MINNESOTA HOUSING

## MEETINGS SCHEDULED FOR JANUARY

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

**THURSDAY, JANUARY 23, 2020**

**Regular Board Meeting**
1:00 p.m.

Lake Superior Conference Room- Fourth Floor

**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, January 23, 2020.

**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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MINNESOTA HOUSING

**400 Wabasha Street North, Suite 400**
**St. Paul, MN 55102**
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**Mission**

*Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.*

**Vision**

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

**AGENDA**
**Minnesota Housing Board Meeting**
**Thursday January 23, 2020**
**1:00 p.m.**

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. (page 5) Regular Meeting of December 19, 2019
5. **Reports**
   A. **Chair**
   B. **Commissioner**
   C. **Committee**
6. **Consent Agenda**
   A. (page 7) Modification to Community Homeownership Impact Fund (Impact Fund) Awards
   B. (page 13) Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
      - Connex Apartments, D8138, Saint Michael;
   C. (page 25) Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
      - Tower Terrace Townhomes, D0268, Cambridge;
   D. (page 35) Approval, Minnesota City Participation Program
   E. (page 45) Raising the limit for short-term borrowing contained in the Board Debt and Balance Sheet Management Policy from $250 million to $350 million
   F. (page 49) Joint Powers Agreement with the Metropolitan Council for Implementation of a Manufactured Home Park Preservation Pilot Equity Grant Project
7. **Action Items**
   None.
8. **Discussion Items**
   A. (page 51) 2020 Capital Budget Recommendation
9. **Information Items**
   A. (page 53) Post-sale report, Homeownership Finance Bonds (HFB), 2019 Series H
10. **Other Business**
    None.
11. **Adjournment**

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**DRAFT Minutes**
**Minnesota Housing Board Meeting**
**Thursday December 19, 2019**
**1:00 p.m.**

1. **Call to Order.**
   Chair DeCramer called to order the regular meeting of the Board of Minnesota Housing Finance Agency at 1:03 p.m.
2. **Roll Call.**
   **Members Present:** Terri Thao, Stephanie Klinzing, John DeCramer, Craig Klausing and Julie Blaha.
   **Minnesota Housing Staff present:** Tal Anderson, Ryan Baumtrog, Jessica Deegan, Matthew Dieveney, Rachel Franco, Darryl Henchen, Sue Hite-Kirk, Jennifer Ho, Summer Jefferson, Hannah Jirak, Kasey Kier, Dan Kitzberger, Tresa Larkin, Brad LeBlanc, James Lehnhoff , Nira Ly, Eric Mattson, Jill Mazullo, Leighann McKenzie, Amy Melmer, Tom O'Hern, Ashley Oliver, John Patterson, Paula Rindels, Lael Robertson, Rachel Robinson, Danielle Salus, Anne Smetak, Kim Stuart, Jodell Swenson, Susan Thompson, Mike Thone, and Kristy Zack.
   **Others present**: Ramona Advani, Minnesota Office of the State Auditor; Melanie Lien, Piper Jaffray; Anne Mavity, Minnesota Housing Partnership;
3. **Agenda Review**
   No changes.
4. **Approval**
   **Regular Meeting Minutes of November 21, 2019**
   **Motion:** Craig Klausing moved to approve the November 21, 2019 minutes. Seconded by Stephanie Klinzing. Motion carries 5-0.
5. **Reports**
   A. **Chair**
   None.
   B. **Commissioner**
   Commissioner Ho shared the following with the board:
   - After 20 years at Minnesota Housing, Tony Peleska is departing the Agency. His last day is January 6.
   - Staff sponsored the Minnesota Veterans Home and St Park Anthony Home this holiday season.
   - Prevailing Wage Update
   - Federal Budget and United States Interagency Council on Homelessness Update
   - Governor and Lt. Governor held a press conference earlier today to announce the Public/Private Partnership to bring people inside this winter. The project is called the Minnesota Winter Homeless Initiative and the fund is called Minnesota Homeless Fund, managed by the St Paul and Minnesota Foundation.
   - Participating in the Simpson Housing Services Silent Vigil March this evening.
   - Attended the Minnesota Leadership Council on Aging conference last week. Stephanie Klinzing was also in attendance and she shared an update on the conference.
   - Toured the St. Paul Opportunity Center with Commissioner Harpstead.
   - Attended the MIAC conference; Environmental Congress Conference; Prosperity's Front Door Event; and NCHSA Board Meeting in Washington DC.

DRAFT

C. **Committee**

None.

**6. Consent Agenda**

A. Sungold Heights, Worthington MN, Manufactured Home Park Loan Commitment

B. Assumption of Low and Moderate Income Rental (LMIR) Loan, Le Sueur Meadows Apartments, D2929, Le Sueur

**Motion:** Craig Klausing moved to approve the Consent Agenda Items. Seconded by Julie Blaha. Motion carries 5-0. Craig Klausing requested that at a future meeting staff provide an update on Sungold Heights.

**7. Action Items**

A. **Approval, Changes to the Housing Tax Credit Program Eventual Tenant Ownership Guide**

Rachel Robinson and James Lehnhoff presented to the board a request for approval of changes to the Housing Tax Credit Program Eventual Tenant Ownership Guide to be implemented by the multifamily division for owners who wish to convert tax credit units to homeownership units following the 15 year compliance period.

Chair DeCramer opened the discussion. Board members asked a series of questions and staff provided answers. **Motion**: Stephanie Klinzing moved the Approval, Changes to the Housing Tax Credit Program Eventual Tenant Ownership Guide. Seconded by Terri Thao. Motion carries 5-0.

**8. Discussion Items**

A. **Dashboard Overview: Tracking and Reporting Results Under the 2020-23 Strategic Plan and 2020-21 Affordable Housing Plan**

John Patterson reviewed with the board the proposed structure that we will use to track and report results for the 2020-2022 Strategic Plan and 2020-2021 Affordable Housing Plan.

B. **Board Meeting Feedback**

Board members discussed the board packets, the board meeting flow, materials, etc.

**9. Information Items**

A. Consolidated Annual Performance Evaluation Report (CAPER) for 2019

B. Post-Sale Report, Homeownership Finance Bonds (HFB), 2019 Series G (Taxable)

**10. Other Business**

None.

**11. Adjournment**

The meeting was adjourned at 2:35 p.m.

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John DeCramer, Chair

DRAFT

MINNESOTA HOUSING

**Board Agenda Item:** 6.A
**Date: 1/23/2020**

**Item:** Modification to Community Homeownership Impact Fund (Impact Fund) Awards

**Staff Contact(s):**
Song Lee, 651.296.2291, song.lee.mhfa@state.mn.us

**Request Type:**

☒ Approval
- ☐ Motion
- ☒ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Staff requests approval to modify the following Impact Fund award amounts approved in 2019 through Resolution No. MHFA 19-071: Build Wealth, MN, Inc., Northwest Community Action, Inc., and West Central Minnesota Communities Action, Inc. Staff also requests approval to modify PRG, Inc.'s Impact Fund Grant Contract 10-2017-22 to expand the target area for its Moving On Pilot program.

**Fiscal Impact:**
Economic Development Housing Challenge funds are a state resource, with individual awards structured as grants or loans that do not earn interest for the Agency.

**Meeting Agency Priorities:**

☐Improve the Housing System
☒Preserve and Create Housing Opportunities
☒Make Homeownership More Accessible
☐Support People Needing Services
☒Strengthen Communities

**Attachment(s):**
- Background
- Recommendations
- Resolution

**Background**
The Community Homeownership Impact Fund (Impact Fund) provides funding for single family, owner-occupied housing projects through the annual Single Family Request for Proposals. On November 21, 2019, the Board approved providing Economic Development Housing Challenge (Challenge) funds to Build Wealth, MN, Inc. (BWM), Northwest Community Action, Inc., and West Central Minnesota Communities Action, Inc. (WCMCA) through Resolution No. MHFA 19-071. On October 19, 2017, the Board approved $75,000 in Challenge funds for PRG, Inc.'s (PRG) Moving On program. Staff requests modifications to these four awards.

**Recommendations**
Staff recommends modifying the above awards as follows:

*Build Wealth, MN, Inc.*
In 2019, the Board approved $158,750 in Challenge funds to BWM's Near North Infill Development program to provide value gap and affordability gap (downpayment) assistance for the new construction of two single family homes in North Minneapolis and surrounding neighborhoods. Staff recommends reducing the Challenge - Deferred Loan Funds awarded from $158,750 to $40,000 to correct the Board resolution to accurately reflect BWM's funding need in its application. There are no other recommended changes to the award.

