity.

Table 4 shows changes to 2018 AHP funding levels.

**Table 1: Production (Units or Households with Funding Commitments) and Programmatic Measures
Quarter 3 of 2018 AHP (75% through AHP)**

	Original AHP Forecast	Actual Year-to-Date	Portion of AHP Forecast Completed
Single Family Production – Homes			
1. Home First Mortgages	3,663	3,383	92%
2. Other Homeownership Opportunities*	277	269	97%
3. <u>Owner-Occupied Home Improvement/Rehabilitation</u>	<u>1,362</u>	<u>788</u>	<u>58%</u>
4. Total	5,302	4,440	84%
Homebuyer Education, Counseling and Training - Households			
5. Homebuyer Education*	16,706	15,023	89%
Multifamily Production – Rental Units			
6. New Rental Construction	997	1,276	128%
7. Rental Rehabilitation	3,076	3,036	99%
8. <u>Asset Management</u>	<u>364</u>	<u>105</u>	<u>29%</u>
9. Total	4,437	4,417	100%
Rental Assistance and Operating Subsidies - Households			
10. State Funded Rental Assistance*	2,915	2,439	84%
11. Operating Subsidies*	1,501	1,501	100%
12. <u>Section 8 Contracts</u>	<u>30,300</u>	<u>28,933</u>	<u>95%</u>
13. Total	34,716	32,873	95%
Homeless Prevention			
14. Family Homeless Prevention and Assistance Program (FHPAP)* & Housing Opportunities for Persons with AIDS (HOPWA)	7,299	4,313	59%
Build Sustainable Housing			
15. Percentage of New Construction or Rehabilitation Units that Meet Standard of Green Communities Certification or B3:			
a. Single Family	50%	47%	**
b. Multifamily	95%	78%	**
Increase Homeownership for Households of Color			
16. Percentage of First-Time Homebuyer Mortgages Going to Households of Color or Hispanic Ethnicity	35%	35%	**

* Funds for Habitat for Humanity, homebuyer education, state funded rent assistance, operating subsidies, and FHPAP are committed by the Board in July-September, at the end of an AHP. Thus, funds committed under the 2017 AHP (in July-September 2017) fund program activity in 2018 (October 1, 2017 to September 30, 2018). To reflect 2018 program activity for these programs, this table shows the households supported in 2018 with 2017 AHP funds. For all other programs, the table shows the households and housing units supported by funds provided in the 2018 AHP.

** Not Applicable.

**Table 2: Deployment of Resources
Quarter 3 of 2018 AHP (75% through AHP)**

	AHP Forecast	Actual for Year
17. Percentage of Originally Budgeted Funds that are Committed Under the AHP	>95% by end of the year	86%

**Table 3: Management of Loan Assets
Quarter 3 of 2018 AHP (75% through AHP)**

	AHP Benchmark	Actual
18. Share of Home Mortgages Purchased in Previous 24 Months that are 30+ Days Past Due or In Foreclosure (6/30/18)	3.30%*	3.17%**
19. Percentage of Multifamily Developments with Amortizing Loan on Watch List	Under 10%	4.5%
20. Percentage of Outstanding Multifamily Loan Balances on Watch List	Under 10%	2.2%

* This is a benchmark, rather than a forecast, and it is based on the performance of other housing finance agencies from across the country that have their mortgages serviced by US Bank.

**The information presented is based on MBS loans purchased in the previous 24 months. As such, the information is not directly relevant to the security of any bonds of the Agency and should not be relied upon for that purpose. The Agency publishes separate disclosure reports for each of its bond resolutions.

