



MEETINGS SCHEDULED FOR NOVEMBER

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

THURSDAY, NOVEMBER 15, 2018

Finance & Audit Committee Meeting
Lake Superior Conference Room – Fourth Floor
11:00 am

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, November 15, 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 November 15, 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 November 1, 2018
- 5. Reports**
 - A. **Chair**
 - B. **Commissioner**
 - C. **Committee**
- 6. Consent Agenda**
 - A. (page 9) 2019 Meeting Schedule
- 7. Action Items**
 - A. (page 11) Housing Tax Credit Program, Increase Annual Monitoring Fees
 - B. (page 15) Approval, Rental Rehab Deferred Loan (RRDL), Pilot Program Extension and Future Program Development Update
 - C. (page 21) Approval, Adoption of Bond Resolution for Rental Housing Bonds, 2018 Series C (Boulevard)
- 8. Discussion Items**
 - A. (page 105) Hunger & Homelessness Presentation
- 9. Information Items**
 - A. (page 109) 2018 Affordable Housing Plan and 2016-19 Strategic Plan: Fourth Quarter Progress Report
 - B. (page 117) Post-Sale Report, Homeownership Finance Bonds, 2018 Series GH
- 10. Other Business**

None.
- 11. Adjournment**

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DRAFT Minutes
Minnesota Housing Board Meeting
Thursday November 1, 2018
10:00 a.m.

1. Call to Order.

Chair John DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance agency at 10:03 a.m.

2. Roll Call.

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

Minnesota Housing Staff present: Tal Anderson, Ryan Baumtrog, Nick Boettcher, Sara Bunn, Wes Butler, Kevin Carpenter, Jessica Deegan, Matt Dieveney, Suzanne Dilla, Allison Ehlert, Rachel Franco, Brian Haefner, Anne Heitlinger, Summer Jefferson, Kasey Kier, Barbara Kochevar, Dan Kitzbeger, Tresa Larkin, Amy Larson, Song Lee, Lori Lindberg, Nira Ly, Paul Marzynski, Eric Mattson, Leighann McKenzie, Tom O'Hern, Ashley Oliver, Charissa Osborn, Tony Peleska, Devon Pohlman, Caryn Polito, Paula Rindels, Megan Ryan, Danielle Salus, Terry Schwartz, Anne Smetak, Barb Sporlein, Kim Stuart, Jodell Swenson, Susan Thompson, Mike Thone, Mary Tingerthal, and Que Vang.

Others present: Ramona Advani, Office of the State Auditor; Cory Hoepfner, RBC Capital Market; Kathy Kugel, Dakota County Community Development Agency; Melanie Lien; Piper Jaffray; Anne Mavity, Minnesota Housing Partnership;

3. Agenda Review

Chair DeCramer indicated there were no changes to the agenda.

4. Approval of Minutes

A. Regular Meeting of September 27, 2018

Motion: Stephanie Klinzing moved to approve the minutes. Seconded by Rebecca Otto. Motion carries 6-0.

5. Reports

A. Chair

None.

B. Commissioner

Commissioner Tingerthal shared the following with the board:

- Annual selection projects will be announced this afternoon. \$1.7 billion investment into the State of Minnesota over the last eight years.
- We won two award of excellence at the NCSHA Annual Conference. The Rehabilitation Loan Program and Publically Owned Housing Program were recognized for their great work with Minnesota's lowest income populations.
- Phase II of our office remodel has begun. We're making changes to a variety of spaces, including the expansion of the Mille Lacs conference room.

New Employee Introductions:

- Wes Butler introduced Brian Haefner, Loan Origination Director, Multifamily Division.
- Renee Dickinson introduced Kim Vo, Compliance Officer, Multifamily Division.

C. Committee

None.

6. Consent Agenda

- A. Commitment, Low and Moderate Income Rental (LMIR) and LMIR Bridge Loan**
- Boulevard, D8022, Mounds View

Motion: Terri Thao moved to approve all items on the Consent Agenda. Seconded by Joe Johnson. Motion carries 7-0.

7. Action Items

Kasey Kier, Assistant Commissioner, Single Family and Wes Butler, Assistant Commissioner, Multifamily reviewed a presentation highlighting the Agency's funding over the last eight years.

A. Single Family Selections, Community Homeownership Impact Fund

Staff presented to the board a request for approval of the Single Family Consolidated Request for Proposals (RFP) and Community Homeownership Impact Fund (Impact Fund) Selection and Funding Committee Recommendations.

Chair DeCramer opened up the discussion. There were no questions from board members. The voting for selections was broken out into two parts- Metro and Greater Minnesota.

Motion: Damaris Hollingsworth moved to approve Single Family Metro Selections, Community Homeownership Impact Fund. Seconded by Craig Klausing. Terri Thao abstained. Motion carries 6-0. **Motion:** Stephanie Klinzing moved to approve Single Family Greater Minnesota Selections, Community Homeownership Impact Fund. Seconded by Terri Thao. Chair DeCramer and Joe Johnson abstained. Motion carries 5-0.

B. 2018 Multifamily Selections, Amortizing and Deferred Loans, and 2019 Housing Tax Credits and Reservations of Tax-exempt Bond Volume Cap Authority

Staff presented to the board a request for approval of the following resolutions and noted that there were a few minor changes in the spreadsheets (updated documents were available):

- Adoption of a resolution approving the selection of projects, and the commitment of deferred financing related to the following programs and/or funding sources:
 - Economic Development and Housing Challenge (EDHC)
 - Preservation Affordable Rental Investment Fund (PARIF)
 - National Housing Trust Fund (NHTF)
 - HOME Investment Partnership (HOME)
 - Housing Infrastructure Bond (HIB) Proceeds
- Adoption of a resolution approving the allocation of federal Low Income Housing Tax Credits (LIHTC) and the granting of waivers related to federal Low Income Housing Tax Credits
- Adoption of a resolution approving selections under the Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) programs
- Adoption of a resolution approving the reservation of estimated tax-exempt bond volume cap authority

Chair DeCramer opened up the discussion. Stephanie Klinzing inquired about the proposals that may have needed a waiver to go forward and the waiver was not applicable. Devon Pohlman provided more detail on the selection process which involves a substantive review of the highest scoring proposals given available funding. Projects are then evaluated to ensure project feasibility and sufficient capacity of the development team, along with any potential need for a Board waiver and whether the conditions of the needed waiver meet defined eligibility criteria and should be recommended to the Board of Directors. Chair DeCramer thanked all the staff for their work on the project selections.

Motion: Craig Klausing moved adoption of a resolution approving the selection of projects, and the commitment of deferred financing related to the following programs and/or funding sources:

- Economic Development and Housing Challenge (EDHC)
- Preservation Affordable Rental Investment Fund (PARIF)

- National Housing Trust Fund (NHTF)
- HOME Investment Partnership (HOME)
- Housing Infrastructure Bond (HIB) Proceeds.

Seconded by Terri Thao. Motion carries 7-0.

Motion: Stephanie Klinzing moved adoption of a resolution approving the allocation of federal Low Income Housing Tax Credits (LIHTC) and the granting of waivers related to federal Low Income Housing Tax Credits. Seconded by Damaris Hollingsworth. Motion carries 7-0.

Motion: Terri Thao moved adoption of a resolution approving selections under the Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) programs. Seconded by Craig Klausing. Motion carries 7-0.

Motion: Stephanie Klinzing moved adoption of a resolution Adoption of a resolution approving the reservation of estimated tax-exempt bond volume cap authority. Seconded by Rebecca Otto. Motion carries 7-0.

C. Resolution Authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series EFG

Kevin Carpenter noted that the Annual Financial Report is available in hard copy and also on our website.

Kevin Carpenter presented to the board a request for approval of the resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series EFG. Michelle Adams, Kutak Rock joined the discussion to review the board resolution.

Chair DeCramer opened up the discussion. There were no questions from the board. **Motion:** Rebecca Otto moved to approve the Resolution Authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series EFG. Seconded by Joe Johnson. Motion carries 7-0.

D. Resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series H

Kevin Carpenter presented to the board a request for approval of the resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series H. Michelle Adams, Kutak Rock joined the discussion to review the board resolution. An updated page 288 was handed out to board members as it now shows Royal Bank of Canada as the 2018H Swap Counterparty.

Chair DeCramer opened the discussion. There were no questions from the board. **Motion:** Joe Johnson moved to approve the resolution authorizing the issuance and sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds, 2018 Series H. Seconded by Craig Klausing. Motion carries 7-0.

8. Discussion Items

None.

9. Information Items

A. Post-Sale Report, State Appropriation Bonds (Housing Infrastructure) 2018 Series ABCD

B. Report of Complaints and Inquiries by Agency or Chief Risk Officer

10. Other Business

Commissioner Tingerthal reminded the board that a Finance and Audit Committee will take place prior to the board meeting on November 15. There will be two items for discussion, Risk Management practices and Potential Revisions to Board policy on Investments. The board meeting will include a presentation on Unsheltered Homelessness.

11. Adjournment

The meeting was adjourned at 11:33 a.m.

John DeCramer, Chair

DRAFT

Item: 2019 Meeting Schedule

Staff Contact(s):

Rachel Franco, 651.296.2172, rachel.franco@state.mn.us

Mary Tingerthal, 651.296.5738, mary.tingerthal@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 requests approval of the 2019 meeting schedule. Committee and special meetings will be scheduled as needed and in consultation with board members.

Fiscal Impact:

None.

Meeting Agency Priorities:

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

Attachment(s):

- Meeting schedule

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

2019 Schedule of Minnesota Housing Board Meetings

January 24

February 21

March 21

April 25

May 23

June 20

July 25

August 29 (*one week later to accommodate audit completion*)

September 26

October 17 (*morning meeting for RFP selections*)

November 21

December 19 (*one week early due to Christmas Holiday*)



Board Agenda Item: 7.A
Date: 11/15/2018

Item: Approval, Housing Tax Credit Program, Increase Annual Monitoring Fees

Staff Contact:

Renee Dickinson, 651.296.9491, renee.dickinson@state.mn.us

Request Type:

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

Summary of Request:

Staff requests approval to increase housing tax credits (HTC) annual compliance monitoring fees beginning in 2019.

Fiscal Impact:

Increasing fees aligns with the proper compensation for the work that staff performs to effectively monitor HTC properties. The recommended changes are projected to increase Agency fee revenue from HTC monitoring from approximately \$650,000 per year to \$850,000 per year.

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:

Staff is recommending changes to its HTC annual compliance monitoring fees. Minnesota Housing has not revised its HTC annual compliance monitoring fee structure since 2002 after the IRS passed regulations requiring inspections once every three years. Prior to those regulations, inspections were required once every five years. In 2005, Minnesota Housing established its compliance and monitoring procedures for properties in the Extended Use Period (EUP) and established the current \$15 per unit, per year fee during the EUP because inspections are less frequent (required once every five years during the EUP).

In 2016, the IRS published regulations that require monitoring agencies to inspect 20 percent of units in each HTC “project” and to include vacant units in sampling. The IRS defines a “project” as a single building unless the owner elects to treat multiple buildings as a project on line 8b of IRS Form 8609. Because Minnesota Housing has over 430 properties with multiple buildings, this new requirement means that more due diligence is required during unit selections to ensure the Agency fully complies with monitoring regulations. In some cases, compliance officers must inspect more units than were required under old regulations.

The 2016 IRS regulations also established a cap on the total number of units needing to be inspected and allowed monitoring agencies to utilize HUD’s Real Estate Assessment Center (REAC) inspections process; however, the cap is only applicable to properties with more than 100 units, which represent only about 10 percent of the properties in Minnesota Housing’s portfolio. More importantly, utilizing REAC inspections has not greatly reduced the overall amount of time spent on inspections, as the compliance officer still needs to track which properties will be subject to REAC inspections each year and then set up those projects in HUD’s alignment portal. For those properties eligible for a REAC inspection, Minnesota Housing compliance officers still need to review property administrative records, perform tenant file reviews, and, once they receive the REAC report, they need to carefully evaluate the results and follow up on any noncompliance in the same manner as if they had conducted the actual inspection. In addition, there have been times when staff discovers that a REAC inspection is no longer required due to the payoff of HUD financing mid-year, so the Agency ends up inspecting properties that it did not anticipate having to inspect.

The recommended fee structure results in an average of \$25 per unit per year over a 30-year compliance period (less for properties covered by Minnesota Housing’s Memorandum of Understanding (MOU) with USDA Rural Development and those subject to federal inspections in the EUP). The amount of the recommended increase in the fee structure is supported by an assessment of the following factors:

- Compliance staff time-coded entries in the most recent fiscal year to tax credit units
- Time attributed to tax credits units’ post-production activity by legal staff, support staff, underwriting (RFA) staff, the Agency’s chief risk officer, and asset management staff
- Average time spent by the agency’s business technology support (BTS) staff for annual maintenance and upgrades to the agency’s Property Online Reporting Tool
- A portion of the compliance team’s FY 2018-2019 budgeted expenses for travel and employee training regarding tax credit units
- Indirect costs attributed to time-coded entries related to compliance of tax credit units.