*Northwest Community Action, Inc.*
In 2019, the Board approved $55,640 in Challenge - Grant Funds to Northwest Community Action Roseau New Construction Affordability Project to provide affordability gap (downpayment) assistance for a household to purchase one new construction single family home in the City of Roseau. Staff recommends changing the funding type from Challenge - Grant Funds to Challenge - Deferred Loan Funds for affordability gap (downpayment) assistance to correct the Board resolution to accurately reflect the type of funding needed for the project. The awarded amount will remain the same at $55,640. There are no other recommended changes to the award.

*West Central Minnesota Communities Action, Inc.*
In 2019, the Board approved $100,000 in Challenge - Deferred Loan Funds to WCMCA's Affordable Housing Project to provide affordability gap (downpayment) assistance for four households to purchase new construction homes in the Cities of Alexandria and Glenwood. WCMCA recently created a community land trust (CLT) program and has requested to use the 2019 awarded funds to enable homebuyers to purchase CLT homes. Due to the long-term affordability design of CLTs, affordability gap is awarded as grant funds. Additionally, many CLT homebuyers are lower income and require a higher subsidy. As a result, staff recommends changing the funding type from Challenge - Deferred Loan Funds to Challenge - Grant Funds and reducing the number of units from four units to two units. The awarded amount will remain the same at $100,000. There are no other recommended changes to the award.

*PRG, Inc.*
In 2017, the Board approved $75,000 in Challenge Funds for PRG, Inc.'s Moving On Pilot program. The funds were provided for affordability gap (downpayment) assistance for three homebuyers to purchase homes in the City of Minneapolis. The pilot is a partnership between PRG and the Minneapolis Public Housing Authority (MPHA) to identify households in public housing that earn more than the 60 percent area median income (AMI) and prepare them for homeownership. When the households are ready to

purchase homes, PRG will provide these funds to the homebuyers as downpayment and closing cost assistance to purchase homes.

The original target area for this award was selected based on the anticipation that MPHA residents moving out of public housing units would choose to remain and purchase homes in Minneapolis. Home prices continue to increase and affordable homes available for purchase have been limited in Minneapolis. This in turn has made it difficult for buyers to make successful offers. Homebuyers have expressed interest in purchasing homes outside of Minneapolis in their community of choice and expanding the target area will create more opportunities under the Moving On Pilot program.

Staff recommends amending the Grant Contract to expand PRG's target area to the seven-county metropolitan area for all units under this award. This includes the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. This expansion will give homebuyers more housing options under the Move On Pilot and will likely be more success in helping MPHA households purchase homes.

Agenda Item: 6.A
Resolution

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

**RESOLUTION NO. MHFA 20-**
**Modifying Resolution No. MHFA 19-071**

**RESOLUTION MODIFYING SELECTION OF PROJECTS FOR GRANT FUNDS, DEFERRED LOAN FUNDS, AND CONSTRUCTION FINANCING RELATED TO THE FOLLOWING PROGRAMS AND FUNDING SOURCES: ECONOMIC DEVELOPMENT AND HOUSING CHALLENGE (EDHC), HOUSING INVESTMENT FUND (POOL 2), AND HOUSING INFRASTRUCTURE BOND (HIB) PROCEEDS**

WHEREAS, the Minnesota Housing Finance Agency Board (Board), at its November 21, 2019 meeting, previously approved a commitment for the Selection of Projects for the Community Homeownership Impact fund (Impact Fund by its Resolution 19-071; and

WHEREAS, Agency staff has requested certain modifications to Resolution 19-071.

**NOW THEREFORE, BE IT RESOLVED**:

The Board hereby authorizes Agency staff to make the changes it has requested and enter into grant and loan contracts, for the applications and in the amounts set forth below, subject to the terms and conditions contained herein and in the respective grant and loan agreements:

| 2019 Applicant Name | Project/Program Name Title | Funding Source | $ Awarded |
|---|---|---|---|
| Build Wealth, MN Inc. | Near North Infill Development | EDHC – Grant<br>EDHC – Loan | $ 20,000<br>$ 20,000 |
| Northwest Community Action, Inc. | Roseau New Construction Affordability Project | EDHC – Loan | $ 55,640 |
| West Central Minnesota Communities Action Inc. | West Central Minnesota Communities Action, Inc., Affordable Housing Project | EDHC – Grant | $ 100,000 |

1. The execution of the grant or loan contract for all funds awarded by the Agency in form and substance acceptable to the Agency shall occur no later than nine months from the adoption date of this Resolution; all funds must be expended and all reporting of the use of funds shall be completed within 20 months from the effective date of the grant or loan contract; and

2. The applicant and any other parties that Agency staff, in its sole discretion deem necessary, shall execute all such documents relating to the grant or loan contract, to the construction of the homeownership housing units, and the origination and closing of deferred loans, subject to such terms and conditions as the Agency, in its sole discretion, deems necessary.

3. All other terms and conditions of MHFA Resolution No. 19-071 remain in effect.

Adopted this 23rd day of January 2020

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CHAIRMAN

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MINNESOTA HOUSING

**Board Agenda Item:** 6.B
**Date: 1/23/2020**

**Item:** Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
- Connex Apartments, D8138, Saint Michael

**Staff Contact(s):**
Caryn Polito, 651.297.3123, caryn.polito@state.mn.us

**Request Type:**

☒ Approval
☐ Motion
☒ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

**Summary of Request:**
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $5,379,488.

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

**Meeting Agency Priorities:**
☒Improve the Housing System
☒Preserve and Create Housing Opportunities
☐Make Homeownership More Accessible
☒Support People Needing Services
☐Strengthen Communities

**Attachment(s):**
- Background
- Development Summary
- Resolution
- Resolution Attachment

**Background:**
Connex is a new construction development located in Saint Michael. The development was selected in the 2018 RFP/2019 HTC Round 1 and 2019 HTC Round 2 for 9% housing tax credits. The development does not have any Minnesota Housing deferred loans and was not originally selected for a first mortgage. The developer contacted Minnesota Housing business development staff in September 2019 and requested to add a first mortgage.

Connex will be a three-story elevator building with 49 units and 60 underground parking stalls. There will be 11 one-bedroom, 23 two-bedroom and 15 three-bedroom units. Five units are designated for high priority homeless (HPH) households and have Housing Support rental assistance. The development meets the Greater Minnesota workforce housing strategic priority and serves important policy goals of planned community development and permanent supportive housing.

The HUD risk-share LMIR loan will have a 3.55 percent interest rate plus a 0.125 percent mortgage insurance premium (MIP), a 40-year term and a 40-year amortization.

**DEVELOPMENT SUMMARY**

| | | | | | |
|---|---|---|---|---|---|
| | | | | D#: | D8138 |
| Name: | Connex Apartments | | | App#: | M17999 |
| Address: | 200 Hillcrest Drive SE | | | | |
| City: | Saint Michael | County: | Wright | Region: | Central |

**MORTGAGOR:**

Ownership Entity: St. Michael Connex LLC
General Partner/Principals: St. Michael Housing Group III, LLC, whose managing member is SCI Associates, LLC, an affiliate of Sand Companies

**DEVELOPMENT TEAM:**

General Contractor: Sand Construction, LLC, Waite Park
Architect: Sand Architects, LLC, Waite Park
Attorney: Law Office of Peter J. Fuchsteiner, Waite Park
Management Company: Sand Property Management, LLC, Waite Park
Service Provider: CommondBond Communities Advantage Services, St. Paul

**CURRENT FUNDING REQUEST/ PROGRAM and TERMS:**

$5,379,488 LMIR First Mortgage

| | |
|---|---|
| Funding Source: | Housing Invest Fund (Pool 2) |
| Interest Rate: | 3.55% |
| MIP Rate: | 0.125% |
| Term (Years): | 40 |
| Amortization (Years): | 40 |

**RENT GRID:**

| UNIT TYPE | NUMBER | UNIT SIZE (SQ. FT.) | GROSS RENT | AGENCY LIMIT | INCOME AFFORDABILITY |
|---|---|---|---|---|---|
| 1BR (HPH)* | 5 | 718 | $ 722 | $ 562 | $ 22,480 |
| 1BR | 4 | 718 | $ 937 | $ 937 | $ 37,480 |
| 1BR | 1 | 718 | $ 1,125 | $ 1,125 | $ 45,000 |
| 1BR | 1 | 901 | $ 1,125 | $ 1,125 | $ 45,000 |
| 2BR | 11 | 1,100 | $ 1,125 | $ 1,125 | $ 45,000 |
| 2BR | 12 | 1,100 | $ 1,350 | $ 1,350 | $ 54,000 |
| 3BR | 10 | 1,418 | $ 1,300 | $ 1,300 | $ 52,000 |
| 3BR | 5 | 1,418 | $ 1,560 | $ 1,560 | $ 62,400 |
| **TOTAL** | **49** | | | | |

**NOTE:** *These units have Housing Support rental assistance.

**Purpose:**
The developer is requesting funding for a permanent/end loan for new construction of Connex Apartments located in St. Michael. This 49-unit development will consist of a three-story elevator building with 11 one-bedroom, 23 two-bedroom, and 15 three-bedroom units with underground parking. The project will contain 49 housing tax credit (HTC) units, furthering Minnesota Housing's Greater Minnesota workforce housing priority and includes five units for single adult households who are high priority homeless (HPH).

