APPENDIX A-1: OVERVIEW OF FUNDING SOURCES

Our strong balance sheet and financial resources are a key strength. This Appendix describes each of our funding sources and outlines how we will use them in 2020 and 2021. Table 1 shows estimates of our planned program investments by funding source. Appendix A-2 is a crosswalk that shows how we will allocate resources from each source to each program.

TABLE 1: 2020-21 ESTIMATED PROGRAM INVESTMENTS BY FUNDING SOURCE

Program Category	2020-2021 AHP
Federal Resources	$428,268,000
State Appropriated Resources	$180,446,000
Mortgage Capital from Bond or Agency Resources (including Pool 2)	$2,370,250,000
Housing Affordability Fund (Pool 3)	$96,000,000
Total	**$3,074,964,000**

FUNDING SOURCE DESCRIPTIONS

Federal Resources: There are various types of federal resources, including appropriations to the U.S. Department of Housing and Urban Development (HUD) that are made available to Minnesota Housing and Low-Income Housing Tax Credits from the Internal Revenue Service (IRS). For planning purposes, we generally assume that 2020 and 2021 HUD appropriations will remain at 2019 levels, which is subject to change. The amount of federal housing tax credits is based on a per capita formula.

State Appropriated Resources: The amount of funding is based on the 2020-21 general fund budget adopted by the 2019 Minnesota Legislature. Unused funds from previous year appropriations and repayments of loans are also sources of funding.

Bond Resources and Other Mortgage Capital

- **State Capital Investments:** These funds have traditionally come from the state capital budget (bonding bill) and include General Obligation (GO) Bond and Housing Infrastructure Bond (HIB) proceeds. However, HIBs can be funded through the regular appropriations process, which occurred for the most recent funding.
- **Agency Bond Proceeds and Other Mortgage Capital:** Bond proceeds are generated by the issuance of tax-exempt, taxable, and recycled bonds. Certain tax-exempt bonding activity is limited statewide by IRS rules, which cap the amount of new issuance, making it a scarce resource. We can also sell mortgage-backed securities backed by loans originated under our program on the secondary market.

Agency Resources: We generate earnings from our lending and investment activities and reinvest them in wide variety of housing programs. Agency resources are currently categorized as follows:

- **Housing Investment Fund (Pool 2):** Most of our investment-earning assets are carried in the Housing Investment Fund, and most assets in Pool 2 produce revenue that supports our operations and programs. We can transfer Pool 2 earnings to Pool 3 only to the extent that we project that our aggregate net position will satisfy our Board policy and rating agency stress tests. The earning assets that use Pool 2 funds are required to be of investment grade quality. Accordingly, the planned allocation of Pool 2 funds in a given AHP is primarily determined by the expected market opportunities that meet those loan and investment quality considerations and the projected earnings and net asset requirements for the future.
- **Housing Affordability Fund (Pool 3):** Pool 3 resources come from: (1) transfers from Pool 2 that capture a portion of the Agency's earnings, and (2) repayments or prepayments from loans previously funded under Pool 3. Because Pool 3 has no earnings requirements, it is more flexible than Pool 2 and can be used for deferred loans and grants. However, Pool 3 is a more limited resource than Pool 2 because it is dependent on the transfer of earnings from Pool 2.

OUR STRONG FINANCIAL RESOURCES
ARE A KEY STRENGTH
AND HELP US SERVE MORE PEOPLE.