Minnesota Housing charges fees on all units, including HTC restricted units. There are 34,378 units in our current portfolio of tax credit properties, which means, based on time-coded entries, the monitoring costs average \$24.95 per unit. Increasing HTC fees to a level that will produce an average of \$25.00 per unit will better align the fees with Agency expenses related to monitoring HTC units. **Request Details:**

Beginning in 2019 (fees due February 2020) the recommended new annual monitoring fee structure would be as follows:

- \$30 per unit per year for properties in compliance years 1-15 – previously \$25
- \$20 per unit per year for properties in years 16-30 – previously \$15
- \$20 per unit per year for properties financed by USDA Rural Development covered under Minnesota Housing's MOU in compliance years 1-15 – previously \$15
- \$0 per unit per year in years 16-30 for properties subject to inspections by USDA Rural Development or HUD for project-based Section 8 – no change
- \$0 per unit per year in the 3-year protection period following termination of the Extended Use Period – no change

The Housing Tax Credit Compliance Guide will be updated to reflect this change.

Staff requests approval by the Board of the recommended fee structure.

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Board Agenda Item: 7.B
Date: 11/15/2018

Item: Rental Rehab Deferred Loan (RRDL) – Pilot Program Extension and Future Program Development Update

Staff Contact(s):

David Schluchter, 651.296.8161, david.schluchter@state.mn.us

Irene Ruiz-Briseno, 651.296.3837, irene.ruiz-briseno@state.mn.us

Request Type: Select from one column only. Resolutions always require a motion.

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

Summary of Request:

Staff would like to provide a brief status report on the current state of the RRDL program along with an overview of proposed program changes to be implemented in 2019. In addition, staff is asking for approval of several administrative extensions and \$1.1 million in increases to original funding awards.

Fiscal Impact:

The RRDL Program is funded with state appropriations. Minnesota Housing's current 2018-2019 Affordable Housing Plan has \$9,735,313 allocated to the RRDL program. The \$1,100,000 increase to the original RRDL awards will be funded from the \$9,735,313.

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 Extension Request
- Current Program Delivery Models (Attachment A)
- RRDL Redesign: Proposed Concepts (Attachment B)

Background:

(Refer to Attachment A, illustrating current program delivery)

RRDL provides 0% deferred loans up to \$300,000 for smaller developments located in Greater Minnesota. The program supports smaller, unassisted and federally subsidized properties.

The RRDL Program was originally intended to deliver 75 percent of RRDL appropriations through a network of local administrators who serve specific geographical areas of the state. This portion of the program is referred to as the Program Model. It contains two distinct loan products:

Program Model:

Property Type	Loan Type	Loan Amount Threshold
1-4 units	100% forgivable	Not to exceed \$100,000
5 + units	10% forgivable	\$100,000 - \$300,000

For many reasons, the Program Model has had limited success and limited impact. There has also been an uneven geographic distribution of lending throughout the state, both overall and by project type.

In addition to the Program Model, agency staff processes project specific applications (Specific Project Model) on a pipeline basis. The original intent of the RRDL Program was for 25 percent of the appropriations to be delivered through this more direct route, with agency staff working directly with the building owner. To date, the RRDL Program has processed eleven project-specific applications, seven of which have an existing USDA Rural Rental Housing Loan (Section 515) mortgage.

Since inception, the RRDL program has assisted in the renovation of 1,511 units located in 88 developments throughout the state. Contained within these 88 developments, the program has made a more meaningful impact on 25 USDA Rural Development (USDA) multifamily buildings. These buildings traditionally have professional property management and audited financials, which allow staff a solid underwriting platform.

Within the 88 completed projects are a number of smaller buildings that fall within the 1-4 unit building category, but fewer than anticipated. Staff readily recognizes the importance of this naturally occurring affordable housing (NOAH¹) stock located throughout the state, and these assets are a key target for RRDL Program funds. The age of this housing stock, along with common characteristics associated with smaller buildings and owners have challenged both program administrators and Minnesota Housing staff in successfully closing loans for this building type under the current program guidelines.

Though success has been mixed, the Agency remains committed to delivering an effective program for these properties and owners, given their importance to affordable housing in Greater Minnesota. This was reinforced by the recent publication of *More Places to Call Home: Investing in Minnesota's Future; Report of the Governor's Task Force on Housing August 2018*, which acknowledges the importance of a deferred loan tool for naturally occurring affordable housing (NOAH) units located in Greater Minnesota. Minnesota Housing's challenge over the next twelve months is to try to streamline and expand the program to reach a greater number of property owners.

Intermediate Steps for Revising the Rental Rehab Deferred Loan Pilot Program

(Refer to Attachment B)

Over the past six months, the RRDL team has been working closely with Minnesota Housing's Policy, Research and Evaluation team to gather input from current administrators and other agency staff to assist in making future program recommendations. Attachment B is a working draft of how the program might operate in the future. Each category specifically addresses a property type, as follows:

- NOAH 1-6 units
- NOAH 7-30 units
- Federally subsidized buildings containing 30 units or fewer

NOAH 1-6 Units: Staff is working on very preliminary program modifications for properties that fall within the NOAH 1-6 category. Our overall goal is to reduce the due diligence required for individual borrowers and to develop a larger, more robust network of lenders. More information about proposed program modifications will be forthcoming.

NOAH 7-30 Units: As of January 1, 2019, owners of NOAH buildings that contain between 8ⁱⁱ and 30 units will be able to apply directly to Minnesota Housing on an interim basis. The RRDL team will continue to process these loans and gather information about both the property category and the owners to make future program improvements. This category will need further refinement and possible program changes for it to be more successful.

Federally Subsidized Buildings with 30 Units or Fewer: To date, the third category has delivered more production both in the number of units and the number of buildings renovated. This third category has worked very well for smaller Rural Development buildings. These properties currently offer rental assistance in either part or all of their building units. A majority of these buildings contain between 16-30 units, and have not traditionally competed well within the Minnesota Housing's Consolidated RFP due to the limited size of the buildings, and in some cases, due to the location of the buildings.

Staff will spend time in the coming months to further refine the concepts, seek input from external stakeholders, and seek approval through the Clearinghouse and Mortgage Credit Committees, after which the concepts will be presented to the board for approval. It is the goal of the current RRDL team that the next iteration of RRDL will remove the program from its Pilot status.

Proposed 2019 USDA – RRDL Preservation RFP: Next Steps

Because of Minnesota Housing's past success with smaller USDA buildings and our strong partnership with both our local USDA state office and the Greater Minnesota Housing Fund (GMHF), we are excited to share information about a "USDA-RRDL Preservation RFP." It was recently brought to our attention by USDA's state office that they have approximately 200 units of rental assistance to re-allocate to buildings in the state that currently have a Section 515 mortgage and only have partial rental assistance. On an annual basis, these 200 units of rental assistance represent just under \$750,000 of additional assistance brought into the state, and over a 20-year period, it represents \$14,948,000. We are proposing to create an RFP similar to the Publicly Owned Housing Program (POHP) Program in the second quarter of 2019. At that time, the agency would publish the availability of \$4 to \$6 million in RRDL funding for the preservation of USDA properties. Potential applicants would need to meet the following threshold criteria:

- Buildings would need to be in full compliance with USDA mortgage regulations
- The building vacancy for the most recent three-year period cannot exceed 8 percent
- The building must already contain at least 50 percent or more units receiving rental assistance

This unique opportunity will allow Minnesota Housing staff to review and assess a number of USDA buildings, and it will allow Minnesota Housing staff to work in coordination with our local USDA office in the allocation of additional rental assistance. This additional rental assistance, in conjunction with the possible awarding of RRDL funds, will set up these smaller buildings for sustained long-term operations. The coordinated effort should create efficiencies in processing.

A number of these properties may be required to re-amortize their first mortgage with USDA to continue their rental assistance contract (which is tied to the mortgage). For some properties, their overall operations may allow them to take on new amortizing debt that could be granted first lien position, pending size and term approval. This allows both USDA and Minnesota Housing to work closely with GMHF in exploring new amortizing debt paired with RRDL. New additional amortizing debt, in conjunction with RRDL, funds can fund a more comprehensive rehabilitation. Such renovations in conjunction with USDA rental assistance can set these buildings up for longer-term success.

The RRDL team hopes to present a new USDA–RRDL Preservation RFP Guide to the board for approval in the first quarter of 2019. Prior to that, staff will bring the RFP guide and RFP application materials to both Clearinghouse and Mortgage Credit committees for review and approval.

Extension Request

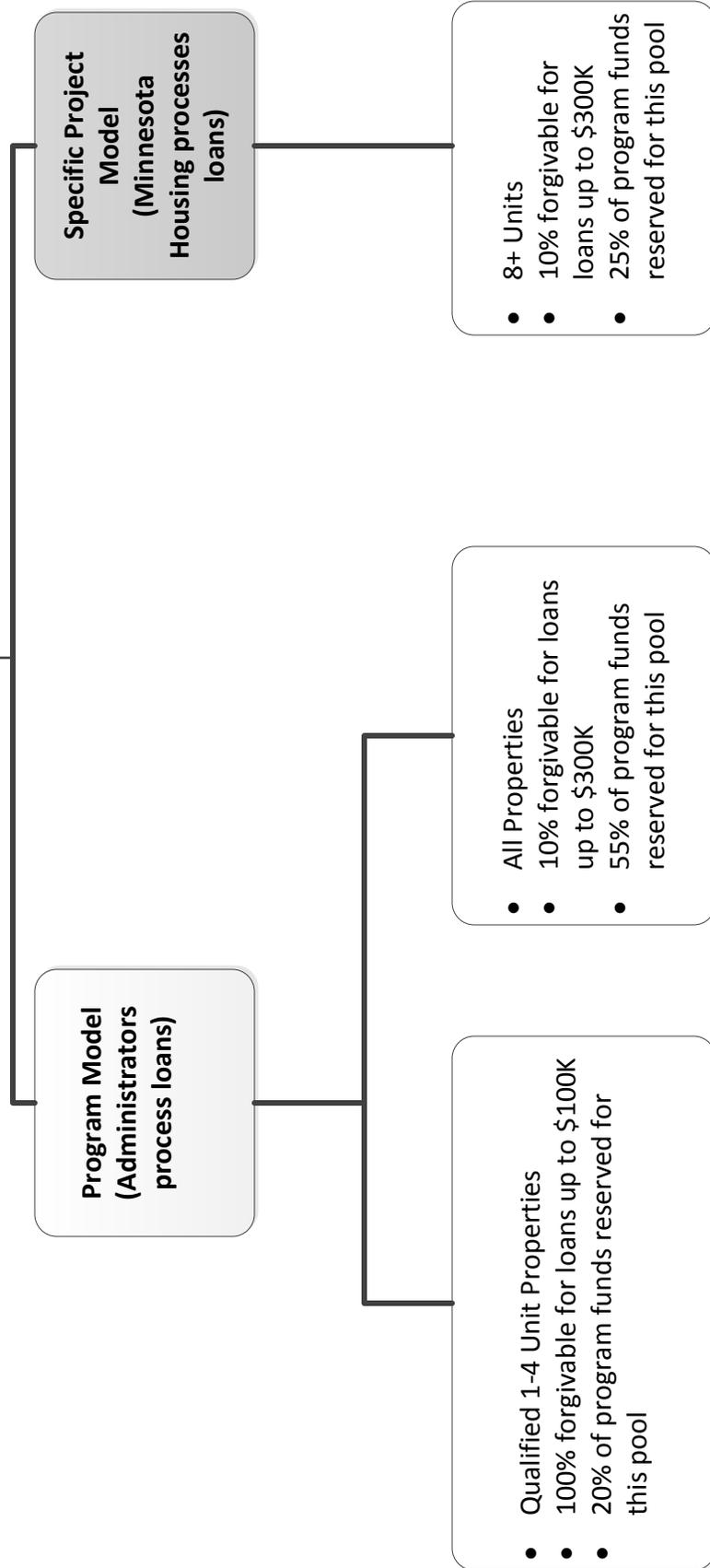
In order to provide a level of program continuity during the time that staff is developing the future directions described above; staff is recommending that the board approve the following three administrative extensions and increases to original funding awards for three administrators:

1. Staff is recommending a one-year extension to the RRDL Pilot Program until December 31, 2019.
2. Staff is recommending a nine-month extension of three RRDL Administrator Agreements, along with the following increases to original funding awards:
 - \$300,000 Central Minnesota Housing Partnership 10% Forgivable Program
 - \$100,000 HRA of Clay County 100% Forgivable Program
 - \$600,000 HRA of Clay County 10% Forgivable Program
 - \$100,000 One Roof Community Housing 100% Forgivable Program
3. Staff is recommending a three-month extension for two current RRDL Administrator Agreements, allowing them additional time to close the following Rental Rehab Deferred Loans that are in process:
 - Southeastern Minnesota Multi-County HRA D8164 Cooperidge Apartments, Red Wing
 - Southeastern Minnesota Multi-County HRA D8165 Wapasa Apartments, Winona
 - Arrowhead Economic Opportunity Agency D1675 Virginia Rotary Apartments, Virginia

ⁱ Naturally occurring affordable housing (NOAH) is unsubsidized rental housing that is relatively affordable compared to other housing.