**Population Served:**
Five of the households will have incomes equal to or less than 30% MTSP, and the remaining 44 households will have incomes equal to or less than 60% MTSP.

**Project Feasibility:**
The project is feasible as proposed. The proposal will result in 49 new units of housing that is affordable near jobs and services. Minnesota Housing previously awarded $705,068 in 9% housing tax credits. Tax credit syndicator Wells Fargo will contribute $6,697,476 in equity to the project and will provide the construction loan.

If this request is approved, Minnesota Housing will provide an amortizing LMIR mortgage in an amount not to exceed $5,379,488. The development cash flows at the proposed rent levels and is consistent with program underwriting guidelines.

The total development cost of $251,285 per unit is within 125 percent of the predictive cost model of $216,535.

**Development Team Capacity:**
The developer, an affiliate of Sand Companies, has a long history of bringing development proposals to completion in a timely manner. The developer has utilized Agency first mortgages, deferred loans, and tax credits with proven success. The Agency has had positive experience with property management.

**Physical and Technical Review:**
Sand Architects, LLC is the architect. Sand Construction, LLC is the general contractor. The applicant is proposing to construct a new 49-unit apartment building with an elevator and underground parking on a vacant, undeveloped parcel of land. The contractor and the architect have the capacity and have successfully utilized a similar building design in a number of developments, including a project near the proposed site.

**Market Feasibility:**
St. Michael is located in central Minnesota in Wright County and is a top growth community for workforce housing. According to the market study, the market in St. Michael is strong with 100 percent occupancy among comparable affordable properties and projected population growth is expected through 2023.

**Supportive Housing:**
CommonBond Communities Advantage Services will be the service provider for the five HPH households. They have experience providing supportive housing services to the population being served. A housing coordinator will provide tenant service coordination, including benefit assistance, budget planning, independent skills and other support. Households will be referred to community partners for mental health services, employment and vocational services, crisis services, etc. Rent and service funding is secured through Housing Support.

| **DEVELOPMENT COST SUMMARY** (estimated): | **Total** | | **Per Unit** |
|---|---|---|---|
| **Total Development Cost** | $ 12,312,980 | | $ 251,285 |
| **Acquisition or Refinance Cost** | $ 404,091 | | $ 8,247 |
| **Gross Construction Cost** | $ 9,583,830 | | $ 195,588 |
| **Soft Costs (excluding Reserves)** | $ 2,085,470 | | $ 42,560 |
| **Reserves** | $ 239,589 | | $ 4,890 |
| | | | |
| **Total LMIR Mortgage** | $ 5,379,488 | | $ 109,785 |
| | | | |
| **Total Agency Sources** | $ 5,379,488 | | $ 109,785 |
| **Total Loan-to-Cost Ratio** | 44% | | |
| | | | |
| **Other Non-Agency Sources** | | | |
| General Partner Cash | $ 745 | | $ 15 |
| Energy Rebates | $ 25,271 | | $ 516 |
| Syndication Proceeds | $ 6,697,476 | | $ 136,683 |
| Deferred Developer Fee | $ 210,000 | | $ 4,285 |
| | | | |
| **Total Non-Agency Sources** | $ 6,933,492 | | $ 141,500 |

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

**RESOLUTION NO. MHFA 20-**

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

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

| | |
|---|---|
| Name of Development: | Connex Apartments |
| Sponsors: | SCI Associates, LLC |
| Guarantors: | SCI Associates, LLC; John Belisle; Sarah Nieters |
| Location of Development: | Saint Michael |
| Number of Units: | 49 |
| General Contractor: | Sand Construction, LLC, Waite Park |
| Architect: | Sand Architects, LLC, Waite Park |
| Amount of Development Cost: | $12,312,980 |
| Amount of LMIR Mortgage (not to exceed): | $5,379,488 |

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

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

**NOW THEREFORE, BE IT RESOLVED**:

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

1. The amount of the LMIR amortizing loan shall not exceed $5,379,488; and

2. The interest rate on the permanent LMIR loan shall be 3.55 percent per annum (subject to change, as set forth in the attached Agency term letter dated December 4, 2019), plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 40-year amortization; and

3. The term of the permanent LMIR loan shall be 40 years; and

4. The LMIR End Loan Commitment shall be entered into on or before March 31, 2020 and shall have an 18-month term (which shall also be the LMIR Commitment Expiration Date); and

5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

7. SCI Associates, LLC, John Belisle and Sarah Nieters shall each guarantee the mortgagor's payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.11 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

8. SCI Associates, LLC, John Belisle and Sarah Nieters shall each guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

9. The sponsor, the builder, the architect, the mortgagor, and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loan, to the security therefore, to the construction of the development, and to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 23rd day of January, 2020

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CHAIRMAN

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December 11, 2019

Megan Sand Carr
St. Michael Connex LLC
366 South 10th Ave
Waite Park, MN 56387

RE: Term Letter
Connex, Saint Michael
MHFA Development #8138, Project #17999

Dear Ms. Sand Carr:

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

**Borrower:** A single asset entity: St. Michael Connex LLC

**General Partner/ Managing Member:** St. Michael Housing Group III, LLC

**Development Description/Purpose:** New construction of a 49-unit affordable housing development located in Saint Michael, Minnesota

**Minnesota Housing Loan Type/Terms**

| | |
|---|---|
| **Program** | Low and Moderate Income Rental Program (LMIR) (HUD Risk Share) |
| **Loan Amount** | $5,379,488 |
| **Interest Rate** | * 3.55% |
| **Mortgage Insurance Premium (%)** | 0.125% *(first year premium is paid in advance)* |
| **Term** | 40 years |
| **Amortization/Repayment** | 40 years |
| **Prepayment Provision** | No prepayment first 10 years from date of the Note. |
| **Nonrecourse or Recourse** | Nonrecourse |
| **Construction/Permanent Loan or Construction Bridge Loan or End Loan** | End Loan |
| **Lien Priority** | First |

*Subject to change. Loan commitment must be entered into by March 31, 2020 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion.

| | |
|---|---|
| **Origination Fee:** | LMIR HUD Risk Share Loan: $103,795<br>(Payable at the earlier of loan commitment or loan closing) |
| **Inspection Fee:** | Not applicable |
| **Guaranty/Guarantor(s):** | Repayment and operations Guaranty to be provided by:<br>• SCI Associates, LLC<br>• John Belisle<br>• Sarah Nieters |
| **Operating Deficit Reserve Account:** | $161,385 to be funded on the day of closing by cash or letter of credit (outside of the development budget) to be held by Minnesota Housing. |
| **Operating Cost Reserve Account:** | Not applicable |
| **Replacement Reserve Account:** | A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $1,837.50. The replacement reserve will be held by Minnesota Housing. |
| **Escrows:** | Real estate tax escrow and property insurance escrow to be established at the time of permanent loan closing and held by Minnesota Housing. |
| **Collateral/Security:** | Mortgage and Assignment of Rents and Leases for each loan; UCC-1 Financing Statement on fixtures, personal property, accounts and equipment. |
| **HAP or other Subsidy Agreement:** | Not applicable |
| **Rent and Income Requirements:** | **LMIR Program**<br>• 20 units with rents and incomes at or below 60% MTSP<br>• Up to 12 units may have unrestricted incomes<br>• 17 units with incomes at or below 100% of the greater of statewide or area median income.<br>• 29 units with rents at Minnesota Housing determined market. |

| | |
|---|---|
| | Commitment to 40 years of affordability from the date of loan closing. |
| **Other Occupancy Requirements:** | None |
| **Closing Costs:** | Borrower agrees to pay all closing costs related to the specific financing referenced in this letter. |
| **Expiration Date:** | The Terms will expire six months from the date of this letter. |
| **Additional Terms:** | Return on Equity: Annual distributions limited to a maximum of 15% of Borrower's Equity, as referenced in the Workbook. |
| **Other Conditions:** | • Appraised value of at least $6,183,320. (rent-restricted)<br>• Supportive housing documents must be approved by Minnesota Housing prior to the loan commitment being issued. |
| **Board Approval:** | Commitment of all loans under the LMIR program is subject to Minnesota Housing's board approval and adoption of a resolution authorizing the commitment of the loan. |
| **Not a Binding Contract:** | This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter. |