Discussion of Items in the Tables 1 - 3

- **Line 1:** Home mortgage lending continues to be very strong. We originally forecasted financing 3,663 mortgages with \$630 million of funding, and we are already at 92% of this goal after the third quarter. If current production patterns continue, lending will likely reach about \$800 million and 4,600 mortgages.
- **Line 2:** Activity under other homeownership opportunities is performing as expected. The primary program under this activity is single-family development and acquisition/rehabilitation through the Community Homeownership Impact Fund, which has already selected its projects under the once-a-year RFP and reached its production forecast. For the Habitat for Humanity Initiative, we will have no new mortgage activity in 2018 after switching our assistance from helping provide permanent financing for mortgages to providing Habitat for Humanity Twin Cities a line of credit to expand their business model.
- **Line 3:** Overall, activity for owner-occupied home improvement and rehabilitation is a little slower than expected. Strong owner-occupied rehabilitation under the Impact Fund partially offsets slow lending under the Fix-Up Fund and Rehabilitation Loan Programs, which are just reaching 52% to 48% of the year-end forecast after the third quarter; however, activity for those two programs typically increases later in the year. In 2018, we also refined the Fix-Up Fund and the Rehabilitation Loan Programs to make them easier to administer and/or more beneficial to the borrowers, which should help expand lending going forward.
- **Line 4:** Overall, home buying and improvement activities are performing better than expected. With very strong home mortgage lending, we will very likely exceed the year-end forecast.
- **Line 5:** Homebuyer education is ahead of schedule. We have reached 89% of the year-end forecast with the final quarter still to go. In all likelihood, we will exceed the forecast.
- **Line 6:** Rental new construction is a better than expected, reaching 128% of the year-end forecast. A larger share of the rental housing resources went to new construction this year than expected,

which is a desirable outcome with the state's low rental vacancy rate. Adding new units will help elevate the tight supply.

- **Line 7:** Rental rehabilitation activity is also track, reaching 99% of the year-end. While fewer rental housing resources went to rehabilitation than expected overall, strong activity under the Publicly Owned Housing Program (POHP) made up the difference. While we expected to rehabilitate about 1,500 units through POHP, we ended up funding the rehabilitation of nearly 2,200.
- **Line 8:** While activity under the Asset Management program has started to pick up, we will likely not reach the year-end forecast. We have reoriented this program to focus on shorter-term and immediate needs of the properties in our portfolio, and we are directing properties to the RFP process for longer-term and permanent needs. By targeting the program to shorter-term and immediate needs, forecasting the amount and timing of program demand is more uncertain.
- **Line 9:** Overall, rental production is on track.
- **Line 10:** The number of households assisted by our rent assistance programs (Bridges and Housing Trust Fund) reached 84% of the year-end forecast. Most of the households that received assistance during the first three quarters will continue to receive it through the last quarter, but the number of assisted households will increase a little as some households leave the program and their vouchers turnover to new households. In a typical year, the turnover rate is 10% to 15%. In addition, we are still in the process of launching a new rent assistance pilot for students experiencing homelessness called Homework Starts with Home.
- **Line 11:** Operating subsidies are performing as expected.
- **Line 12:** The administration of Section 8 contracts is on track. This is a very stable program with consistent funding and households served. The number of households served is dropping a little as HUD is taking over the administration of 24 Section 8 properties that were previously administered by Minnesota Housing for budget reasons.
- **Line 13:** Overall, rent assistance and operating subsidy activity (federal and state) is performing as expected.
- **Line 14:** Homeless prevention activity is below the initial forecast, 59% of the forecast when we are 75% of the way through the year. Clients have needed more assistance than anticipated as program administrators are working with harder-to-serve clients. As a result, fewer households are assisted with the limited funds.
- **Line 15:** The majority of our development and rehabilitation production meets sustainable design criteria.

On the single-family side, all of the homes receiving funds under the Community Homeownership Impact Fund for new construction or acquisition-rehabilitation meet the standard. However, the Fix-

Up home improvement program is market driven, and borrowers are not required to follow sustainable design criteria in their home improvement efforts. Thus, the single-family percentage is below 100%.

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

- **Line 16:** We continue to effectively serve communities of color through homeownership. We estimate that 25% to 30% of renter households that are income eligible for our first mortgages are of color. Through the third quarter, we are meeting our goal of 35% of mortgages going to households of color.
- **Line 17:** Through the first three quarters of the program year, we have committed 86% of the funds originally budgeted in the 2018 AHP. Many of our programs operate on a pipeline basis throughout the year, meaning we should be approaching 75% for those programs after the three quarters. We have also completed most of our once-a-year RFPs, which raises the overall percentage above 75%. Given our strong home mortgage activity, we will likely commit more housing resources than originally forecasted.
- **Line 18:** Our 30+ day delinquency rate for home mortgages purchased in the last 24 months (including loans in foreclosure) was 3.17% in June 2018, which is better than our “peer” benchmark of 3.30%. This data comes from US Bank, which services loans in mortgage backed securities (MBS) for us and many other housing finance agencies across the country.