ⁱⁱ Under the current Minnesota Housing's RRDL Program Guide, project specific applications must contain a minimum of eight units. In 2019, staff will look at adjusting this number to seven units.

RRDL
Current Program
Board approved May 2016



RRDL Redesign-- Proposed Concepts

October 1, 2018

USDA - RRDL Preservation RFP 2019 (Federally Subsidized -- up to 30* units)

*up to 50 units depending upon additional financial sources

NOAH -- 7-30* units

*up to 50 units depending upon additional financial sources

Goals of RRDL Redesign	NOAH -- 1-6 units	NOAH -- 7-30* units	USDA - RRDL Preservation RFP 2019 (Federally Subsidized -- up to 30* units)
<p>Increase loan production and address geographic gaps in participation</p>	<p>Initially program staff will deliver this part of the program until we have more experience with this type of project/borrower and can make recommendations on how to best launch it via a Lender Network which would be dynamic, expanded, not exclusive, and not determined thru an RFP.</p>	<p>Increase loan production</p>	<p>Improve consistency of underwriting and selection of projects compared to other Agency preservation programs</p>
<p>Lender Network - dynamic, expanded, not exclusive, not determined thru an RFP (banks, credit unions, local govts, CAs)/ proactively recruit new lenders for the 1-6 program</p>	<p>"Fix-up Fund Style" application, greatly simplified</p>	<p>Offer funds thru a stand-alone, concept-based, competitive Request for Proposal (POHP style) - post RFP selection, this will become a pipeline resource. Set-aside a percentage of funds to process pipeline applications for emergency funding.</p>	<p>Agency staff will coordinate scoring, selection, loan processing, architectural review, underwriting, and closing process similar to POHP.</p>
<p>Easier to apply Faster approval</p>	<p>Simplified application / workbook</p>	<p>Easier to apply Faster approval</p>	<p>Use Standard Workbook</p>
<p>Underwritten by an experienced lender</p>	<p>Better communication with applicants</p>	<p>Better communication with applicants</p>	<p>Better coordination with USDA-RD. Great partnership advantage by placing additional RA in buildings being considered for USDA - RRDL. Stronger analysis for RRDL investment regard to market strength. Ability to review and underwrite more consistently</p>
<p>Expanded lender network coverage, lenders not restricted geographically</p>	<p>Greater leverage of energy rebates</p>	<p>Greater leverage of energy rebates</p>	<p>Greater leverage of energy and sales tax rebates</p>
<p>Better coordination with single family and their lender network</p>	<p>Ability to gather more information about this type of project/borrower to further improve the program for these borrowers/assets</p>	<p>Ability to gather more information about this type of project/borrower to further improve the program for these borrowers/assets</p>	<p>Better able to determine if RRDL is the right program</p>
<p>Areas where vouchers are underutilized due to housing conditions</p>	<p>Cross reference housing and demographic data from research</p>	<p>Areas where vouchers are underutilized due to housing conditions. Cross reference housing and demographic data from research</p>	<p>Ability to select most competitive projects via an RFP</p>
<p>Cross reference housing and demographic data from research</p>	<p>Underwrite owner's creditworthiness, not real estate</p>	<p>Underwrite real estate</p>	<p>More flexibility in structuring loan terms (deferred/repayable, end/construction loan, etc.)</p>
<p>Underwrite owner's creditworthiness, not real estate</p>	<p>No Income Limits</p>	<p>No Income Limits</p>	<p>Must meet criteria established by the Agency</p>
<p>Rents Affordable to the Local Area Workforce and within the Section 8 voucher payment standard</p>	<p>Annual reporting of rents and insurance for XX years</p>	<p>Rents Affordable to the Local Area Workforce and within the Section 8 voucher payment standard</p>	<p>Selection could be similar to POHP where projects involving health/safety, critical physical needs, energy efficiency, and accessibility are prioritized.</p>
<p>Annual reporting of rents and insurance for XX years</p>	<p>Maximum loan \$300,000 per project</p>	<p>Annual reporting of rents and insurance for XX years</p>	<p>Cross-reference housing and demographic data from research</p>
<p>\$35,000 per unit for single family homes and duplexes</p>	<p>Recourse Deferred, 0%</p>	<p>Maximum loan \$300,000 per project Recourse Deferred or amortizing, 0%</p>	<p>Reconcile with Asset Management loan standards</p>
<p>Recourse Deferred, 0%</p>	<p>Outreach to broaden the lender network, and to market in local communities (HRAs, code enforcement). Auditing a percentage of closed loan files.</p>	<p>Program staff processing/underwriting applications on a pipeline basis for the first 36 months. Outreach to broaden the lender network (once established), and to market in local communities (HRAs, code enforcement). Auditing a percentage of closed loan files.</p>	<p>Deemed to comply based on USDA-RD, HUD or other existing subsidy requirements Annual reporting of rents, incomes, and insurance for XX years</p>
<p>Outreach to broaden the lender network, and to market in local communities (HRAs, code enforcement). Auditing a percentage of closed loan files.</p>	<p>Should 30% of resources be set aside for Metro NOAH properties?</p>	<p>Should 30% of resources be set aside for Metro NOAH properties?</p>	<p>Maximum loan \$300,000 per project Recourse Deferred, cash flow, or amortizing, 0%</p>
<p>Appropriate level of environmental review and Agency architect oversight. How to reconcile the external perception of what the program is supposed to be with the Agency's typical multifamily lending?</p>	<p>RFP Administration Underwriting</p>	<p>RFP Administration Underwriting</p>	<p>RFP Administration Underwriting</p>



Board Agenda Item: 7.C
Date: 11/15/2018

Item: Resolution authorizing the issuance and sale of Rental Housing Bonds, 2018 Series C for a multi-family housing development in Mounds View, Minnesota (Boulevard)

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 checked="" 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 \$6,980,000 and will be used to acquire and finance the construction of a 60-unit rental housing development located in Mounds View, 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 finance 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.

**\$6,980,000*****MINNESOTA HOUSING FINANCE AGENCY
Rental Housing Bonds, 2018 Series C (Non-AMT)****Dated: Date of Delivery****Due: as shown on inside front cover**

<i>Tax Exemption</i>	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.)
<i>Redemption</i>	The Agency may redeem all or a portion of the Series Bonds by optional or special redemption as described under "The Series Bonds" herein.
<i>Security</i>	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.")
<i>Interest Payment Dates</i>	February 1 and August 1, commencing August 1, 2019.*
<i>Denominations</i>	\$5,000 or any integral multiple thereof.
<i>Closing/Settlement</i>	On or about December __, 2018* through the facilities of DTC in New York, New York.
<i>Bond Counsel</i>	Kutak Rock LLP.
<i>Underwriter's Counsel</i>	Dorsey & Whitney LLP.
<i>Trustee</i>	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
<i>Book-Entry-Only System</i>	The Depository Trust Company. (See Appendix F herein.)

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

RBC Capital Markets

The date of this Official Statement is December __, 2018.

* Preliminary; subject to change.

MATURITY, PRINCIPAL AMOUNT, INTEREST RATE AND PRICE*

\$6,980,000* 2018 Series C Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP**</u>
August 1, 2020*	\$6,980,000*	____%	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
\$6,980,000***

MINNESOTA HOUSING FINANCE AGENCY Rental Housing Bonds, 2018 Series C (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 C (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 \$[37,635,000] as of November 30, 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 58 and 59 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 Mounds View, 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 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 60 through 63 under the heading “Defined Benefit Pension Plan.” The Agency’s allocable portion of net pension liability reported at June 30, 2018 with respect to MSRS is \$47.879 million.

In Appendix C to this Official Statement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the three months ended September 30, 2018. The Agency has prepared the information in Appendix C and, in the opinion of the Agency, that information reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of the Agency (excluding State and Federal Appropriated Funds) for the period, subject to year-end adjustments. The information in Appendix C is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix D hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the “Agency Annual Report”) and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency must file the Agency Annual Report no later than 120 days after the close of each fiscal year, commencing with the fiscal year 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 D — Summary of Continuing Disclosure Undertaking.”)

During the prior five years, certain disclosure reports filed with EMMA were not timely linked to all outstanding CUSIPs for the associated bonds of the Agency, including (a) the timely filed Agency Annual Report for its fiscal year ended June 30, 2015 was not specifically linked to the CUSIP for the Agency’s Homeownership Finance Bonds, 2015 Series C and one of the CUSIPs for the Agency’s Residential Housing Finance Bonds, 2015 Series C, and (b) the timely filed State of Minnesota Comprehensive Annual Financial Report and Annual Financial Information and Operating Data for the year ended June 30, 2015 was not specifically linked to multiple CUSIPs relating to the Agency’s State Appropriation Bonds (Housing Infrastructure), 2014 Series A.

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

In addition to the information required by the Continuing Disclosure Undertaking, the Agency also uses its best efforts to prepare a semiannual disclosure report for the Bond Resolution and a quarterly disclosure report for its single family bond resolutions. Recent reports are available at the Agency’s website at <http://www.mnhousing.gov> (click on tab “Investors”), but no information on the Agency’s website is incorporated

into this Official Statement. The Agency is also committed to providing appropriate credit information as requested by any rating agency rating the Bonds at the Agency's request.

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

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

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

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

Under the net position requirements and investment guidelines effective January 23, 2014, the required size of Pool 1 (which is intended to be a liquidity reserve) is 1 percent of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net position (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date; and realized gains and losses resulting from the purchase and sale of investment securities between Agency funds) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be at least equal to the combined net position of the same funds as of the immediately preceding fiscal year end. Currently, this amount is \$745.53 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 58 and 59 under the heading "Net Position — Restricted by Covenant."

The following summary indicates the revenues earned, the expenses paid, and funds transferred to and from the General Reserve (which contains Pool 1 and net investment in capital assets), for the two most recent audited fiscal years of the Agency and for the three-month period ended September 30, 2018 (unaudited) (in thousands):

	Three months Ended September 30, 2018 <u>(unaudited)</u>	Fiscal Year Ended <u>June 30, 2018</u>	Fiscal Year Ended <u>June 30, 2017</u>
Revenues			
Fees earned and other income ⁽¹⁾	\$	\$11,936	\$11,077
Interest earned on investments		419	254
Unrealized gain (loss) on investments	--	--	--
Administrative reimbursement ^{(2), (3)}		<u>24,279</u>	<u>22,482</u>
Total revenues		36,834	33,813
Expenses			
Salaries and benefits		33,114	36,311
Other general operating expenses		<u>6,388</u>	<u>7,690</u>
Total expenses		39,452	44,001
Revenues over expenses		(2,618)	(10,188)
Non-operating transfer of assets between funds ⁽⁴⁾	()	5,192	9,624
Change in net position		2,574	(564)
Net position beginning of period	<u>14,619</u>	<u>12,045⁽⁵⁾</u>	<u>14,280</u>
Net position end of period	<u>\$</u>	<u>\$14,619</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.

(5) Adjusted pursuant to required GASB 75 treatment of Post-Employment Benefits (other than Pension) as of July 1, 2017.

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 November 30, 2018 [TO BE UPDATED]:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	9	2049	\$ 39,745	\$ 34,115
Residential Housing Finance Bonds.....	38	2048	1,755,580	1,141,515
Homeownership Finance Bonds.....	48	2048	2,111,395	1,478,566
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	13,660
Totals	96		\$3,921,720	\$2,667,856

*Does not include series of bonds or the original principal amount of any bonds that had been, as of November 30, 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 15 series of its State Appropriation Bonds (Housing Infrastructure) in 2013 through 2018 in an aggregate principal amount of \$155,275,000 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 \$[53,004,984], \$[18,821,831] 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 Boulevard, will be a single building, three-story rental development to be located in Mounds View, Minnesota. The Development will have 60 residential units. The total development cost is estimated to be approximately \$13.93 million. The Development is expected to be completed by September 2019. The Development will be acquired and constructed by Boulevard Apartments, Limited Partnership, a Minnesota limited partnership, or another entity affiliated with MWF Properties LLC of Minneapolis, 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 \$6.98 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 \$6.50 million, a deferred repayment loan from the Agency with respect to the Development in the principal amount of approximately \$1.64 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 Erik Weis and Jay Weis.

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, or with respect to a portion of the dwelling units at or below 30 percent, of the area median income, adjusted for household size.

The Development will be benefitted by a project-based Section 811 Rental Assistance Contract provided by the Agency, with a 20-year term, covering four of the dwelling units, which will be reserved for residents with disabilities.

*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	\$6,980,000*
Funds Available to the Agency.....	_____
Total Sources of Funds.....	<u>\$_____</u>
<i>Uses:</i>	
Series C Mortgage Loan Account	\$6,980,000*
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 August 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 F – “Book-Entry-Only System.”)

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

Special Redemption at Par

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

*Preliminary, subject to change.