Please sign this letter and return it to Allison Ehlert at allison.ehlert@state.mn.us on or before December 18, 2019

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

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

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

**AGREED AND ACCEPTED BY:**

ST. MICHAEL CONNEX LLC

By: _____

Its: Sec/Treas of Mg. Member

Date Accepted: 12/17/19

MINNESOTA HOUSING

**Board Agenda Item:** 6.C
**Date: 1/23/2020**

**Item:** Selection and Commitment, Low and Moderate Income Rental Program (LMIR)
- Tower Terrace Townhomes, D0268, Cambridge

**Staff Contact(s):**
Carrie Weisman, 651.296.3789, carrie.weisman@state.mn.us

**Request Type:**

☒ Approval
☐ Motion
☒ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

**Summary of Request:**
Agency staff completed the underwriting and technical review of the proposed development and recommends the development for selection and funding. Agency staff also recommends adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental (LMIR) program commitment in an amount not to exceed $1,638,000.

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

**Meeting Agency Priorities:**

☐Improve the Housing System
☒Preserve and Create Housing Opportunities
☐Make Homeownership More Accessible
☐Support People Needing Services
☐Strengthen Communities

**Attachment(s):**

- Background
- Development Summary
- Resolution
- Resolution Attachment

**Background:**
Tower Terrace Townhomes is a townhome style property located in Cambridge. The property has a total of 32 units consisting of two- and three-bedroom townhomes in eight buildings. The property was built in 1995.

This transaction is the refinance of an Agency non-risk share first mortgage with a new HUD risk-share LMIR loan. The new LMIR loan will pay off the existing non-risk share first mortgage and lower the interest rate from 6.25 percent to 3.49 percent.

The existing Minnesota Housing Low Income Large Family (LILF) program deferred loan will be extended to be coterminous with the new first mortgage.

The refinance will allow the property to complete several capital improvements within the next twelve months. The replacement reserves are anticipated to cover capital improvements that will be needed over the next 10 years.

**DEVELOPMENT SUMMARY**

| | | | | |
|---|---|---|---|---|
| | | | D#: | 0268 |
| Name: | Tower Terrace Townhomes | | App#: | M18321 |
| Address: | 1000 Tower Circle | | | |
| City: | Cambridge | County: Isanti | Region: | Central |

**MORTGAGOR:**

Ownership Entity: Tower Terrace Limited Partnership
General Partner/Principals: Central Minnesota Housing Partnership, Inc.

**DEVELOPMENT TEAM:**

Attorney: Rinke Noonan, Ltd., St. Cloud
Management Company: Central Minnesota Housing Partnership, Inc.

**CURRENT FUNDING REQUEST/PROGRAM and TERMS:**

$1,638,000 LMIR First Mortgage

| | |
|---|---|
| Funding Source: | Housing Invest Fund (Pool 2) |
| Interest Rate: | 3.49% |
| MIP Rate: | 0.125% |
| Term (Years): | 35 |
| Amortization (Years): | 35 |

**RENT GRID:**

| UNIT TYPE | NUMBER | UNIT SIZE (SQ. FT.) | GROSS RENT | AGENCY RENT LIMIT | INCOME AFFORDABILITY |
|---|---|---|---|---|---|
| 2BR | 16 | 930 | $ 844 | $ 1,125 | $ 33,760 |
| 2BR | 2 | 975 | $ 844 | $ 1,125 | $ 33,760 |
| 2BR | 2 | 918 | $ 844 | $ 1,125 | $ 33,760 |
| 3BR | 11 | 1,195 | $ 966 | $ 1,300 | $ 38,640 |
| 3BR | 1 | 1,195 | $ 1,041 | $ N/A | $ N/A |
| **TOTAL** | **32** | | | | |

**Rent and Income Limits:**

Under the LMIR loan, 13 units will be restricted to 60% MTSP rent limits and incomes, up to eight units may have unrestricted incomes, and 11 units will be income restricted at 100% of the greater of statewide median income or area median income. Thirty-one units at the property are currently restricted to 50% MTSP rent and income limits under the tax credit land use restrictive agreement (LURA), which expires in 2024. Under the LILF loan, 15 units are restricted to 60% MTSP rent limits.

**Population Served:**

The development provides Greater Minnesota Workforce Housing with large units suitable for families.

**Project Feasibility:**

Development financing includes the $1,638,000 LMIR loan. Other sources include existing reserves totaling approximately $119,000. The existing Agency LILF deferred loan will be extended to be coterminous with the new first mortgage. This will also extend the LILF rent and income restrictions; 15 units are restricted to rents and incomes at 60% MTSP.

**Development Team Capacity:**
Affiliates of Central Minnesota Housing Partnership, Inc. (CMHP) are the existing property owner and management company. There is no change in ownership or management company with this transaction. The owner and the management company have the capacity to continue to manage the property successfully.

**Physical and Technical Review:**
The limited scope rehabilitation includes approximately $1,198,145 in capital improvements, including interior unit repairs and exterior building repairs.

Blumentals/Architecture performed a capital needs assessment, and the owner will complete all necessary improvements within 12 months of closing on the new LMIR loan.

**Market Feasibility:**
The property is located approximately 45 miles north of Minneapolis and St. Paul. Tower Terrace Townhomes will continue to provide quality rental housing with larger size units that are affordable and suitable for families.

The historical vacancy of the property has averaged 5 percent over the last three years. The loan is underwritten with a 5 percent vacancy rate.

| **DEVELOPMENT COST SUMMARY** (estimated): | **Total** | | **Per Unit** |
|---|---|---|---|
| **Total Development Cost** | $ 1,756,717 | | $ 54,897 |
| **Acquisition or Refinance Cost** | $ 186,091 | | $ 5,815 |
| **Gross Construction Cost** | $ 1,198,145 | | $ 37,442 |
| **Soft Costs (excluding Reserves)** | $ 128,108 | | $ 4,003 |
| **Non-mortgageable Costs** | $ 0 | | $ 0 |
| **Reserves** | $ 244,373 | | $ 7,637 |
| | | | |
| **Total LMIR Mortgage** | $ 1,638,000 | | $ 51,188 |
| | | | |
| **Other Non-Agency Sources** | | | |
| Replacement and Operating Reserves | $ 118,717 | | $ 3,710 |
| | | | |
| **Total Non-Agency Sources** | $ 0 | | $ 0 |

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

**RESOLUTION NO. MHFA 20-**

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

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

| | |
|---|---|
| Name of Development: | Tower Terrace Townhomes |
| Sponsors: | Central Minnesota Housing Partnership, Inc. |
| Guarantors: | Central Minnesota Housing Partnership, Inc. |
| Location of Development: | Cambridge |
| Number of Units: | 32 |
| Amount of Development Cost: | $1,756,717 |
| Amount of LMIR Mortgage (not to exceed): | $1,638,000 |

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

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

**NOW THEREFORE, BE IT RESOLVED**:

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

1. The amount of the LMIR amortizing loan shall not exceed $1,638,000; and

2. The interest rate on the permanent LMIR loan shall be 3.49 percent per annum (subject to change, as set forth in the attached Agency term letter dated January 2, 2020, plus 0.125 percent per annum HUD Risk-share Mortgage Insurance Premium, with monthly payments based on a 35-year amortization; and

3. The term of the permanent LMIR loan shall be 35 years; and

4. The loan closing shall occur on or before March 31, 2020; and

5. The mortgagor shall comply with the terms set forth in the attached Agency term letter. The Commissioner is authorized to approve non-material modifications to those terms; and

6. The mortgagor shall execute documents embodying the above in form and substance acceptable to Agency staff; and

7. Central Minnesota Housing Partnership, Inc. shall guarantee the mortgagor's payment under the LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

8. The sponsor, the mortgagor and such other parties as Agency staff in its sole discretion deems necessary, shall execute all such documents relating to said loan, to the security therefore, to the operation of the development, as Agency staff in its sole discretion deems necessary.