The information is based on MBS loans purchased in the previous 24 months. As such, the information is not directly relevant to the security of any of our bonds and should not be relied upon for that purpose. We publish separate disclosure reports for each of our bond resolutions.

- **Lines 19-20:** We are meeting our goal for minimizing the number and share of loans on its multifamily watch list.

Changes to 2018 AHP Funding Levels

Table 4 shows changes to 2018 AHP funding levels by program. The changes that the Board has delegated to staff are generally small (roughly a million dollars or less) and reflect revisions to our estimates of loan repayments and uncommitted funds carrying over from the previous year. It also reflects delegated transfers. For example, staff transferred \$1.6 million from the Multifamily Flexible Capital Account (MFCA) to the Flexible Financing for Capital Costs (FFCC) program (see rows 11 and 12 of Table 4), and another \$634,313 from MFCA to Asset Management (see rows 12 and 27). The Multifamily Flexible Capital Account holds budgeted Pool 3 resources until a specific project is identified in a rental production program – primarily FFCC and Asset Management.

These changes do not reflect the AHP amendments that the Board is considering at the August 30, 2018 meeting.

Table 4: Funding Changes to the 2018 Affordable Housing Plan

		Original 2018 Budget	Delegated Changes	Board Amendments	Revised 2018 Budget
1	Home Mortgage Loans	\$630,000,000		\$150,000,000	\$780,000,000
2	Mortgage Credit Certificates (MCC)	\$1,000,000			\$1,000,000
3	Deferred Payment Loans	\$18,500,000	\$298,452	\$5,000,000	\$23,798,452
4	Monthly Payment Loans	\$11,000,000		\$3,500,000	\$14,500,000
5	Habitat for Humanity Initiative	\$2,500,000			\$2,500,000
6	Homebuyer Education, Counseling & Training (HECAT)	\$1,552,000	-\$13,136		\$1,538,864
7	Enhanced Homeownership Capacity Initiative	\$1,250,000			\$1,250,000
8	Home Improvement Loan Program	\$15,300,000			\$15,300,000
9	Rehabilitation Loan Program (RLP)	\$9,494,000			\$9,494,000
10	First Mortgage - Low and Moderate Income Rental (LMIR) and MAP	\$70,000,000			\$70,000,000
11	Flexible Financing for Capital Costs (FFCC)	\$0	\$1,600,000		\$1,600,000
12	Multifamily Flexible Capital Account	\$8,500,000	-\$2,234,313	-\$3,500,000	\$2,765,687
13	Low-Income Housing Tax Credits (LIHTC)	\$9,598,835	\$396,319		\$9,995,154
14	National Housing Trust Fund	\$3,118,428			\$3,118,428
15	Preservation - Affordable Rental Investment Fund (PARIF)	\$16,623,916	\$3,196,371		\$19,820,287
16	HOME	\$1,700,000	\$621,591		\$2,321,591
17	Preservation - Publicly Owned Housing Program (POHP)	\$12,030,024	\$221,532		\$12,251,556
18	Rental Rehabilitation Deferred Loan Pilot Program (RRDL)	\$9,601,587	\$360,892		\$9,962,479
19	Greater Minnesota Workforce Housing Development	\$2,000,000	\$73,000		\$2,073,000
20	Section 8 - Performance Based Contract Administration	\$138,500,000			\$138,500,000
21	Section 8 - Traditional Contract Administration	\$51,055,000			\$51,055,000
22	Housing Trust Fund (HTF)	\$17,671,234	-\$1,411,526		\$16,259,708
23	Bridges	\$5,140,000	\$403,270		\$5,543,270
24	Section 811 Supportive Housing Program	\$660,000			\$660,000
25	Family Homeless Prevention and Assistance Program (FHPAP)	\$8,893,486	\$182,286		\$9,075,772
26	Housing Opportunities for Persons with AIDS (HOPWA)	\$175,184	\$23,261		\$198,445
27	Asset Management	\$2,482,043	\$634,313		\$3,116,356
28	Economic Dev. and Housing/Challenge (EDHC) - Regular	\$20,653,959	\$1,216,843		\$21,870,802
29	Single Family Interim Lending	\$4,400,000			\$4,400,000
30	EDHC - Housing Infrastructure Bonds (HIB)	\$45,349,056	\$1,719,951		\$47,069,007
31	Community-Owned Manufactured Home Parks	\$2,250,000			\$2,250,000
32	Technical Assistance and Operating Support	\$2,525,000	\$308,256		\$2,833,256
33	Strategic Priority Contingency Fund	\$1,500,000		-\$1,500,000	\$0
34	Manufactured Home Relocation Trust Fund	\$459,837	-\$28,659		\$431,178
35	Strategic Investments / Loans	TBD			\$0
36	Disaster Relief Contingency Fund	\$1,500,477	\$369,961		\$1,870,438