Optional Redemption

The Agency may redeem the Series Bonds at its option, in whole or in part, on any date on or after February 1, 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 E hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Appendix A to this Official Statement contains a brief description of the Mortgage Loans outstanding as of 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 E – "Summary of Certain Provisions of the Bond Resolution—Additional Bonds"), without limitation as to amount except as may from time to time be provided by law. Any additional Bonds issued under the Bond Resolution will be secured on an equal basis with the Series Bonds and the Outstanding Bonds and entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

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

State Pledge Against Impairment of Contracts

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

THE RENTAL HOUSING PROGRAM

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

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

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

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

- Low and Moderate Income Rental Program (including HUD Risk-Sharing Program)
- Section 8 Housing Assistance Payment New Construction/Substantial Rehabilitation Program (Uninsured Developments)/Asset Management Program
- Section 236 Interest Reduction Payments New Construction Program

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

- Apartment Renovation Mortgage Program
- Market Rate Mortgage Loan Program

The following table provides summary data regarding the outstanding loans financed or pledged as a portion of the security for the Rental Housing Bond Resolution as of 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 G.

Prospective owners of the Series Bonds should be aware that the ownership of obligations such as the Series Bonds may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal

income tax purposes. The extent of these collateral tax consequences will depend upon the owner's particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of purchasing or owning the Series Bonds. Interest on the Series Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

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

Certain Ongoing Federal Tax Requirements and Covenants

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

Low Income Set-Aside Requirements under the Code

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

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

Series Bonds prior to the issuance date of the Series Bonds. In addition, all of the units in the Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the “qualified project period” as the period beginning on the first day upon which 10 percent of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50 percent of the residential units in the project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to the project is outstanding, or (iii) the date upon which any assistance provided with respect to the project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140 percent of the applicable income limitation. Generally, upon an increase of a tenant's income over 140 percent of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation; provided however, that if tax credits under Section 42 of the Code are allowed with respect to the applicable Development, the next available unit of a comparable or smaller size in the same building as the tenant whose income has increased over 140 percent of the applicable income limitation must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Certain State Tax Legislation

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

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

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

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. It cannot be predicted whether or in what form any proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced that, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any regulatory action will be

implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LITIGATION

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

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

LEGAL MATTERS

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

FINANCIAL ADVISOR

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

RATINGS

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

UNDERWRITING

RBC Capital Markets, LLC (the “Underwriter”) will purchase the Series Bonds. The Underwriter is to be paid a fee of \$_____ with respect to its purchase of the Series Bonds. The Underwriter may offer and sell

the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

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

MISCELLANEOUS

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

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

**MINNESOTA HOUSING FINANCE
AGENCY**

_____, 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		Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
		Interest Rate	Balance (1)	Mortgage Balance (1)	Maturity			Maturity					
BOARDWALK	Wayzata	6.50	\$ 205,032	\$ -	\$ -	212,745	12/01/19	12/01/19	HAP	10/22/18	77	77	
BOSSEN PARK APTS	Minneapolis	6.68	1,751,901	-	-	207,810	02/01/30	02/01/30	LMIR/HR	N/A	0	110	
CASCADE	Fergus Falls	0.00	31,443	-	-	178,683	01/01/19	01/01/19	HAP	05/31/38	36	36	
CASCADE	Fergus Falls	0.00	130,179	-	-	See above	12/01/21	12/01/21	HAP/AMP	See above	See above	See above	
COLONY APTS	North Mankato	6.30	1,005,681	-	-	457,818	05/01/30	05/01/30	LMIR/HR	N/A	0	120	
CONCORDIA ARMS	Maplewood	5.75	3,561,172	-	-	811,424	07/01/49	07/01/49	LMIR/HR/HAP	12/31/32	125	125	
COUNTRYSIDE T.H.	Fairmont	6.50	202,646	-	-	343,017	12/01/19	12/01/19	HAP	09/21/18	71	71	
DOVER HILL	Golden Valley	6.07	6,503,597	-	-	1,031,174	03/01/41	03/01/41	LMIR/HR	N/A	0	234	
DUBLIN CROSSING	Mankato	2.20	5,750,000	-	-	-	07/01/19	07/01/19	LMIR/BRIDGE	(5)	15	50	
EASTGATE	Montevideo	0.00	262,293	-	-	143,367	09/01/21	09/01/21	HAP	07/31/20	46	46	
FIFTEEN HUND PERKINS	Windom	0.00	219,309	-	-	303,020	03/01/21	03/01/21	HAP	11/27/19	48	48	
GARDEN COURT	Winnebago	0.00	24,575	-	-	140,604	01/01/19	01/01/19	HAP	09/30/36	36	36	
GENEVA VILLAGE	Oakdale	7.21	2,535,555	-	-	292,180	01/01/28	01/01/28	LMIR	N/A	0	175	
GRAHEK APTS.	Ely	7.25	121,855	-	-	201,940	11/01/19	11/01/19	HAP	03/29/19	42	42	
GREYSON PLAZA	Duluth	6.50	5,673,060	-	-	1,823,345	05/01/47	05/01/47	HAP/HR	11/25/20	150	150	
HEIGHTS MANOR	Columbia Heights	6.50	199,457	-	-	556,943	12/01/19	12/01/19	HAP	09/30/21	85	85	
HILLSIDE HOMES	Spring Valley	2.00	133,769	-	-	87,531	12/01/21	12/01/21	HAP	12/13/18	37	37	
HILLSIDE TERRACE	Long Lake	6.72	1,488,658	-	-	282,232	08/01/34	08/01/34	LMIR/HR	01/15/31	44	44	
HOMESTEAD APTS	Mankato	7.55	931,584	-	-	71,048	05/01/30	05/01/30	LMIR/HR	N/A	0	120	
JACKSON PLACE	Elk River	5.63	904,348	-	-	122,624	04/01/38	04/01/38	LMIR	N/A	0	32	
KENTUCKY LANE	Crystal	5.00	1,964,319	-	-	152,568	12/01/31	12/01/31	LMIR/HR	N/A	0	67	
LAKE CRYSTAL	Lake Crystal	7.25	268,222	-	-	444,408	03/01/21	03/01/21	HAP	06/12/19	43	43	
LARSON COMMONS	Cloquet	6.52	2,203,229	-	-	782,689	06/01/37	06/01/37	HAP/HR	03/06/20	85	85	
LORING TOWERS APARTMENTS (3)	Minneapolis	6.14	5,701,873	-	-	634,283	04/01/35	04/01/35	LMIR/HR	12/31/32	187	230	
LYNDALE GREEN	Minneapolis	6.05	3,184,020	-	-	314,969	03/01/52	03/01/52	LMIR/HR	N/A	0	63	
MAIN STREET FLATS	Cambridge	2.95	3,110,000	2,234,838	-	-	01/01/20	01/01/20	LMIR/BRIDGE	N/A	0	28	
MANITOU RIDGE (3)	White Bear Lake	6.63	2,611,348	-	-	194,830	03/01/33	03/01/33	LMIR/HR	N/A	0	118	
MAPLE RIDGE MANOR	Alexandria	0.00	153,657	-	-	226,088	11/01/20	11/01/20	HAP	07/31/21	40	40	
MAPLE RIDGE MANOR	Alexandria	0.00	460,000	-	-	See above	12/31/21	12/31/21	HAP/AMP	See above	See above	See above	
MARSHALL SQUARE APTS	Marshall	6.45	1,296,008	-	-	128,708	02/01/36	02/01/36	LMIR/HR/HAP	08/24/25	90	90	
MATTHEWS PARK	Minneapolis	0.00	81,246	-	-	383,225	12/01/21	12/01/21	HAP	10/31/36	24	24	
MILL POND VIEW	Pelican Rapids	7.25	334,319	-	-	607,802	09/01/20	09/01/20	HAP	09/20/19	66	66	
MILLIE BENEKE	Glencoe	0.00	52,683	-	-	115,132	08/01/19	08/01/19	HAP	08/06/18	41	41	
MOWER COUNTY	LeRoy	6.50	130,154	-	-	715,125	10/01/20	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)		Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
		Interest Rate	Mortgage Balance (1)	Mortgage Balance (1)	Mortgage Amount	Reserves (\$)	Reserves (2)							
MUNGER TERRACE	Duluth	0.00	\$ 263,957	\$ -	\$ -	\$ 342,676				12/01/21	HAP	05/31/37	45	45
MUNGER TERRACE	Duluth	0.00	177,516	-	-	See above				12/01/21	HAP	See above	See above	See above
MYSIA HOUSE	Mora	2.35	2,250,000	1,001,818	-	-				07/01/19	LMIR/BRIDGE	(5)	12	24
NORTH 44th fka TODD 27	Long Prairie	2.00	241,944	-	-	181,184				12/01/21	HAP	06/25/20	44	44
NORTH MORA	Mora	0.00	164,240	-	-	26,892				05/01/21	HAP	12/06/19	35	35
NORTH STAR	Roseau	7.25	176,188	-	-	361,322				02/01/20	HAP	05/13/19	51	51
NORTHWOOD COMMONS	Baudette	0.00	36,280	-	-	71,493				05/01/19	HAP	12/18/18	32	32
OAKWOOD HOMES	Karlstad	7.25	87,378	-	-	85,495				12/01/21	HAP	03/12/20	45	45
OAKWOOD HOMES	Karlstad	0.00	168,014	-	-	See above				12/01/21	HAP	See above	See above	See above
OKABENA	Worthington	7.25	121,996	-	-	213,119				07/01/19	HAP	11/29/18	60	60
PENNEL PARK APARTMENTS	Duluth	6.20	2,319,786	-	-	561,676				07/01/35	LMIR/HR	05/31/24	100	101
PRINCETON	Princeton	7.25	176,289	-	-	437,723				04/01/20	HAP	04/11/19	48	48
RIVERSIDE MANOR	Dawson	0.00	90,982	-	-	142,902				09/01/20	HAP	11/30/19	24	24
RIVERTOWN COMMONS	Stillwater	6.15	2,942,976	-	-	196,923				03/01/38	LMIR/HR	04/02/20	96	96
ROCHESTER SQUARE APTS	Rochester	5.75	1,926,004	-	-	331,531				07/01/44	LMIR/HR/HAP	02/17/34	95	104
ROSEMOUNT TOWNHOUSES	Rosemount	1.00	164,960	-	-	72,721				10/01/21	LMIR/HAP	01/31/28	28	28
SOLACE APARTMENTS	St. Peter	3.23	3,565,000	3,565,000	-	-				07/01/19	LMIR/BRIDGE	(5)	29	30
SOUTHVIEW TERRACE	Hibbing	2.00	435,800	-	-	559,115				12/01/21	HAP	11/30/36	43	145
SUNRISE ESTATES	Jackson	0.00	340,000	-	-	167,245				01/01/22	HAP/AMP	01/01/22	40	40
THE CROSSROADS fka SOUTH PARK MANOR	Dodge Center	0.00	257,960	-	-	81,810				05/01/22	HAP	10/31/37	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
THIRTYONE HUND FOURTH AVENUE	Minneapolis	7.50	50,711	-	-	13,415				01/01/24	LMIR	N/A	0	10
TOWN SQUARE	East Grand Forks	2.00	570,988	1,353,187	-	450,011				12/01/21	HAP	10/08/19	81	81
VADNAIS HIGHLANDS	Vadnais Heights	6.60	47,632	-	-	115,435				03/01/34	LMIR/HR/HAP	07/31/23	35	35
VALLEY VIEW MANOR	Ada	6.50	32,889	-	-	303,632				04/01/19	HAP	06/30/23	40	40
VALLEYVIEW COMMONS	Mahnomen	0.00	154,648	-	-	189,812				04/01/19	HAP	10/12/18	32	32
VICTORY APTS fka MERIDIAN APTS	Duluth	0.00	181,064	-	-	326,363				12/01/21	HAP	06/30/38	39	39
WARROAD	Warroad	0.00	1,200,346	-	-	11,878				12/01/21	HAP	12/17/20	30	30
WESTGATE-HIBBING	Hibbing	0.00	63,418	-	-	12,706				08/01/18	HAP	01/31/37	30	100
WHISPERING PINES	Caledonia	0.00	221,238	-	-	27,141				09/01/19	HAP	12/13/18	37	37
WHITTIER COOP	Minneapolis	0.00	944,000	-	-	489,320				12/01/21	HAP	09/14/30	45	45
WHITTIER COOP	Minneapolis	0.00	224,158	-	-	See above				12/01/21	HAP/AMP	See above	See above	See above
WOODCREST MANOR	Mora	1.00	3,925,086	-	-	131,091				08/01/21	HAP	01/31/37	42	42
YORKDALE	Edina	5.00	78,323,827	\$ 6,801,655	\$ 18,417,148	535,185				06/01/48	HAP/HR	06/30/19	90	90
Subtotal													2783	4133

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 PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

Development Name	Location	Mortgage Loan Interest Rate	Outstanding Mortgage Loan Balance (1)	Undisbursed Mortgage Amount	Development Reserves (2)	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
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
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
Subtotal			\$ 66,073,868	\$ -	\$ 9,238,411				610	2,270
Total			\$ 144,397,696	\$ 6,801,655	\$ 27,655,559				3,393	6,403

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 C

Development Name	Location	Estimated Mortgage Loan Rate	Estimated Mortgage Loan Amount	Estimated Development Reserves	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
Boulevard	Mounds View	%	\$6,980,000		7/1/2020	LMIR/ Bridge Loan	20 years from placed in service date	4	60

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

**FINANCIAL STATEMENTS OF CERTAIN FUNDS OF THE AGENCY
(EXCLUDING STATE APPROPRIATED AND FEDERAL APPROPRIATED FUNDS)
AS OF SEPTEMBER 30, 2018
AND FOR THE THREE MONTHS THEN ENDED (UNAUDITED)**

As prepared by the Agency's Accounting Department

APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

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

Purpose

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

Definitions

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

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

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

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

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

“*Commission*” means the Securities and Exchange Commission.