Adopted this 23rd day of January 2020

_____

CHAIRMAN

MINNESOTA HOUSING

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

January 2, 2020

Deanna Hemmesch
Central Minnesota Housing Partnership
370 28th Avenue North, Suite 102
St. Cloud, MN 56303

RE: Term Letter
Tower Terrace Townhomes, Cambridge
D0268, M18321

Dear Ms. Hemmesch:

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

**Borrower:** A single asset entity: Tower Terrace Limited Partnership

**General Partner(s)** Central Minnesota Housing Partnership, Inc.

**Managing Member(s):** Central Minnesota Housing Partnership, Inc.

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

**Minnesota Housing Loan Type/Terms**

| | |
|---|---|
| **Program:** | Low and Moderate Income Rental Program (LMIR) (HUD Risk Share) |
| **Loan Amount:** | $1,638,000 |
| **Interest Rate** | 3.49%* |
| **Mortgage Insurance Premium (%):** | 0.125% *(1st year premium is paid in advance)* |
| **Term:** | 35 |
| **Amortization/Repayment:** | 35 |
| **Prepayment Provision:** | No prepayment first 10 years from commencement of amortization |
| **Nonrecourse or Recourse** | Nonrecourse |

| | |
|---|---|
| **Construction/Permanent Loan or Construction Bridge Loan or End Loan** | Permanent |
| **Lien Priority:** | First |

*Subject to change. Loan closing must occur by March 31, 2020 for the quoted interest rate to be valid; interest rate may be subject to adjustment after this date at Minnesota Housing's sole discretion.

**Origination Fee:** LMIR HUD Risk Share Loan: $32,760 (payable at loan closing)

**Inspection Fee:** Not applicable

**Guaranty/Guarantor(s):** Operations Guaranty to be provided by: Central Minnesota Housing Partnership, Inc.

**Operating Deficit Reserve Account:** Not applicable

**Operating Cost Reserve Account:** Not applicable

**Rehab Escrow Account:** Capitalized rehab escrow account in the amount of $1,198,145 funded at closing.

**Replacement Reserve Account:** A replacement reserve will be required in the amount of $450/unit/annum. The monthly replacement reserve will be $1,200. The replacement reserve will be held by Minnesota Housing.

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

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

**HAP or other Subsidy Agreement:** Not applicable

**Rent and Income Requirements:**

**LMIR Rent and Income Limits**

- 13 units with rents and incomes at or below 60% MTSP.
- Up to 8 units may have unrestricted incomes with rents at Minnesota Housing determined market.
- 11 units with incomes at or below 100% of the greater of area or statewide median income and with rents at Minnesota Housing determined market.

| | |
|---|---|
| **Other Occupancy Requirements:** | Not applicable |
| **Closing Costs:** | Borrower agrees to pay all closing costs related to the specific financing referenced in this letter. |
| **Expiration Date:** | The Terms will expire after March 31, 2020. |
| **Additional Terms:** | None. |
| **Other Conditions:** | None. |
| **Not a Binding Contract:** | This letter is not a commitment to be bound by the Terms in this letter. The parties expressly agree that this letter does not create a legally binding agreement. The parties further agree that the Terms are subject to the Borrower's ability to obtain all necessary financing for the Development, which may include additional financing from Minnesota Housing not referenced in this letter. |

Please sign this letter and return it to Allison Ehlert at allison.ehlert@state.mn.us on or before January 9, 2020.

If you have any questions related to this letter, please contact Carrie Weisman at 651-296-3789 or by e-mail at carrie.weisman@state.mn.us.

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

Sincerely,

James Lehnhoff
Assistant Commissioner, Multifamily

**AGREED AND ACCEPTED BY:**

TOWER TERRACE LIMITED PARTNERSHIP

By: _____

Its: General Partner

Date Accepted: 1/6/2020

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MINNESOTA HOUSING

**Board Agenda Item:** 6.D
**Date: 1/23/2020**

**Item:** Approval, Minnesota City Participation Program

**Staff Contact(s):**
Nicola Viana, 651.297.9510, Nicola.Viana@state.mn.us
Laura Bolstad Grafstrom, 651.296.6346, Laura.Bolstad.Grafstrom@state.mn.us

**Request Type:**

☒ Approval
☐ Motion
☒ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

**Summary of Request:**
Staff requests approval of cities for participation in the Minnesota City Participation Program (MCPP). The program allows Minnesota Housing to apply for the portion of the annual private activity bond volume cap allocated by Minnesota Statutes Section 474A.03, subdivision 1 to the Housing Pool, $52,892,965 of which is available in 2020 for single family housing programs authorized by Minnesota Statutes Section 474A.061, subdivision 2a to enable cities and counties to provide first-time homebuyer loans in their communities.

**Fiscal Impact:**
Minnesota Housing is able to issue nearly $53 million in additional tax-exempt private activity bonds to provide loans to first-time homebuyers with lower incomes as a result of administering the Minnesota City Participation Program.

**Meeting Agency Priorities:**

☐Improve the Housing System
☐Preserve and Create Housing Opportunities
☒Make Homeownership More Accessible
☐Support People Needing Services
☒Strengthen Communities

**Attachment(s):**

- Background and Recommendation
- Table 1: Preliminary 2020 MCPP Allocations to Applicants
- Map 1: Greater Minnesota - MCPP Participants - 2019 Start Up Loans, partly funded with MCPP
- Map 2: Greater Minnesota - MCPP Participants - 2015 - 2019 Start Up Loans, partly funded with MCPP
- Map 3: Metro - MCPP Participants - 2019 Start Up Loans, partly funded with MCPP
- Map 4: Metro - MCPP Participants - 2015 - 2019 Start Up Loans, partly funded with MCPP
- Resolution

**Background:**
Since 1990, under the Minnesota City Participation Program (MCPP), Minnesota Housing has sold tax-exempt private activity bonds on behalf of local governments to assist them in meeting local housing goals pursuant to Minnesota Statutes Section 474A.061, subdivision 2a. In accordance with that statute, cities, counties and consortia of local government units apply annually for participation in MCPP.

MCPP is an important statewide tool that local units of government find valuable in meeting their continuum of housing needs. Self-issuance of bonds is not economically feasible for most communities, given economies of scale necessary for successful self-issuance. Under the MCPP, Minnesota Housing efficiently sells bonds on behalf of the participating communities so residents can access affordable mortgage loans with downpayment and closing cost loan options. Communities report many benefits to participating in the program, including:

- Continuous, dedicated funding for their community.
- Access to local lenders as well as nonprofit agencies that provide homebuyer education.
- Minnesota Housing support through marketing and outreach templates, regular communication via visits, phone calls and emails, and information on loan activity.

In their application, local governments confirm that MCPP helps the community meet an identified housing need and the program is economically viable in their community. Loans are eligible for MCPP if they meet all requirements below:

- The loan is an eligible first-time homebuyer Start Up loan.
- The property is located in the applicants' jurisdiction as stated on their application.
- The borrower's income must not exceed 80% of the area median income.

The attached maps show the location of Start Up loans originated in the jurisdictions of the participating MCPP communities in 2019 and between 2015 and 2019. Two maps show loans in the metro area and two maps contain loans in Greater Minnesota. Minneapolis, Saint Paul and Dakota County are not eligible to participate in the MCPP program because they each receive an entitlement allocation of tax-exempt bonding authority.

The amounts of the allocations set forth in Table 1 are determined based on a pro rata allocation of the $52,892,965 total amount available, according to the population of each community that has applied and meets the above requirements.