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Item: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2018.

Staff Contact(s):

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

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

Request Type:

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

Summary of Request:

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

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):

- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Report as of July 1, 2018

Report Highlights

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.
- Basis Risk: During the period January 2018, to June 2018, the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation.
- Staff continues to expect that, over time, the two rates will track each other as originally anticipated.
- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from \$5.2 million on January 1, 2018 to \$(1.8) million on July 1, 2018. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events.
- Liquidity Risk: The short-term credit ratings of the liquidity providers Royal Bank of Canada and The Bank of New York Mellon were unchanged Wells Fargo Bank rating changed from P-1/A-1+ to P-1/A- from January 1, 2018 to July 1, 2018.
- Long-term Debt, Fixed vs. Variable graph: Total outstanding variable rate debt remained constant at 8% of total long-term debt at July 1, 2018.
- During the six months from January 1, 2018 to July 1, 2018 the 2003B and 2003 J swaps were terminated, and the 2018D swap was added.



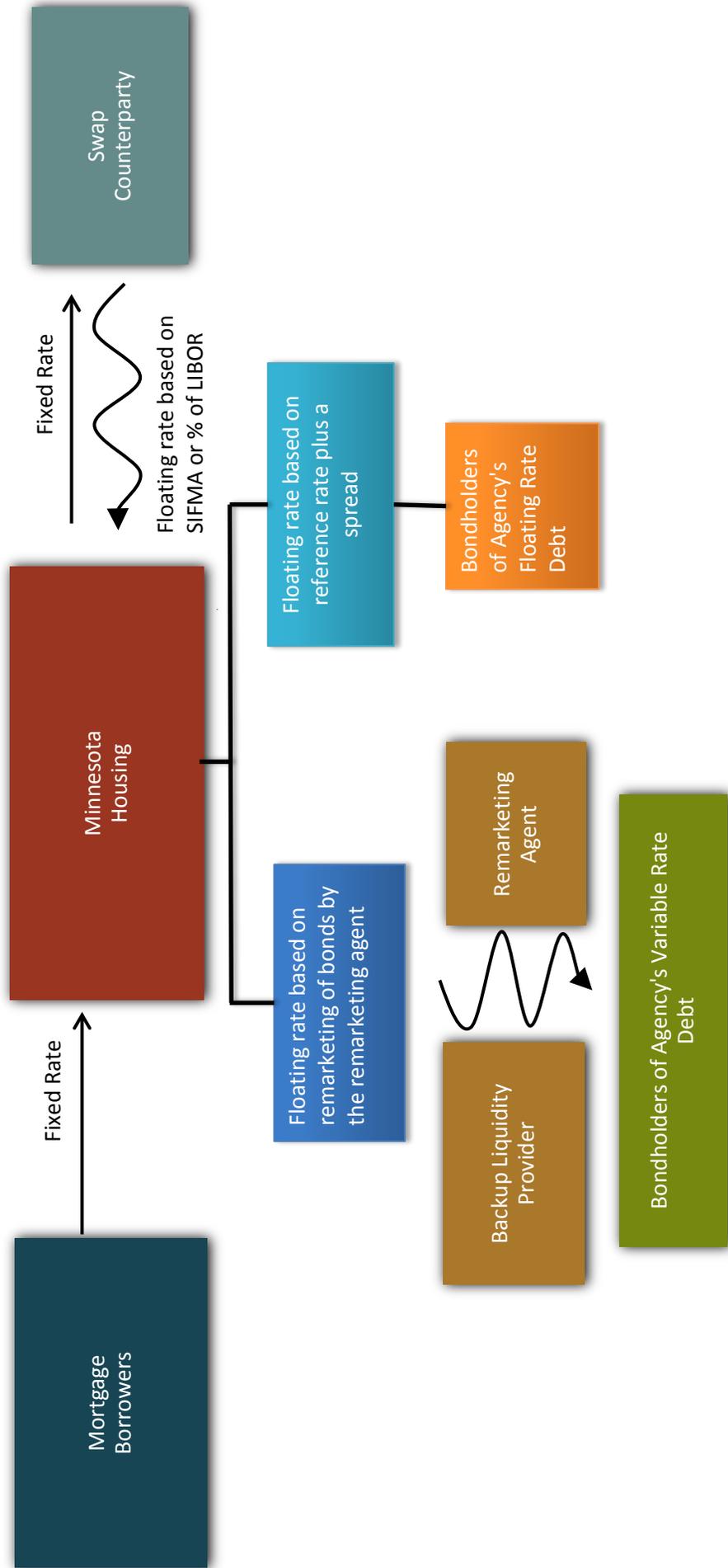
Semi-annual Variable-Rate Debt and Swap Performance Report