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

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

1. Principal and interest payment delinquencies;
2. Nonpayment-related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Agency (within the meaning of the Rule);
13. The consummation of a merger, consolidation or acquisition involving the Agency or the sale of all or substantially all of the assets of the Agency, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

“*MSRB*” means the Municipal Securities Rulemaking Board.

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

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

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

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

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year 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 E

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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

Resolution Constitutes Contract with Trustee and Bondholders

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Authorization of Bonds

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

Other Obligations

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

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

Pledge of the Resolution

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

Custody and Application of Bond Proceeds

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

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

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

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

- (i) the name of the Mortgagor to, and Development for, which the payment is to be made;
- (ii) the amount to be paid; and
- (iii) that this amount, together with all prior withdrawals from said Mortgage Loan Account and all prior advances made by the Agency to the Mortgagor on account of the Mortgage Loan, will not exceed in the aggregate the authorized amount of the Mortgage Loan.

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

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

Mortgage Provisions and Conditions

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

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

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

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

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

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

- (a) the amount to be paid prior to satisfaction of the Mortgage equals, as of the date of the Prepayment:
 - (i) the unpaid principal balance of the Mortgage Loan; plus
 - (ii) accrued interest to the date of the Prepayment; plus
 - (iii) unless waived or modified by the Agency, a prepayment penalty calculated in accordance with the terms of the Mortgage; and
- (b) an Authorized Officer determines that after such Prepayment (whether total or partial), the Agency will remain in compliance with its Revenue Covenant.

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

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

- (a) to procure and maintain fire and extended coverage insurance on the Development in amount as determined by the Agency, payable to the Agency as its interest may appear;
- (b) to pay all taxes, special assessments and other lawful governmental charges with respect to the Development before they become delinquent, and all claims for work done and materials furnished with respect thereto before they are filed as liens on the Development, except during any period for which payment of part or all thereof may be deferred, with the written consent of and upon such terms as are specified by an Authorized Officer, for the purpose of contesting the same; and
- (c) to make monthly Escrow Payments to the Agency or a Servicer or a Depository sufficient to accumulate funds for taxes and other governmental charges and insurance premiums.

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

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

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

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

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

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

- (a) receipt of full Prepayment conforming to the requirements stated below;
- (b) grant of easements, licenses or rights-of-way over, under or upon the site of the Development which, in the opinion of the Officer, do not destroy or diminish its usefulness for the purpose intended;
- (c) lease of the Development or a part thereof to a third party for the purpose of operation, provided that such lease is permitted by law and is subject to all of the terms, provisions and limitations of the Mortgage;
- (d) sale or exchange of any improved or unimproved land which in the opinion of an Authorized Officer is not needed for the efficient operation of the Development, provided that an appraisal acceptable to the Agency is received showing that the Development, subsequent to such release, has an appraised value not less than 110% of the outstanding principal balance of the Mortgage;
- (e) sale to another eligible Mortgagor approved by resolution of the Agency, who assumes all obligations of the original Mortgagor under the Mortgage and accompanying documents; in which case the Agency may release the original Mortgagor unless otherwise provided in the Mortgage;
- (f) grant of a parity mortgage lien on the Development or a portion thereof if such parity mortgage lien is given to secure financing for the expansion, improvement or renovation of the Development or portion thereof; or
- (g) grant of a subordinate mortgage lien on the Development or a portion thereof.

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

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

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

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

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

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

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

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

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

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

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

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

Program Covenants—Revenue Covenant

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

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

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

The Agency reserves the right:

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

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

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

Deposit of Revenues and Other Money

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

- (a) Revenues to the Revenue Fund:
- (b) Prepayments and Recovery Payments to the Redemption Fund; and
- (c) Each Escrow Payment to an Escrow Account separately held by the Depository or the Agency.

Revenue Fund

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

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

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

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

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

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

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

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

Bond Fund

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

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

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

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

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

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

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

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

Debt Service Reserve Fund

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

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

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

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

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

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

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

Expense Fund

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

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

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

Redemption Fund

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

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

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

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

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

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

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

Escrow Accounts

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

General Reserve Account

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

Investment and Deposit of Funds

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

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

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

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

Additional Bonds

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

The Agency shall furnish to the Trustee:

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

(b) a Counsel's Opinion that:

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

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

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

(c) an Officer's Certificate stating:

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

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

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

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

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

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

The Trustee shall determine and certify:

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

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

Hedge Agreements

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

Amendments of the Bond Resolution

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

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

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

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

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

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

Defeasance

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

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

Events of Default

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

Remedies

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

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

General

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

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

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

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or 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 G
FORM OF OPINION OF BOND COUNSEL

_____, 2018

Minnesota Housing Finance Agency
St. Paul, Minnesota 55102

Minnesota Housing Finance Agency
Rental Housing Bonds
2018 Series C

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 C, in the aggregate principal amount of \$_____ (the “2018 Series C 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 C 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 C 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 C 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 C 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 C 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 C 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 C 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 C 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 C Bond for any period during which such 2018 Series C Bond is held by a person who is a “substantial user” of the Development financed by the 2018 Series C 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 C 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 C 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 C Bonds. All owners of 2018 Series C 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 C Bonds.

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

The opinions expressed above are qualified only to the extent that the enforceability of the 2018 Series C 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 18-067

RESOLUTION RELATING TO RENTAL HOUSING BONDS; AUTHORIZING THE ISSUANCE AND SALE THEREOF FOR A MULTIFAMILY HOUSING DEVELOPMENT IN MOUNDS VIEW, 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 \$6,980,000;

(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 3.25%; 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 August 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 15th day of November, 2018.

By: _____
Chairman

Attest: _____
Commissioner

[Signature page to Resolution No. MHFA 18-067]

EXHIBIT A

DESCRIPTION OF MORTGAGOR AND DEVELOPMENT

<u>Mortgagor</u>	<u>Name</u>	<u>Location</u>	<u>Number of Units</u>
Boulevard Apartments, Limited Partnership	Boulevard	Mounds View, MN	60

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 Mounds View, 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 18-067, adopted November 15, 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:

Item: Hunger and Homelessness Awareness Week Presentation

Staff Contact(s):

Ji-Young Choi, 651.296.9839, ji-young.choi@state.mn.us
Joel Salzer, 651.296.9828, joel.salzer@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 presentation focuses on the issue of unsheltered homelessness and is meant to engage, educate and connect the board and agency staff with efforts to Prevent and End Homelessness.

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 Hunger and Homelessness Event Background and Overview
- Presentation Agenda

Background

[National Hunger & Homelessness Awareness Week](#) is held each year the week before Thanksgiving. This is a time for us all to start to think about what we are thankful for, a perfect time to share our compassion with our neighbors who are experiencing homelessness, and work toward a world where no one has to experience Hunger and Homelessness. More than 700 community organizations, churches, high schools, college groups, and others will participate in Hunger and Homelessness Awareness Week this year.

Our Proposal

Each year, Minnesota Housing plans and organizes various events to connect our staff and board members to these issues in our community. Because of the tie to the Plan to Prevent and End Homelessness, recent housing investments, and several initiatives (Housing Trust Fund (HTF) Rental Assistance for Highly Mobile Students Initiative and Homework Starts with Home), we are focusing on the issue of **unsheltered homelessness** this year.

We propose an event for National Hunger & Homelessness Week that engages, educates, and connects with our mission.

What: Supporting Those Who Served: Our Efforts to Prevent and End Homelessness for Unsheltered Populations.

- Tour to SafeZone – Drop-In Center for homeless youth.
- Present to Minnesota Housing Board and Staff
 - Hunger and Homelessness in the Twin Cities Metro Area - Presentation will consist of update on Hiawatha Encampment in Minneapolis.
 - Hunger and Homelessness in Greater Minnesota. Presentations by various agency and community presenters including Park Place (Bemidji/Center City) staff and/or residents.

Who: All Minnesota Housing Staff and Board Members

When: Thursday, November 15 – Tour 10 a.m. – 11 a.m. | Presentation 2 p.m. – 3 p.m.

Additional Efforts

In addition to the main event, we conducted and are also pursuing additional opportunities for staff to learn and to give back:

- Organized agency wide drive to collect cold weather wear and non-perishable food items. Donated items will go to both the MN Indian Women’s Resource Center (winter wear) and the Gichitwaa Kateri Catholic Church (food) to be delivered after November 15.
- Regular posts and videos on the intranet throughout the year about myths surrounding homelessness and our efforts (project examples, success stories, stats, etc.)
- Sandwich Project will be conducted in Spring of 2019.

**Lake Superior Room, Minnesota Housing
November 15, 2018**

2:00 Welcome and Opening

Mary Tingerthal, Commissioner

2:05 Urban Unsheltered Homeless Landscape

Cathy tenBroeke, State Director to Prevent and End Homelessness

2:20 Rural Unsheltered Homeless Landscape and a Rural Response Example

Rick Klun, Executive Director of Center City Housing

Linda Adams and Jane Barrett, Red Lake Reservation Housing Authority

Tim Flathers, Headwaters Regional Development Commission

2:55 Closing

Ryan Baumtrog, Assistant Commissioner, Policy and Community Development

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Item: 2018 Affordable Housing Plan and 2016-19 Strategic Plan: Fourth Quarter Progress Report

Staff Contact(s):

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

Request Type:

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

Summary of Request:

Staff has attached for your review the fourth quarter progress report for the 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: Fourth Quarter Progress Report

2018 Affordable Housing Plan and 2016-19 Strategic Plan

Fourth Quarter Progress Report

(October 1, 2017 – September 30, 2018)

November 8, 2018

Overview

In 2018, program activity and production generally aligned with our original forecasts. There were a few areas with substantial differences.

- For the 2018 AHP, we originally forecasted \$630 million of home mortgage lending and 3,663 mortgages. We reached \$829 million for the year and financed about 4,733 mortgages.
- Lending for single family home improvement was slow but should pick up in 2019 with recent program changes.
- With the state's low vacancy rate, we financed a lot of construction for new rental housing in 2018.
- The number of households receiving homelessness prevention assistance was lower than expected. With program administrators working with harder-to-serve clients and focusing on rapid-rehousing, the amount of assistance per client increased. As a result, the program served fewer clients with the limited funds.

Tables 1 through 3 present key program activity through all four quarters of the year and are followed by notes that provide details for each line item in the tables.

Table 4 shows changes to 2018 AHP funding levels.