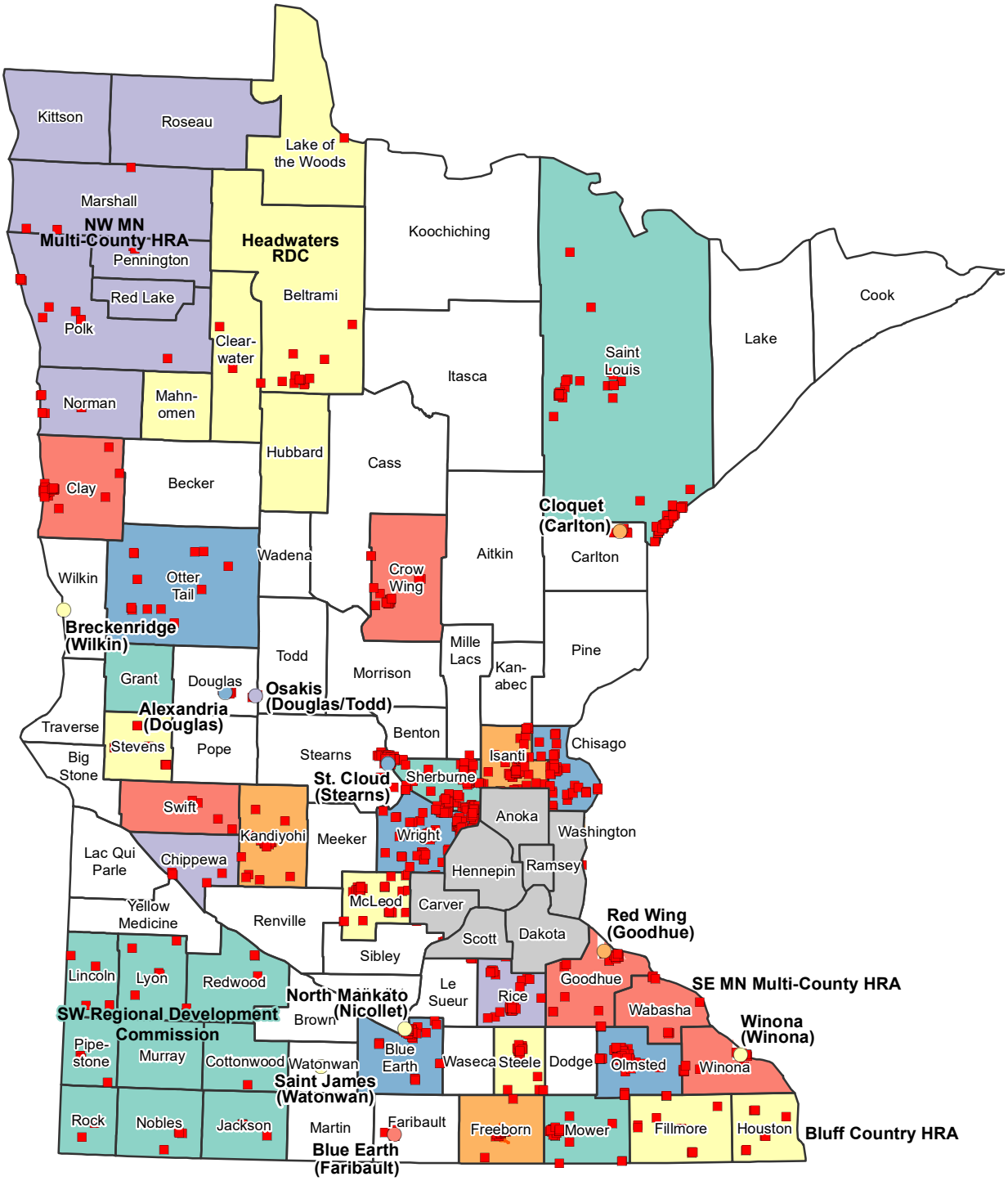
**Recommendation:**
Staff requests that the Board approve the attached resolution which:

- Approves applying local governments for participation in MCPP for the allocation amounts shown in the resolution; and
- Authorizes Minnesota Housing to take necessary actions to apply to Minnesota Management and Budget for amounts available for tax-exempt private activity bonding authority on behalf of the same eligible local governments under Minnesota Statutes, Chapter 474A.

Table 1: Preliminary 2020 MCPP Allocations to Applicants

| **Community** | **Allocation** |
|---|---|
| Alexandria, City of | $194,231 |
| Anoka County | $4,982,123 |
| Becker County | $479,207 |
| Blue Earth, City of | $100,000 |
| Blue Earth County | $943,656 |
| Bluff Country HRA | $553,023 |
| Breckenridge, City of | $100,000 |
| Carver County | $1,475,350 |
| Chippewa County | $166,581 |
| Chisago County | $779,024 |
| Clay County | $890,515 |
| Cloquet, City of | $171,899 |
| Crow Wing County | $904,604 |
| Freeborn County (Albert Lea administrates) | $424,562 |
| Headwaters Regional Dev. Commission | $1,201,860 |
| Hennepin County | $11,592,031 |
| Isanti County | $555,947 |
| Kandiyohi County | $597,602 |
| McLeod County | $500,633 |
| Mower County | $557,130 |
| North Mankato, City of | $195,734 |
| NW MN Multi-Co. HRA | $1,188,397 |
| Oakdale, City of | $394,211 |
| Olmsted County | $2,192,016 |
| Osakis, City of | $100,000 |
| Otter Tail County | $817,729 |
| Ramsey County | $3,330,530 |
| Red Wing, City of | $230,025 |
| Rice County | $923,942 |
| Sartell, City of | $261,100 |
| Scott County | $2,034,207 |
| SE MN Multi-Co. HRA | $1,047,419 |
| Sherburne County | $1,239,770 |
| St. Cloud, City of | $949,531 |
| St. James, City of | $100,000 |
| St. Louis County | $2,788,101 |
| Steele County (Owatonna administrates) | $514,194 |
| Stevens County | $134,768 |
| SW Regional Development Commission | $1,624,834 |
| Swift County | $130,508 |
| Washington County | $3,246,648 |
| Winona, City of | $378,785 |
| Wright County | $1,900,538 |
| **Total** | **$52,892,965** |