July 1, 2018

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2	Overview of Swaps
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5	Counterparty/Termination Risk
6	Liquidity Risk
7	Liquidity Renewal Risk
8	Minnesota Housing Total Long Term Debt: Fixed vs. Variable: Graph
9	Annual Debt Issuance: Fixed vs. Variable: Graph
10	Glossary of Terms

Floating-to-Fixed Interest Rate Swap Structure



Overview of Swaps
July 1, 2018

Bond Series	Effective Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2009 C	2/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2015 D	8/11/2015	18,225,000	18,225,000	Royal Bank of Canada	67% of LIBOR
RHFB 2015 G	12/8/2015	35,000,000	35,000,000	Royal Bank of Canada	67% of LIBOR
RHFB 2016 F	12/22/2016	50,000,000	50,000,000	Royal Bank of Canada	67% of LIBOR
RHFB 2017 C*	1/1/2019	40,000,000	-	Wells Fargo	67% of LIBOR
RHFB 2017 F	12/21/2017	40,000,000	40,000,000	Wells Fargo	67% of LIBOR
RHFB 2018 D	6/28/2018	\$ 35,000,000	\$ 35,000,000	The Bank of New York Mellon	70% of LIBOR + 43 basis points
	Totals	\$ 258,225,000	\$ 218,225,000		.

* This Forward Starting Swap will replace 2009 C on January 1, 2019.

Basis Risk
July 1, 2018

Bond Series	Effective Date	VRDO's/FRB's and Swaps Outstanding	Net Variable Interest (Paid)		Contractual Swap Fixed Rate	Effective Swap Fixed Rate*	Effective Rate As a Percentage of Swap Fixed Rate
			Received Basis Risk (cumulative)	Basis Risk (cumulative)			
RHFB 2009 C	2/12/2009	40,000,000 ²	1,055,306 ³		4.215%	3.814%	90.48%
RHFB 2015 D	8/11/2015	18,225,000	(50,728)		2.343%	2.439%	104.11%
RHFB 2015 G	12/8/2015	35,000,000	(82,971)		1.953%	2.068%	105.88%
RHFB 2016 F	12/22/2016	50,000,000	(113,351)		2.175%	2.324%	106.84%
RHFB 2017 C	1/1/2019	-	-		2.180%	N/A	N/A
RHFB 2017 F	12/21/2017	40,000,000	(33,321)		2.261%	2.428%	107.37%
RHFB 2018D	6/28/2018	35,000,000	617		3.1875%	2.835%	88.94%
Totals		\$ 218,225,000	\$ 775,552 ¹				