**Table 1: Production (Units or Households with Funding Commitments) and Programmatic Measures
Quarter 4 of 2018 AHP (100% through AHP)**

	Original AHP Forecast	Actual Year-to-Date	Portion of AHP Forecast Completed
Single Family Production – Homes			
1. Home First Mortgages	3,663	4,773	130%
2. Other Homeownership Opportunities*	277	269	90%
3. <u>Owner-Occupied Home Improvement/Rehabilitation</u>	<u>1,362</u>	<u>1,076</u>	<u>80%</u>
4. Total	5,302	6,109	115%
Homebuyer Education, Counseling and Training - Households			
5. Homebuyer Education*	16,706	20,708	123%
Multifamily Production – Rental Units			
6. New Rental Construction	997	1,346	135%
7. Rental Rehabilitation	3,076	3,461	113%
8. <u>Asset Management</u>	<u>364</u>	<u>105</u>	<u>29%</u>
9. Total	4,437	4,912	111%
Rental Assistance and Operating Subsidies - Households			
10. State Funded Rental Assistance*	2,915	2,619	90%
11. Operating Subsidies*	1,501	1,500	100%
12. <u>Section 8 Contracts</u>	<u>30,300</u>	<u>28,075</u>	<u>93%</u>
13. Total	34,716	32,194	93%
Homeless Prevention			
14. Family Homeless Prevention and Assistance Program (FHPAP)* & Housing Opportunities for Persons with AIDS (HOPWA)	7,299	5,502	75%
Build Sustainable Housing			
15. Percentage of New Construction or Rehabilitation Units that Meet Standard of Green Communities Certification or B3:			
a. Single Family	50%	48%	**
b. Multifamily	95%	77%	**
Increase Homeownership for Households of Color			
16. Percentage of First-Time Homebuyer Mortgages Going to Households of Color or Hispanic Ethnicity	35.0%	34.4%	**

* 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 4 of 2018 AHP (100% 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	116%

**Table 3: Management of Loan Assets
Quarter 4 of 2018 AHP (100% through AHP)**

	AHP Benchmark	Actual
18. Share of Home Mortgages Purchased in Previous 24 Months that are 30+ Days Past Due or In Foreclosure (9/30/18)	3.52%*	3.33%**
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%	2.5%

* 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 was very strong. We originally forecasted financing 3,663 mortgages with \$630 million of funding, and we reached 4,773 mortgages and \$829 million.
- **Line 2:** Overall, activity under other homeownership opportunities performed as expected, achieving 90% of the production forecast. New development and acquisition/rehabilitation through the Community Homeownership Impact Fund, the primary program under this activity, had a strong year, achieving 120% of the production forecast. The Habitat for Humanity Initiative, the other program in this area, had no new activity in 2018. During the year, we switched 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 was slower than expected, reaching 80% of the production forecast. Strong owner-occupied rehabilitation under the Impact Fund partially offset slow lending under the Rehabilitation Loan and Fix-Up Fund programs, which just reached 62% and 81% of the year-end forecast. During 2018, we refined the Rehabilitation Loan and Fix-Up Fund 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 performed better than expected. With very strong home mortgage lending, we exceeded the year-end forecast.
- **Line 5:** For homebuyer education, we have reached 123% of the year-end forecast.
- **Line 6:** Rental new construction added more units than expected, reaching 135% of the production forecast. With low vacancy rates, development activity focused on new construction.
- **Line 7:** Rental rehabilitation reached 113% of the year-end forecast. Strong activity under the Publicly Owned Housing Program (POHP) accounted for a large share of the additional units. While

we expected to rehabilitate about 1,504 units through POHP, we ended up funding the rehabilitation of nearly 2,162.

- **Line 8:** While activity under the Asset Management program has picked up, we fell short of 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 performed well.
- **Line 10:** The number of households assisted by our rent assistance programs (Bridges and Housing Trust Fund) reached 90% of the year-end forecast. In a very tight rental market, some voucher holders are having a difficult time finding housing that will take vouchers, reducing their use. In addition, we are still in the process of launching a new rent assistance pilot for students experiencing homelessness called Homework Starts with Home. The original forecast assumed all those vouchers would be in place by the end of the year.
- **Line 11:** Operating subsidies are performing as expected.
- **Line 12:** The number of rental units assisted by Minnesota Housing declined in 2018. For budget reasons, HUD has taken over the administration of 24 Section 8 properties. These units will continue to receive rental assistance, but not through Minnesota Housing.
- **Line 13:** Overall, rent assistance and operating subsidy activity (federal and state) is performing generally as expected.
- **Line 14:** Homeless prevention activity is below the year year-end forecast. With program administrators working with harder-to-serve clients and focusing on rapid-rehousing, the amount of assistance per client has increased. As a result, the program serves fewer clients 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 fourth quarter, we are almost meeting our goal of 35% of first-time homebuyer mortgages going to households of color.
- **Line 17:** We committed 116% of the funds originally budgeted in the 2018 AHP. Higher than expected mortgage lending accounted for the increase.
- **Line 18:** Our 30+ day delinquency rate for home mortgages purchased in the last 24 months (including loans in foreclosure) was 3.33% in September 2018, which is better than our “peer” benchmark of 3.52%. 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 the multifamily watch list.

Changes to 2018 AHP Funding Levels

Table 4 shows changes to 2018 AHP funding levels by program. Generally, the changes are small, reflecting revisions to our estimates of loan repayments and uncommitted funds carrying forward from the previous year; however, there are two exceptions.

- \$180 million was added to Home Mortgage Loans (Line 1 of Table 4)
- \$20 million was added to Multifamily First Mortgages (Line 10 of Table 4)

Prior to May 2018, if staff needed to increase funding for programs financed with mortgage capital or Pool 2 by more than 10%, they had to receive an amendment to the Affordable Housing Plan (AHP) from the Board. With the revisions to the delegated authority that the Board approved on May 24, 2018, staff now has the authority to increase “funding levels using other mortgage capital or Pool 2 resources to support higher than forecasted production if there are sufficient resources to do so.”

Through an amendment to the AHP that the Board adopted before May, staff increased Home Mortgage funding by \$150 million, while staff added another \$60 million to the program after May, using the new delegated authority. Staff also added \$20 million to the Multifamily First Mortgage program after May.

Table 4: Funding Changes to the 2018 Affordable Housing Plan

		Original 2018 Budget	Delegated Changes	Board Amendments	Revised 2018 Budget
Homebuyer Financing and Home Refinancing					
1	Home Mortgage Loans	\$630,000,000	\$60,000,000	\$150,000,000	\$840,000,000
2	Mortgage Credit Certificates (MCC)	\$1,000,000			\$1,000,000
3	Deferred Payment Loans	\$18,500,000	\$298,452	\$5,500,000	\$24,298,452
4	Monthly Payment Loans	\$11,000,000	\$1,000,000	\$3,500,000	\$15,500,000
5	Habitat for Humanity Initiative	\$2,500,000			\$2,500,000
Homebuyer/Owner Education and Counseling					
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
Home Improvement Lending					
8	Home Improvement Loan Program	\$15,300,000			\$15,300,000
9	Rehabilitation Loan Program (RLP)	\$9,494,000			\$9,494,000
Rental Production- New Construction and Rehabilitation					
10	Multifamily First Mortgages - LMIR and MAP	\$70,000,000	\$20,000,000		\$90,000,000
11	Flexible Financing for Capital Costs (FFCC)	\$0	\$1,885,849		\$1,885,849
12	Multifamily Flexible Capital Account	\$8,500,000	-\$2,520,162	-\$4,000,000	\$1,979,838
13	Low-Income Housing Tax Credits (LIHTC)	\$9,598,835	\$1,472,001		\$11,070,836
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
Rental Assistance Contract Administration					
20	Section 8 - Performance Based Contract Administration	\$138,500,000	\$4,500,000		\$143,000,000
21	Section 8 - Traditional Contract Administration	\$51,055,000	-\$5,957,000		\$45,098,000
Housing Stability for Vulnerable Populations					
22	Housing Trust Fund (HTF)	\$17,671,234	\$471,132		\$18,142,366
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
Rental Portfolio Management					
27	Asset Management	\$2,482,043	\$634,313		\$3,116,356
Multiple Use Resources					
28	Economic Dev. and Housing/Challenge (EDHC) - Regular	\$20,653,959	\$1,741,843		\$22,395,802
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
Other					
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
TOTAL		\$1,126,984,065	\$90,965,004	\$153,500,000	\$1,371,449,070

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Item: Post-Sale Report, Homeownership Finance Bonds (HFB) 2018 GH

Staff Contact(s):

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

Request Type:

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

Summary of Request:

The Agency sold \$63,567,192 of Homeownership Finance Bonds on October 17, 2018 with a closing on October 30, 2018. In accordance with the Debt and Balance Sheet Management Policy the attached detailed post-sale report is provided by the Agency's financial advisor, CSG Advisors.

Fiscal Impact:

None.

Meeting Agency Priorities:

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

Attachment(s):

Post-Sale Report

Via Email Delivery

MEMORANDUM

Date: October 30, 2018

To: Minnesota Housing Finance Agency

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

Re: Post-Sale Report
\$63,567,192 Homeownership Finance Bonds (HFB)
2018 Series G (Non-AMT) and H (Taxable)

BOND CRITERIA

The 2018 Series G & H Homeownership Finance Bonds were issued to finance single-family new production. The key criteria for issuing the debt were:

Avoid major interest rate risk by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues.

Maintain high ratings on all Minnesota Housing single-family bonds, with Series G & H rated Aaa.

Enhance Minnesota Housing's long-term financial sustainability through a mix of bond financing and sales of MBS, to provide more financially sustainable results for Minnesota Housing.

Provide at least a comparable expected level of return to selling MBS, at reasonably anticipated prepayment speeds.

Use bond volume cap as efficiently and sparingly as possible, so that the Agency can continue both its single-family and multi-family programs even though volume cap has become an increasingly scarce resource.

KEY RESULTS FOR MINNESOTA HOUSING

Key Measurable Objectives. Minnesota Housing's objectives for each issue reflect its overall goal: How can the Agency maintain a long-term sustainable program that continues to finance production on the balance sheet so long as this is the best execution for the Agency.

Minnesota Housing therefore seeks to make sure that it:

Obtains a present value return for Minnesota Housing at least similar to selling the same MBS in the secondary market, assuming a reasonable prepayment speed.

Obtains approximately 1.125% spread on the overall issue (the maximum the IRS would allow if the issue were all tax-exempt).

Balances the amount of (a) new volume cap needed in financing such production and (b) the amount of zero participations required, so that the Agency can continue its program in future years.

Where possible, in addition to looking to long-term returns under 1 and 2, uses opportunities to balance the impact of hedge gains and losses across transactions on Agency current year income.

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

Leveraging Limited Volume Cap. The issue was structured so that Minnesota Housing could finance \$63.567 million of new mortgages on balance sheet *with \$0.771 million of volume cap, or 1.2% of the total issue.* To achieve this result, Minnesota Housing sold half the total issue, \$31.784 million, as taxable bonds in Series H, and recycled \$31.012 million of private activity bond authority from past issues in Series G.

To date in 2018, Minnesota Housing has financed \$425 million of new single-family mortgages, using \$106 million of volume cap—a leveraging ratio of 4 to 1.

Being able to do this, however, requires zero participations. These zero participations are generated by RHFB bond issues that help refund past bond issues at lower rates and create these subsidies. The dollar amount of refunding opportunities is lower in 2018 and 2019 than in past years. This is because old bonds can be refunded approximately 10 years after original issuance, and Minnesota Housing issued fewer bonds in 2008 and 2009 during the financial crisis.

Full Spread. On the overall issue, Minnesota Housing obtained a spread of about 1.09%, close to what the IRS would allow as full spread on an all-tax-exempt issue.¹

Attractive Bond Yield. The bond rate was 3.75% on tax-exempt Series G and 4.10% on taxable Series H.

Return to Minnesota Housing. The relative benefits to Minnesota Housing from issuing the bonds depend on how long the mortgages remain outstanding, on average.

The break-even prepayment speed² compared to selling the loans was 200%. This is far higher than the actual average prepayment speeds on similar loans in this indenture, and suggests the benefits of putting this production on the balance sheet rather than selling it.³ The result is that, at expected prepayment speeds, Minnesota Housing will earn more from issuing 2018 G & H than from having directly sold the MBS.

The net present value to Minnesota Housing (after net service release premiums) is projected to be approximately \$1.7 million at 150% PSA prepayment speed.

Zero Participations. The issue required \$1.5 million of zero participations. Going forward, Minnesota Housing has approximately \$25.7 million of zeros for future transactions.

The Agency made two choices that affected how many zero participations were used:

Level of overall spread. The Agency could have received even higher total spread, but this would have required using \$4.5 million more of zeros to earn that higher spread.

Impact of taxable bonds. If the entire transaction had been tax-exempt, Minnesota Housing would have had \$2 million less of zeros for the future—but would have required \$32.5 million of volume cap instead of less than \$1 million. It is important to balance two competing needs: to stretch out the supply of available zeros while minimizing the use of available bond cap.

¹ Minnesota Housing could have achieved even higher total spread, by receiving the full 1.125% on tax-exempt Series E while still receiving 1.771 % on taxable Series H, for a blended average of 1.45%. This would have required \$4.5 million more of zero participations than was actually needed, however.

² The break-even speed measures how fast mortgages can prepay while still assuring Minnesota Housing at least the same present value as an MBS sale.

³ The average prepayment speed on all securities in the HFB indenture since inception is calculated at 129%.

	Actual	No Taxable Bonds	Actual with Higher Spread
Taxable %	50%	0%	50%
Volume cap required	\$0.771 million	\$32.555 million	\$0.771 million
Ave. Spread	1.09%	1.125%	1.45%
Net impact on Agency's Zero Participations	- 1.5 million	+ 0.5 million	-6.0 million

Hedging. The loan production pipeline remained fully hedged until bonds were sold. Minnesota Housing received hedge gains of \$568,000 that were included in bond yield.

Investor Demand. Investor demand was modest. There were \$23 million of initial going away orders investors on tax-exempt Series G and \$6 million of going away orders from 1 investor for taxable series H. Both series were increased in yield by 5 basis points.

Implications. Key implications include:

Pass-Through Approach. Minnesota Housing used pass-through issues since June 2014, to help finance production on-balance sheet. The agency has been the national leader. In recent months, the financial benefit from pass-throughs compared to traditionally structured bonds has eroded. While outreach efforts are being made to attract more taxable investors, there has been less demand for taxable pass-through bonds.

Balance Sheet Management. Minnesota Housing, in recent years, has been able to finance all tax-exempt eligible production as the best execution return to the Agency.