# Minnesota City Participation Program - 2019 Start Up Loans, partly funded with MCPP

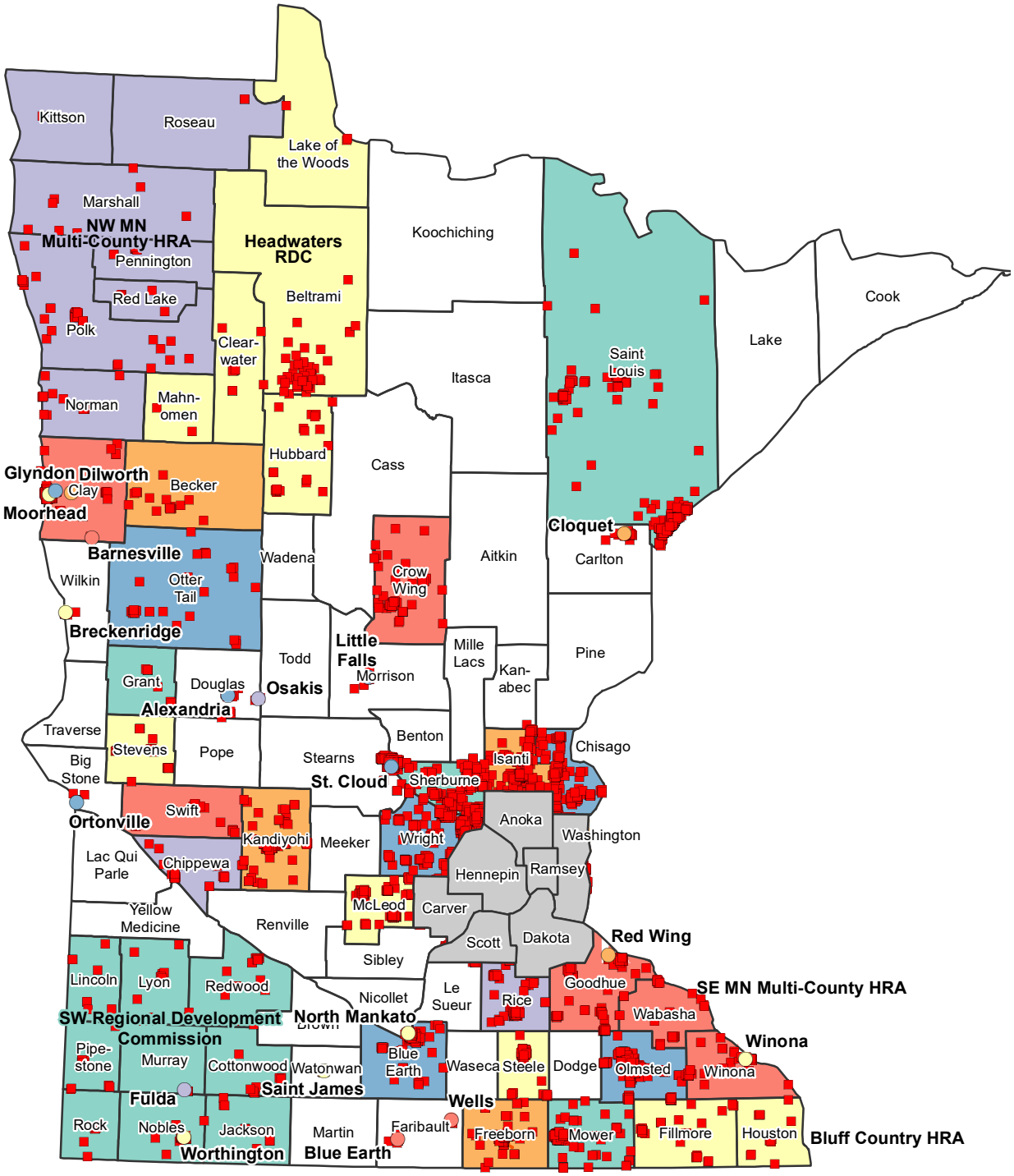



MINNESOTA HOUSING

2019 Start Up Loans, partly funded with MCPP

Created: 1.10.2020 by: K. Thurnau

# Minnesota City Participation Program - 2015 - 2019 Start Up Loans, partly funded with MCPP

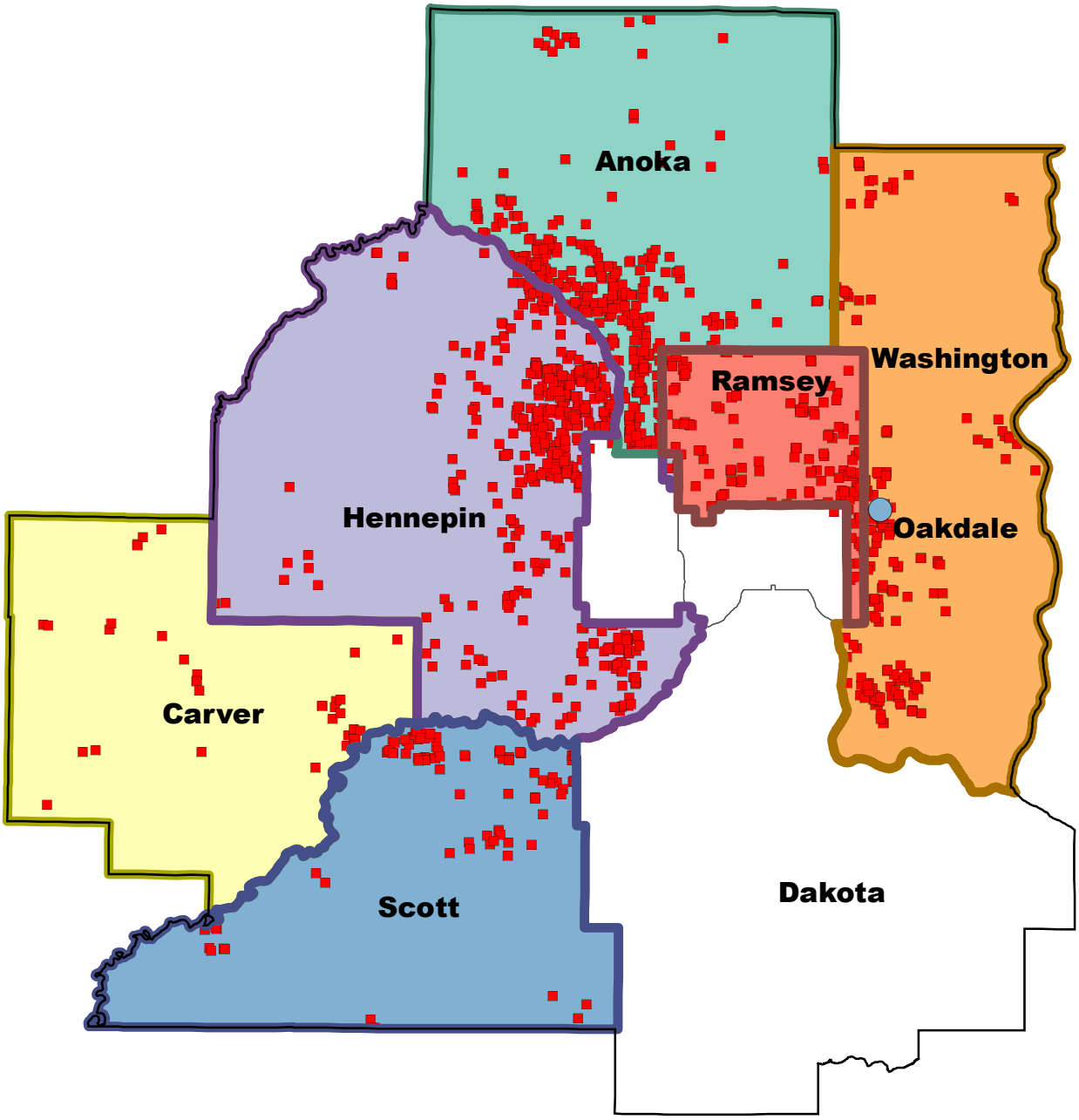



MINNESOTA HOUSING

2015-2019 Start Up Loans, partly funded with MCPP

Created: 1.10.2020 by: K. Thurnau

# Minnesota City Participation Program - 2019 Start Up Loans, partly funded with MCPP

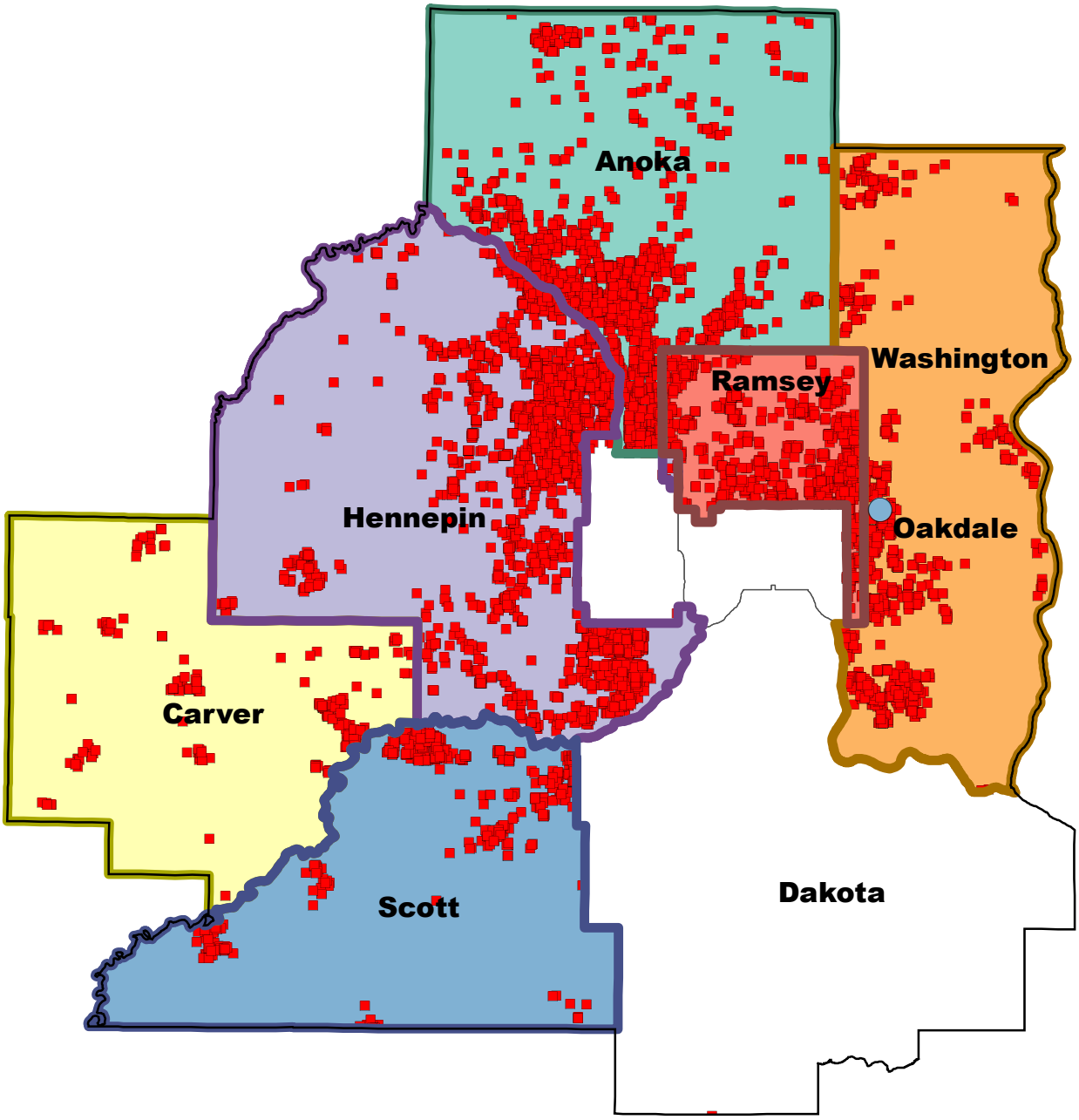



MINNESOTA HOUSING

2019 Start Up Loans, partly funded with MCPP

Created: 1.10.2020 by: K. Thurnau

# Minnesota City Participation Program - 2015 - 2019 Start Up Loans, partly funded with MCPP




MINNESOTA HOUSING

2015-2019 Start Up Loans, partly funded with MCPP

Created: 1.10.2020 by: K. Thurnau

**MINNESOTA HOUSING FINANCE AGENCY**
**400 Wabasha Street North, Suite 400**
**St. Paul, MN 55101**

**RESOLUTION NO. MHFA**
**RESOLUTION AUTHORIZING APPLICATION FOR BONDING AUTHORITY ON BEHALF OF THE 2020 MINNESOTA CITY PARTICIPATION PROGRAM PARTICIPANTS**