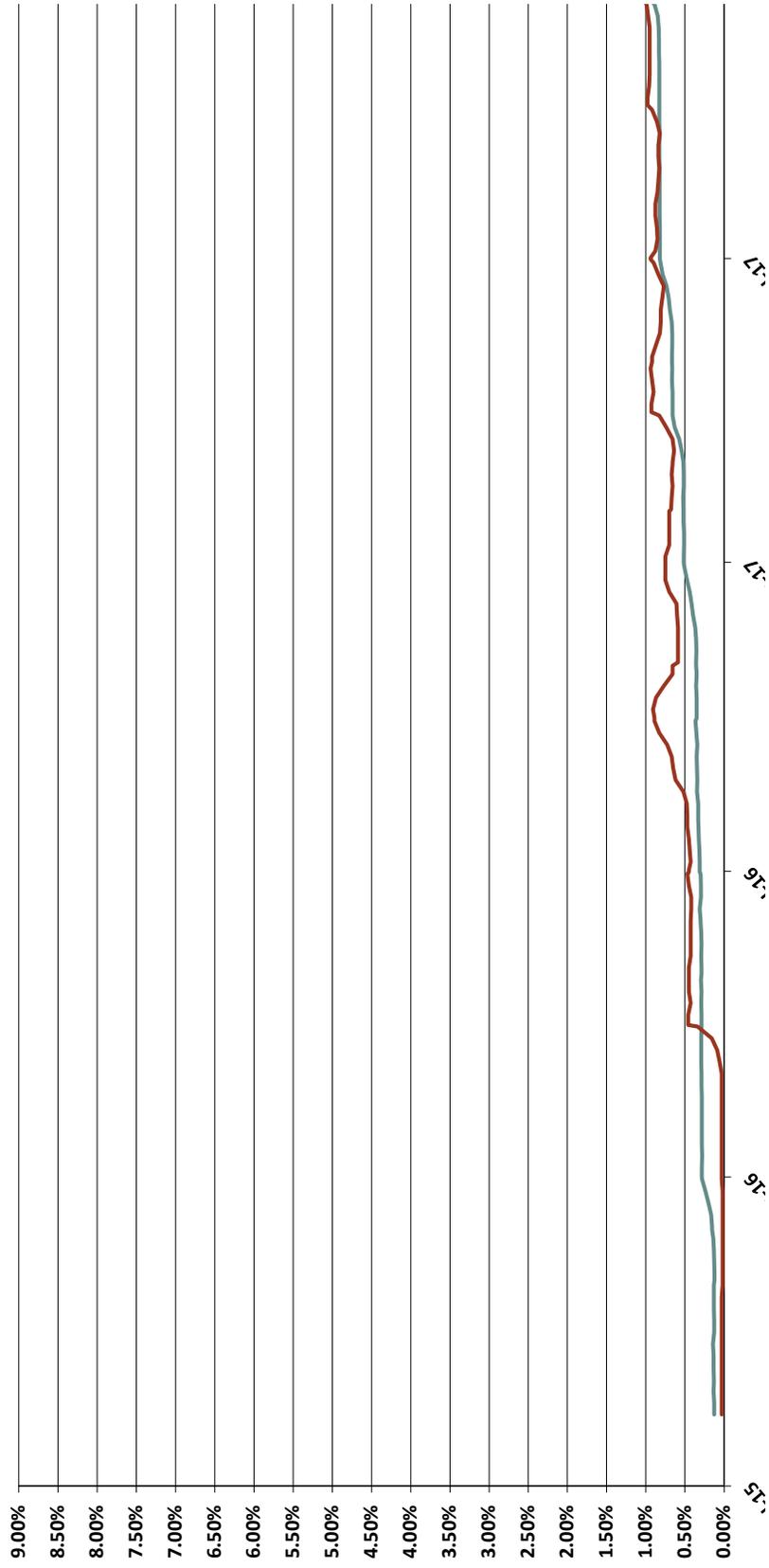
¹The cumulative net of total variable interest paid on all outstanding VRDO's and FRB's (\$3,441,493) and all variable interest received on the outstanding swaps \$4,217,045, a net receivable of \$775,552.

²The variable rate debt outstanding was optionally redeemed on July 19, 2017. Swap payments received after July 19, 2017 are allocable to RHFB 2017 C.

³Includes variable interest paid on RHFB 2017C and RHFB 2009C.

*Fixed Rate plus/minus the net of variable rate paid/received.