Volume Cap. Minnesota Housing's single-family production together with demand for multi-family issuance in the State remains so great that *private activity volume cap is a major constraint* on tax-exempt issuance. To help address this:

The Agency is actively utilizing taxable bonds. On this issue, half the debt was taxable.

Has renewed its credit facility with RBC to recycle past private activity volume cap when old bonds are redeemed (whether on a monthly or semi-annual basis). On this issue almost all the tax-exempt debt used recycled volume cap.

TIMING AND STRUCTURE

Timing. The issue was priced on Wednesday, October 17th, for closing on Tuesday, October 30th.

Sizing. The sizing was based on a portion of the specific hedged MBS in Minnesota Housing's pipeline, with remaining production to be financed under the Residential Housing Finance Bond indenture in late November.

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

Continue to include a 10-year par call at Minnesota Housing's option, so that the Agency can potentially take advantage of interest rates in the future to either refund the bonds or sell the MBS and pay off the bonds.

Include Ginnie Mae, Fannie Mae and Freddie Mac MBS in the issue, with no percentage limit on any category. This provides Minnesota Housing the ability to adjust to the actual mix of loans in its pipeline. The MBS financed were approximately 57% Ginnie Mae, 42% Fannie Mae and 1% Freddie Mac.

Finance a substantial portion of the issue as taxable bonds.

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

Hedging. Minnesota Housing has remained fully hedged on its pipeline until bonds were sold. This protects the Agency from risk if interest rates rise between the time the loans are committed and when they are packaged into MBS and either the corresponding bonds are sold or the MBS are sold via TBA. The purpose of this strategy is to help make the Agency largely indifferent to changes in rates.

BOND SALE RESULTS. Key highlights are:

Investor Interest for Series 2018 G & H. There was modest institutional interest for the issue, with less support for the taxable series (as happened on 2018 F when the taxable portion was reduced from 65% to half of the issue).

Timing. The 10-year Treasury started the year at 2.46%, almost the same as it began 2017, and increased significantly and steadily through February. It was 2.83% both when Minnesota's HFB Series 2018 AB priced on February 13, and when 2018 CD was priced on April 12. Rates rose gradually to as high as 3.11% on May 17th when investor concerns about a trade war between the U.S. and China led to a flight to quality. The 10-year yield was 2.93% on June 7 when RHFB ABC was priced, and was 2.87% when E&F was priced on August 16th.

Rates rose significantly in September and early October reaching a high of 3.23% on Oct. 5. Positive domestic growth, including increased GNP and unemployment at the lowest level since 1969, have spurred rising rates. With inflation now close to the Federal Reserve's minimum target of 2%, and the fiscal stimulus of spiraling Federal deficits, the Federal Reserve is expected to continue its tightening program into 2019. On the date of the sale, the 10 year Treasury rose from 3.16% to 3.19%. This was 32 basis points higher than on E&F.

The yield curve has flattened out dramatically this year. The difference in yield between 10- and 30-year Treasuries was only 16 basis points at pricing, compared to 59 basis points at the beginning of 2017. The difference between the 1-year and 30-year yield was 70 basis points at pricing, compared with 215 basis points at the beginning of 2017. The Federal Reserve's steady program of raising short-term rates has had virtually no impact on 30-year yields—largely due to international uncertainty, including American-initiated trade proposals, and little sign of inflation.

Sale. The issue was repriced up by 5 basis points.

Comparison to GNMA Yields. Investors compare yields on pass-through issues to current-coupon GNMA's, as well as Treasuries and municipals. Compared to GNMA's, Minnesota bonds provide much less liquidity in the global markets but do offer tax-exemption. On this transaction, the spreads were 7 basis points tighter than on Series E&F (and the same as on Series C&D).

	2017 E/F May '17	2017 G/H Sept. '17	2017 I/J Nov. '17	2018 A/B Feb. '18	2018 C/D Apr. '18	2018 E/F Aug. '18	2018 G/H Oct. '18
Minn. Housing bond yield							
Tax-Exempt	2.85%	2.65%	2.80%	3.30%	3.30%	3.45%	3.75%
Taxable	3.20%	3.00%	3.10%	3.65%	3.65%	3.80%	4.10%
Yield on GNMA I, 3.0 current coupon, at dealer prepay speed	2.86%	2.67%	2.80%	3.32%	3.27%	3.35%	3.72%
Minn. Housing v. GNMA							
Tax-exempt	-1 bp	-2 bp	0 bp	-2 bp	+3 bp	+10 bp	+3 bp
Taxable	+34 bp	+33 bp	+30 bp	+33 bp	+38 bp	+45 bp	+38 bp

Comparable Tax-Exempt Pass-Through Transactions: Aside from Minnesota, the other new money single-family tax-exempt pass-through issues this year have been for Colorado. The Colorado issues have been sold at a premium in order to raise funds for downpayment assistance. In February, RBC priced Colorado on the same day as Minnesota A & B. In October, RBC priced Colorado's premium issue the day after Minnesota G&H. Minnesota G&H priced at a tighter spread to the 10 year Treasury, MMD and GNMA indices than Colorado.

	Colorado Tax-Exempt 2018 AA	Minnesota Tax-Exempt 2018 A	Minnesota Tax-Exempt 2018 C	Minnesota Tax-Exempt 2018 E	Minnesota Tax-Exempt 2018 G	Colorado Tax-Exempt 2018 BB-1
Size	\$73.1 m.	\$38.2 m.	\$30.3 m.	\$47.8 m.	\$31.8 m.	\$46.7 m.
Rating	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa
Pricing Date	2/13/18	2/13/18	4/12/18	8/16/18	10/17/18	10/18/18
Price	102.978 Premium	Par	Par	Par	Par	102.935 Premium
Ave. Life at 150% PSA	8.3 years	8.7 years	8.7 years	8.9 years	8.8 years	8.4 years
Yield	3.30% 125% PSA	3.30%	3.30%	3.45%	3.75%	3.80% 125% PSA
Spread to 10yr US Treas.	+47 bp	+47 bp	+47 bp	+58 bp	+56 bp	+64 bp
Spread to 10yr MMD	+88 bp	+88 bp	+90 bp	+102 bp	+103 bp	+107 bp
Spread to 3% GNMA (at Dealer Prepay Speed)	-0 bp	-2 bp	-2 bp	+10 bp	+3 bp	+9 bp
Spread Taxable to Tax- Exempt Series	+30 bp	n.a.	+35 bp	+35 bp	+35 bp	+25 bp
Underwriter	RBC	RBC	RBC	RBC	RBC	RBC

Comparable Taxable Pass-Through Transactions: Aside from Minnesota, the only other new money single-family taxable pass-through issues have been Colorado, which was sold at a premium, and Utah, which was overcollateralized with a significantly shorter average life and purchased by a bank for CRA credit. A single local bank put in for all of Colorado's taxable bonds. As a result, Colorado's yield was about 5 basis points tighter than Minnesota's.

	Minnesota Taxable 2018 B	Minnesota Taxable 2018 D	Utah Taxable 2018 A	Minnesota Taxable 2018 F	Minnesota Taxable 2018 G	Colorado Taxable 2018 BB-2
Size	\$38.2 m.	\$20.2 m.	\$17.9 m.	\$52.6 m.	\$31.8 m.	\$42.7 m.
Type	New money	New money	New money	New Money	New Money	New Money
Rating	Aaa	Aaa	Aa3	Aaa	Aaa	Aaa
Pricing Date	2/13/18	4/12/18	6/20/18	8/16/18	10/17/18	10/18/18
Price	Par	Par	Par	Par	Par	103.214 premium
Ave. Life at 150% PSA	8.7 years	8.7 years	6.5 years	8.9 years	8.8 years	8.3 years
Yield	3.65%	3.65%	3.45%	3.80%	4.10%	4.05% 125% PSA
Spread to 10yr US Treas.	+82 bp	+82 bp	+52 bp	+93 bp	+91 bp	+89 bp
Spread to 10yr MMD	+123 bp	+125 bp	+98 bp	+137 bp	+138 bp	+132 bp
Spread to 3% GNMA (at Dealer Prepay Speed)	+33 bp	+38 bp	+3 bp	+45 bp	+38 bp	+34 bp
Underwriter	RBC	RBC	Zions	RBC	RBC	RBC

Spread to Minnesota Housing. While the spreads to Treasury and MMD were similar to Series F, the spread to GNMA was 7 basis points tighter than on Series F. What may be most important is how Minnesota's borrowing costs compare with its lending. As mortgage rates rise, Minnesota Housing has needed fewer zero participations to achieve full spread on its transactions.

UNDERWRITING

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

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

ISSUE DETAILS

Key Dates: 2018 G & H Bond Pricing HFB Indenture

Institutional Order Period: Wed, Oct. 17, 2018

Closing Date: Tues., Oct. 30, 2018

Economic Calendar. Economic growth indicators continued to be strong in the period leading up to the sale. On the Tuesday before the sale, the Job Openings Labor Turnover (JOLTS) figure came in significantly higher than expected, with unemployment dropping from 6.234 million to 5.964 million. The labor market remains the key strength of the economy, with near-record low unemployment. Fed Reserve chairman Powell continued to express surprise that wages have not gone up significantly.

On the day of the sale, the Federal Reserve Open Market Committee minutes were released, indicating that more members were leaning toward more rate hikes in the future. Yields increased as a result of the release of the minutes.

Treasuries. The 10 year Treasury yield had risen above 3% in mid-May, but then dropped into the 2.90s with the trade war with China. It rose to 3% again on August 1st, but the drop in the Turkish lira again led to a flight to quality. With the focus on domestic economic news in September and October, the 10 year reached 3.19% on the date of sale.

Municipals. While municipal bond yields generally closely track the movements in Treasury yields, the relationship has been distorted by high profile municipal credit events (Puerto Rico's problems, most recently) and international investment flows, as well as supply and demand for municipal bonds. In the summer, as international economic news regarding China and Turkey led to a flight to quality and rallied Treasuries, there was less of an improvement in municipals. Since the sale of E&F, municipals have generally tracked Treasuries.

Issue	Date	10-Year Treasury	10-Year MMD	MMD/ Treasury Ratio
2017 HFB A/B	2/9/17	2.40%	2.28%	95.0%
2017 HFB C/D	3/13/17	2.62%	2.49%	95.0%
2017 HFB E/F	5/20/17	2.41%	2.17%	90.0%
2017 RHFB ABC	6/20/17	2.16%	1.86%	86.1%
2017 HFB G/H	9/12/17	2.17%	1.86%	85.7%
2017 HFB I/J	11/9/17	2.33%	1.93%	82.8%
2017 RHFB DEF	12/4/17	2.37%	2.05%	86.5%
2018 HFB A/B	2/13/18	2.83%	2.42%	85.5%
2018 HFB C/D	4/12/18	2.83%	2.40%	84.8%
2018 RHFB ABC	6/7/18	2.93%	2.47%	84.0%
2018 HFB EF	8/16/18	2.87%	2.43%	84.7%
2018 HFB GH	10/17/18	3.19%	2.72%	85.3%
Change from E/F		+32 bp	+29 bp	+0.6%

Municipal Calendar. The visible supply for the week was \$10 billion, among the busier weeks of the year. The largest negotiated issues were \$1.2 billion for New York City, \$850 million for Connecticut G.O.'s and \$717 million for Essentia Health Care. Minneapolis sold \$113 million in G.O. bonds. Minnesota's and Colorado's were the two state HFA single-family transactions for the week.

MBS Yields. MBS yields are very relevant because investors can choose between purchasing MBS directly or buying Minnesota Housing's bonds backed by MBS. Bond purchasers look as much to the spread between Minnesota Housing's bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries or MMD. GNMA's rose 8 basis points since Series C & D (while 10 year Treasury rates rose 4 basis points and MMD rose 3 bp). Minnesota's tax-exempt and taxable yields increased by 15 basis points.