Basis Risk - Representative Series
RHFB 2015, Series D



Counterparty/Termination Risk

July 1, 2018

Related Bond Series	Counterparty	Long-term Credit Rating of Provider at Swap Inception ¹		Long-term Credit Outlook ¹	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Fair Value ² as of 6/30/2018
		Short-term Credit rating ¹	Long-term Credit rating ¹						
RHFB 2009 C/2017 C	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Negative/Stable	40,000,000	7/1/2036	18.9	4.215%	(1,038,721)
RHFB 2015 D	Royal Bank of Canada	P-1/A-1+	Aaa/AA-	Negative/Stable	18,225,000	1/1/2046	27.4	2.343%	279,422
RHFB 2015 G	Royal Bank of Canada	P-1/A-1+	Aa3/AA-	Negative/Stable	35,000,000	1/1/2034	15.7	1.953%	773,363
RHFB 2016 F	Royal Bank of Canada	P-1/A-1+	Aa1/AA+	Negative/Stable	50,000,000	1/1/2041	19.2	2.175%	520,391
	Total Royal Bank of Canada				143,225,000				534,456
RHFB 2018 D	The Bank of New York Mellon	P-1/A-1+	Aa2/AA-	Stable/Stable	35,000,000	1/1/2045	23.3	3.1875%	(171,537)
	Total The Bank of New York Mellon				\$ 35,000,000				\$ (171,537)
RHFB 2017C	Wells Fargo Bank	P-1/A-	Aa2/AA-	Negative/Stable	0 ³	1/1/2038	16.8	2.180%	656,863
RHFB 2017F	Wells Fargo Bank	P-1/A-	Aa2/AA-	Negative/Stable	40,000,000	1/1/2041	19.7	2.261%	714,396
	Total Wells Fargo				\$ 40,000,000				1,371,259
	Total All Swaps				\$ 218,225,000				\$ 1,734,178

¹Moody's/Standard & Poors

²A positive fair value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by BLXSwap.

³RHFB 2017C notional amount outstanding becomes effective January 1, 2019.

Liquidity Risk
July 1, 2018

Bond Series	Current Liquidity Provider	Remarketing Agent	Short-term Credit Rating	Long-term Credit Rating	Long-term Credit Outlook	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2015 D	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	A1/AA-	Negative/Stable	18,225,000	1/1/2046	8/11/2022	0.650%	0.650%
RHFB 2015 G	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	A1/AA-	Negative/Stable	35,000,000	1/1/2034	1/2/2023	0.650%	0.650%
RHFB 2017 F	Royal Bank of Canada	Royal Bank of Canada	P-1/A-1+	A1/AA-	Negative/Stable	40,000,000	1/1/2041	1/2/2023	0.400%	0.400%
	Royal Bank of Canada subtotal					93,225,000				
RHFB 2016 F	FHLB - Des Moines ¹	Royal Bank of Canada	P-1/A-1+	Aaa/AA+	Stable/Stable	50,000,000	1/1/2041	1/2/2024	0.550%	0.550%
RHFB 2017 C	FHLB - Des Moines ¹	Royal Bank of Canada	P-1/A-1+	Aaa/AA+	Stable/Stable	40,000,000	1/1/2038	7/19/2024	0.60%	0.600%
	FHLB - Des Moines subtotal					90,000,000				
	Total All Liquidity Providers					\$ 183,225,000				

¹Federal Home Loan Bank of Des Moines

Note: RHFB 2018 D (FRB's)-No liquidity provider or remarketing agent.

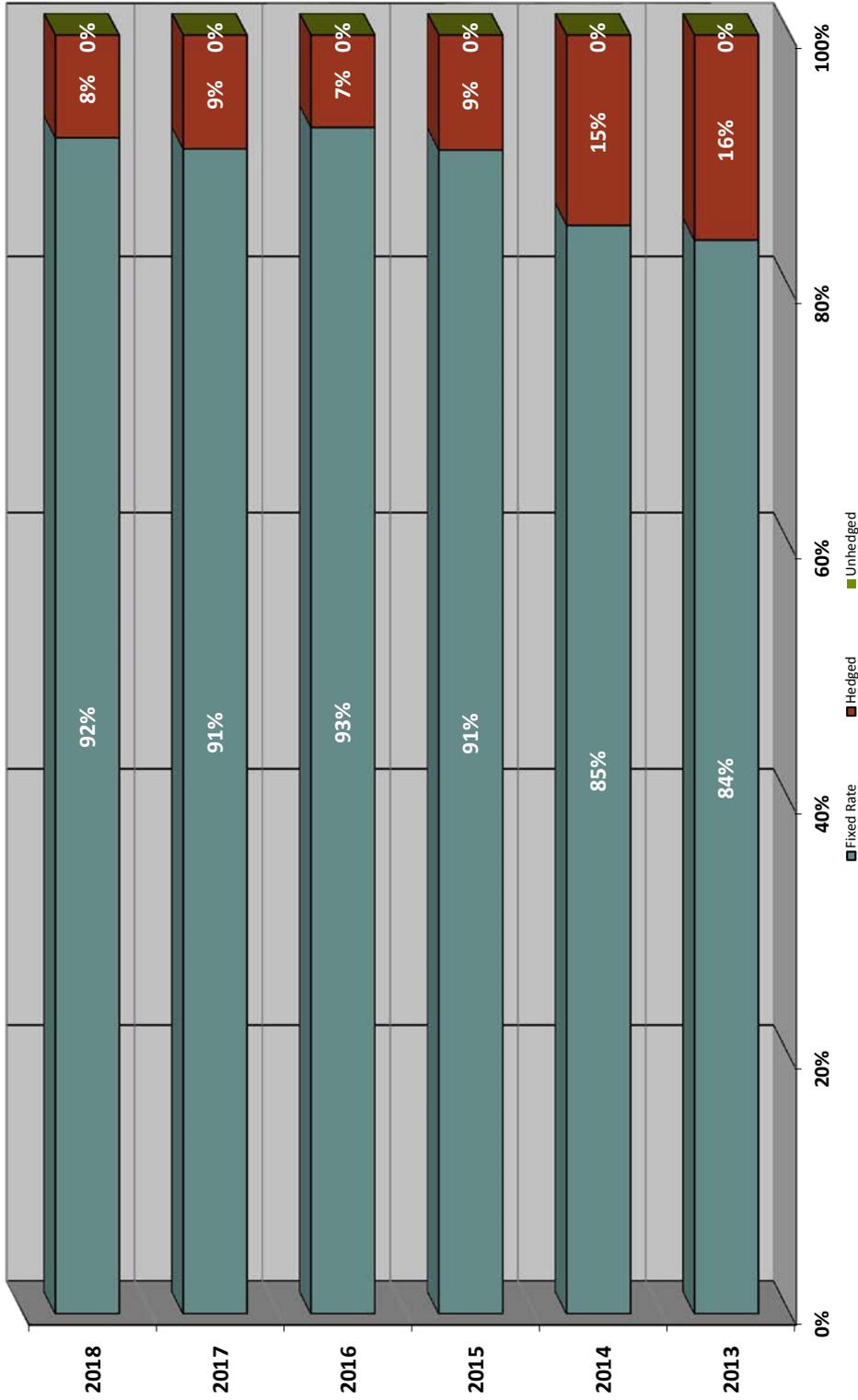
Liquidity Renewal Requirements
July 1, 2018

Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 07/01/2018	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2015 D	Royal Bank of Canada	1/1/2046	7/1/2022	8/11/2022	18,225,000	18,225,000	18,225,000	-	RBC ¹
2015 G	Royal Bank of Canada	1/1/2034	1/1/2023	1/2/2023	35,000,000	35,000,000	35,000,000	-	RBC ¹
2017 F	Royal Bank of Canada	1/1/2041	1/1/2023	1/2/2023	40,000,000	40,000,000	40,000,000	-	WF ³
	Royal Bank of Canada subtotal				93,225,000	93,225,000	93,225,000	-	
2016 F	FHLB - Des Moines ²	1/1/2041	1/1/2024	1/2/2024	50,000,000	50,000,000	50,000,000	-	RBC ¹
2017 C	FHLB - Des Moines ^{2,3}	1/1/2038	7/1/2024	7/19/2024	40,000,000	40,000,000	40,000,000	-	WF ³
	FHLB - Des Moines subtotal				90,000,000	90,000,000	90,000,000	-	
	Total All Liquidity Providers				183,225,000	183,225,000	183,225,000	-	

¹Royal Bank of Canada ²Federal Home Loan Bank of Des Moines ³Wells Fargo

Note: RHFB 2018 D (FRB's)-No liquidity provider or remarketing agent.

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



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