Type	Delivery	Coupon	Measure	May 10, 2017	Sept. 12, 2017	Nov. 9, 2017	Feb. 13, 2018	Apr. 12, 2018	Aug. 16, 2018	Oct. 17, 2018
GNMA	Current	3.0	Price	100.89	101.92	101.17	97.98	98.33	97.92	95.70
			Yield*	2.86%	2.67%	2.80%	3.32%	3.27%	3.35%	3.72%
			Dealer Forecast % PSA	160%	184%	175%	153%	153%	149%	146%
FNMA	Current	3.5	Price	102.33	103.55	102.89	100.02	98.92	99.39	97.58
			Yield*	3.11%	2.77%	2.96%	3.49%	3.50%	3.58%	3.82%
			Dealer Forecast % PSA	178%	244%	211%	146%	129%	126%	117%
10yr US Treas.	n/a	n/a	Yield	2.41%	2.17%	2.33%	2.83%	2.83%	2.87%	3.19%
10yr MMD	n/a	n/a	Yield	2.17%	1.86%	1.93%	2.42%	2.40%	2.43%	2.72%
GNMA to 10-Year Treasury	n/a	n/a	Yield*	118.7%	123.0%	120.2%	117.3%	115.5%	116.7%	116.6%
GNMA to 10-Year MMD	n/a	n/a	Yield*	131.8%	143.5%	145.1%	137.2%	136.3%	137.9%	136.8%
Minnesota Housing	Tax-exempt			2.85%	2.65%	2.80%	3.30%	3.30%	3.45%	3.75%
	Taxable			3.20%	3.00%	3.10%	3.65%	3.65%	3.80%	4.10%

* Yield at dealer forecast prepayment speed

TAX-EXEMPT SINGLE FAMILY HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS PLUS EARLIER MHFA

Pricing Date	10/17/18	10/18/18	8/16/18	4/12/18	2/13/18
Amount	\$31,783,596	\$46,739,335	\$47,757,180	\$30,326,457	\$73,115,747
Issuer	Minnesota HFA	Colorado HFA	Minnesota HFA	Minnesota HFA	Colorado HFA
Series	2018 Series G	Series 2018BB-1	2018 Series E	2018 Series C	Series 2018AA
Program	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -
Tax Status	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT	Tax Exempt, Non-AMT
Use of Funds	New Money	New Money	New Money	New Money	New Money
Maturity	2048	2048	2048	2048	2048
Price	100.000	102.935	100.000	100.000	102.978
Coupon/Yield	3.750	4.20C/3.80Y at 125% PSA	3.450	3.300	3.70C/3.30Y at 125% PSA
Indicator	Indicative Yield 10/17/18 Spread	Indicative Yield 10/18/18 Spread	Indicative Yield 8/16/18 Spread	Indicative Yield 4/12/18 Spread	Indicative Yield 2/13/18 Spread
5-Year US Treasury	3.04	3.02	2.75	2.67	2.54
7-Year US Treasury	+71	+78	+70	+63	+76
10-Year US Treasury	+62	+70	+63	+52	+56
3% GNMA I @ 100% PSA	3.13	3.10	2.82	2.78	2.74
3% GNMA I @ Dir Forecast	3.19	3.16	2.87	2.83	2.83
9-Year MMD	+56	+64	+58	+47	+47
10-Year MMD	+14	+20	+16	+8	+3
MBS PREPAY HISTORY (%PSA)	3.72 (146%)	3.71 (148%)	3.35 (149%)	3.27 (153%)	3.32 (153%)
Past 3 months	+3	+9	+10	+3	-2
Past 6 months	2.64	2.65	2.37	2.35	2.35
Past 12 months	+111	+115	+108	+95	+95
Since issuance	+103	+107	+102	+90	+88
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	10.9	10.6	11.0	10.7	10.4
At 150% PSA	8.8	8.4	8.9	8.7	8.3
At 200% PSA	7.3	7.0	7.4	7.2	6.8
At 300% PSA	5.5	5.1	5.5	5.4	5.1
WEIGHTED AVERAGE MORTGAGE RATE	5.07%	5.12%	5.12%	4.33%	4.55%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.50%	4.50%	4.39%	3.67%	4.00%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	357	358	358	357	357
Notes					
Sr Manager	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets

TAX-EXEMPT SINGLE FAMILY HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS PLUS EARLIER MHFA

Pricing Date	3/13/17	2/9/17	10/20/16	9/12/16	7/14/16
Amount	\$23,903,940	\$24,966,329	\$20,445,117	\$35,494,509	\$35,389,598
Issuer	Minnesota HFA				
Series	2017 Series C	2017 Series A	2016 Series G	2016 Series E	2016 Series C
Program	Single Family / Negotiated				
Rating(s)	Aaa / - / -				
Tax Status	Tax Exempt, Non-AMT				
Use of Funds	New Money				
Maturity	2047	2047	2046	2046	2046
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	3.080	2.930	2.300	2.350	2.330
Indicator	Indicative Yield				
5-Year US Treasury	2.14	1.88	1.26	1.21	1.10
7-Year US Treasury	2.43	2.20	1.55	1.50	1.36
10-Year US Treasury	2.62	2.40	1.76	1.68	1.53
3% GNMA I @ 100% PSA	3.10	2.86	2.46	2.47	2.45
3% GNMA I @ Dir Forecast	3.12 (159%)	2.82 (160%)	2.16 (224%)	2.16 (230%)	2.08 (252%)
9-Year MMD	2.39	2.18	1.61	1.43	1.32
10-Year MMD	2.49	2.28	1.72	1.52	1.41
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	-	-	-
Past 6 months	-	-	-	-	-
Past 12 months	-	-	-	-	-
Since issuance	-	-	-	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	10.5	10.4	10.5	10.6	10.6
At 150% PSA	8.5	8.5	8.5	8.6	8.6
At 200% PSA	7.1	7.1	7.1	7.2	7.2
At 300% PSA	5.3	5.2	5.3	5.4	5.4
WEIGHTED AVERAGE MORTGAGE RATE	3.79%	3.84%	3.67%	3.81%	3.85%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	3.30%	3.20%	3.10%	3.22%	3.23%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	356	355	357	358	357
Notes					
Sr Manager	RBC Capital Markets				

TAXABLE HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS PLUS EARLIER MHFA

Pricing Date	10/17/18	10/18/18	9/18/18	9/11/18	8/16/18
Amount	\$31,783,596	\$42,739,335	\$11,190,000	\$43,331,546	\$52,573,028
Issuer	Minnesota HFA	Colorado HFA	Louisiana HC	Ohio HFA	Minnesota HFA
Series	2018 Series H	Series 2018BB-2	Series 2018A-2	2018 Series B	2018 Series F
Program	Single Family / Negotiated				
Rating(s)	Aaa / - / -				
Tax Status	Taxable	Taxable	Taxable	Taxable	Taxable
Use of Funds	New Money	New Money	Refunding	Refunding	New Money
Maturity	2048	2048	2040	2040	2048
Price	100.000	103.214	100.000	100.000	100.000
Coupon/Yield	4.100	4.50C/4.05Y at 125% PSA	3.700	3.700	3.800
Indicator	Indicative Yield 10/17/18	Indicative Yield 10/18/18	Indicative Yield 9/18/18	Indicative Yield 9/11/18	Indicative Yield 8/16/18
5-Year US Treasury	3.04	3.02	2.94	2.87	2.75
7-Year US Treasury	3.13	3.10	3.01	2.94	2.82
10-Year US Treasury	3.19	3.16	3.05	2.98	2.87
3% GNMA I @ 100% PSA	3.61	3.60	3.46	3.38	3.29
3% GNMA I @ Dir Forecast	3.72 (146%)	3.71 (148%)	3.55 (146%)	3.46 (150%)	3.35 (149%)
9-Year MMD	2.64	2.65	2.51	2.46	2.37
10-Year MMD	2.72	2.73	2.58	2.52	2.43
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	245%	128%	-
Past 6 months	-	-	281%	121%	-
Past 12 months	-	-	242%	166%	-
Since issuance	-	-	264%	259%	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	10.9	10.4	8.0	7.8	11.0
At 150% PSA	8.8	8.3	6.6	-	8.9
At 200% PSA	7.4	6.8	5.6	5.6	7.4
At 300% PSA	5.5	5.0	4.0	4.2	5.5
WEIGHTED AVERAGE MORTGAGE RATE	5.07%	5.12%	6.56%	5.98%	5.12%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	4.50%	4.50%	6.06%	5.48%	4.39%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	357	358	243	235	358
Notes					
Sr Manager	RBC Capital Markets	RBC Capital Markets	Raymond James	J.P. Morgan	RBC Capital Markets

TAXABLE HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS PLUS EARLIER MHFA

Pricing Date	6/28/18	6/20/18	4/12/18	2/13/18	11/9/17
Amount	\$20,630,000	\$17,850,000	\$20,217,638	\$38,247,494	\$46,158,962
Issuer	Delaware SHA	Utah HC	Minnesota HFA	Minnesota HFA	Minnesota HFA
Series	2018 Series A	2018 Series A	2018 Series D	2018 Series B	2017 Series J
Program	Single Family / Negotiated				
Rating(s)	Aa1 / - / -	Aa3 / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -
Tax Status	Refunding	Taxable	Taxable	Taxable	Taxable
Use of Funds	Use of Funds	New Money	New Money	New Money	New Money
Maturity	2048	2048	2048	2048	2047
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	3.480	3.450	3.650	3.650	3.100
Indicator	Indicative Yield 6/28/18 Spread	Indicative Yield 6/20/18 Spread	Indicative Yield 4/12/18 Spread	Indicative Yield 2/13/18 Spread	Indicative Yield 11/9/17 Spread
5-Year US Treasury	2.73 +75	2.80 +65	2.67 +98	2.54 +111	2.01 +109
7-Year US Treasury	2.81 +67	2.89 +56	2.78 +87	2.74 +91	2.20 +90
10-Year US Treasury	2.84 +64	2.93 +52	2.83 +82	2.83 +82	2.33 +77
3% GNMA I @ 100% PSA	3.30 +18	3.36 +9	3.22 +43	3.27 +38	2.85 +25
3% GNMA I @ Dir Forecast	3.35 (149%) +13	3.42 (147%) +3	3.27 (153%) +38	3.32 (153%) +33	2.80 (175%) +30
9-Year MMD	2.41 +107	2.41 +104	2.35 +130	2.35 +130	1.83 +127
10-Year MMD	2.46 +102	2.47 +98	2.40 +125	2.42 +123	1.93 +117
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	-	-	-
Past 6 months	-	-	-	-	-
Past 12 months	-	-	-	-	-
Since issuance	-	-	-	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	8.0	8.7	10.7	10.8	10.7
At 150% PSA	6.6	6.5	8.7	8.7	8.7
At 200% PSA	5.5	5.2	7.3	7.3	7.2
At 300% PSA	4.0	3.9	5.4	5.5	5.4
WEIGHTED AVERAGE MORTGAGE RATE	5.96%	-	4.33%	4.41%	4.14%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	5.46%	-	3.67%	3.62%	3.56%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	253	-	357	357	357
Notes					
Sr Manager	George K. Baum	Zions Bank	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets

TAXABLE HOUSING PASS-THROUGH BOND PRICING COMPARABLES, PAST 12 MONTHS PLUS EARLIER MHFA

Pricing Date	11/9/17	10/31/17	9/12/17	5/10/17	3/13/17
Amount	\$10,700,000	\$10,693,777	\$64,997,812	\$19,348,474	\$23,903,941
Issuer	Utah HC	Illinois HDA	Minnesota HFA	Minnesota HFA	Minnesota HFA
Series	2017 Series B	2017 Series B	2017 Series H	2017 Series F	2017 Series D
Program	Single Family / Negotiated	Multifamily / Negotiated	Single Family / Negotiated	Single Family / Negotiated	Single Family / Negotiated
Rating(s)	Aa3 / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -	Aaa / - / -
Tax Status	Taxable	Taxable	Taxable	Taxable	Taxable
Use of Funds	New Money	Refunding	New Money	New Money	New Money
Maturity	2048	2043	2047	2047	2047
Price	100.000	100.000	100.000	100.000	100.000
Coupon/Yield	2.690	3.210	3.000	3.200	3.430
Indicator	Indicative Yield 11/9/17	Indicative Yield 10/31/17	Indicative Yield 9/8/17	Indicative Yield 5/10/17	Indicative Yield 3/13/17
5-Year US Treasury	2.01	2.01	1.75	1.94	2.14
7-Year US Treasury	2.20	2.23	1.99	2.22	2.43
10-Year US Treasury	2.33	2.38	2.17	2.41	2.62
3% GNMA I @ 100% PSA	2.85	2.86	2.76	2.89	3.10
3% GNMA I @ Dir Forecast	2.80 (17.5%)	2.81 (17.5%)	2.67 (18.4%)	2.86 (16.0%)	3.12 (15.9%)
9-Year MMD	1.83	1.91	1.74	2.06	2.39
10-Year MMD	1.93	2.01	1.86	2.17	2.49
MBS PREPAY HISTORY (%PSA)					
Past 3 months	-	-	-	-	-
Past 6 months	-	-	-	-	-
Past 12 months	-	-	-	-	-
Since issuance	-	-	-	-	-
PROJECTED WEIGHTED AVERAGE LIFE (YEARS)					
At 100% PSA	8.7	-	10.7	10.7	10.5
At 150% PSA	6.6	-	8.7	8.7	8.6
At 200% PSA	5.3	-	7.2	7.3	7.2
At 300% PSA	4.0	-	5.4	5.5	5.3
WEIGHTED AVERAGE MORTGAGE RATE	-	5.80%	4.27%	4.23%	3.79%
MBS WEIGHTED AVERAGE PASSTHROUGH RATE	-	-	3.61%	3.61%	3.30%
WEIGHTED AVERAGE REMAINING TERM (MONTHS)	-	312	357	357	356
Notes		Projected weighted average life is 16.16 yrs at 0% CPR, 7.55 yrs at 10% CPR, 5.71 yrs at 15% CPR, and 4.60 yrs at 20% CPR ; priced at +120 to 5-year UST			
Sr Manager	Zions Bank	Jefferies	RBC Capital Markets	RBC Capital Markets	RBC Capital Markets