WHEREAS, Minnesota Statutes, Section 474A.061 subdivision 2a, paragraph (e) authorizes the Minnesota Housing Finance Agency to request an allocation of private activity bonding authority for the applicants who applied in January of 2020 and choose to have the Minnesota Housing Finance Agency issue bonds on their behalf, and the participating applicants are eligible for bonding authority in a total amount of not less than $52,892,965; and

WHEREAS, the Minnesota Housing Finance Agency is willing to take those actions necessary to make the private activity bonding authority available under Minnesota Statutes, Chapter 474A, available to the Minnesota City Participation Program participants.

NOW THEREFORE, BE IT RESOLVED:

THAT the Commissioner of the Minnesota Housing Finance Agency is hereby granted the authority to take all actions necessary to apply to the Commissioner of Minnesota Management and Budget for amounts available for tax-exempt private activity bonding authority during the times set forth in Minnesota Statutes, Chapter 474A, on behalf of the 2020 Minnesota City Participation Program participants as listed below.

| **Community** | **Allocation** |
|---|---|
| Alexandria, City of | $194,231 |
| Anoka County | $4,982,123 |
| Becker County | $479,207 |
| Blue Earth, City of | $100,000 |
| Blue Earth County | $943,656 |
| Bluff Country HRA | $553,023 |
| Breckenridge, City of | $100,000 |
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| Clay County | $890,515 |
| Cloquet, City of | $171,899 |
| Crow Wing County | $904,604 |
| Freeborn County (Albert Lea administrates) | $424,562 |
| Headwaters Regional Dev. Commission | $1,201,860 |
| Hennepin County | $11,592,031 |
| Isanti County | $555,947 |
| Kandiyohi County | $597,602 |
| McLeod County | $500,633 |
| Mower County | $557,130 |

| | |
|---|---|
| North Mankato, City of | $195,734 |
| NW MN Multi-Co. HRA | $1,188,397 |
| Oakdale, City of | $394,211 |
| Olmsted County | $2,192,016 |
| Osakis, City of | $100,000 |
| Otter Tail County | $817,729 |
| Ramsey County | $3,330,530 |
| Red Wing, City of | $230,025 |
| Rice County | $923,942 |
| Sartell, City of | $261,100 |
| Scott County | $2,034,207 |
| SE MN Multi-Co. HRA | $1,047,419 |
| Sherburne County | $1,239,770 |
| St. Cloud, City of | $949,531 |
| St. James, City of | $100,000 |
| St. Louis County | $2,788,101 |
| Steele County (Owatonna administrates) | $514,194 |
| Stevens County | $134,768 |
| SW Regional Development Commission | $1,624,834 |
| Swift County | $130,508 |
| Washington County | $3,246,648 |
| Winona, City of | $378,785 |
| Wright County | $1,900,538 |
| **Total** | **$52,892,965** |

Adopted this 23rd day of January, 2020

_____
Chairman

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MINNESOTA HOUSING

**Board Agenda Item:** 6.E
**Date: 1/23/2020**

**Item:** Raising the limit for short-term borrowing contained in the Board Debt and Balance Sheet Management Policy from $250 million to $350 million

**Staff Contact(s):**
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us
Debbi Larson, 651.296.8183, debbi.larson@state.mn.us

**Request Type:**

☒ Approval
- ☒ Motion
- ☐ Resolution

☐ No Action Needed
- ☐ Discussion
- ☐ Information

**Summary of Request:**
Approve an increase in the limit for short-term borrowing with the Federal Home Loan Bank of Des Moines (FHLB), raising the limit from $250 million to $350 million

**Fiscal Impact:**
The Agency earns net interest income under the short-term borrowing arrangement with the FHLB as the interest revenue from the mortgage-backed securities (MBS) exceeds the interest expense on the short-term borrowing from FHLB

**Meeting Agency Priorities:**
- ☒Improve the Housing System
- ☒Preserve and Create Housing Opportunities
- ☒Make Homeownership More Accessible
- ☒Support People Needing Services
- ☒Strengthen Communities

**Attachment(s):**
- Background
- Proposed changes to section 1.06 of the Debt and Balance Sheet Management

Background

In 2008, the Agency executed a short-term borrowing facility with the Federal Home Loan Bank of Des Moines (FHLB). Under the terms of this facility, Minnesota Housing is able to borrow funds, on an immediate basis, to finance the purchase, (from US Bank, the Agency's Master Servicer for single family production), of mortgage-backed securities (MBS) in advance of either issuing long term bonds to permanently finance those MBS or selling those MBS into the market.

Under the terms of the short-term facility, the MBS provide the collateral securing the borrowing. The Board's Debt and Balance Sheet Management Policy, in section 1.06, caps, at $250 million, the amount of short-term borrowing that the Agency may have outstanding at any point in time. In the recent past, our borrowing levels have approached $200 million. Generally, the borrowings are outstanding for between 15 -25 days.

With the continued strength of single family production, as well as the desire to maintain maximum flexibility in determining the frequency and timing of the Agency's bond sales, staff requests that the Board amend this parameter within the Debt and Balance Sheet Management policy, and raise the short-term borrowing limit to $350 million.

Also in section 1.06, the Debt and Balance Sheet Management Policy contains the following statement: "The Agency shall count the outstanding principal amount of any such borrowings against the debt limit set forth in Minnesota Statutes, Section 462A.22, as amended." Because this statement is inaccurate, staff asks the Board remove it from the policy.

A page showing the proposed changes to section 1.06 of the Debt and Balance Sheet Management is attached.

Before pricing a bond offering, the financial advisor will provide the Agency with summary information and its recommendations with regard to all pertinent aspects of the financing. For negotiated issues, the pricing will generally be handled by a conference call including Agency staff, the financial advisor and the underwriters. The Chief Financial Officer, in consultation with the Commissioner, will have primary responsibility for making pricing determinations. For long-term debt issuances, a formal post-sale analysis will be prepared by the financial advisor and reviewed with the Board within approximately 45 days of the bond issue. The post-sale analysis should include sufficient information to permit the Board to judge the performance of the investment bankers. If an offering is marketed by negotiated sale, the management fee paid should reflect reimbursement for services rendered on the particular issue in progress and for uncompensated services rendered since the last issue, if any.

## 1.6 Short-Term Financing Needs

From time to time, depending on conditions in the bond market and the availability of liquid funds to the Agency, it may be necessary for the Agency to borrow money on a short-term basis from a bank or other financial institution or corporation to provide sufficient liquidity for Agency program and other operational needs. Staff is authorized to determine the need and feasibility of such short-term borrowing, in consultation with the Agency's financial advisor and subject to other authorizations and delegations from the Board and/or Commissioner. The Chief Financial Officer is authorized to cause the Agency to enter into any such short-term borrowing arrangement upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, in a principal amount, at an interest rate and for a term (not exceeding 18 months) that the Chief Financial Officer determines is sufficient for the Agency's needs and is financially feasible.

Any such borrowing may be secured by collateral comprising mortgage loans or other assets of the Agency to be specifically pledged thereto, but may not be secured by the general obligation of the Agency or be evidenced by a bond or note, unless approved by resolution of the Board. The Chief Financial Officer is authorized, upon consultation with the Commissioner, the Finance Director and the Agency's financial advisor, to cause the Agency to renew or extend any such short-term borrowing if circumstances then warrant. No more than $~~250,000,000~~ $350,000,000 in principal amount of such borrowings may be outstanding at any one time, unless approved by resolution of the Board. ~~The Agency shall count the outstanding principal amount of any such borrowings against the debt limit set forth in Minnesota Statutes, Section 462A.22, as amended.~~

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MINNESOTA HOUSING

**Board Agenda Item:** 6.F
**Date: 1/23/2020**

**Item:** Joint Powers Agreement with the Metropolitan Council for Implementation of a Manufactured Home Park Preservation Pilot Equity Grant Project

**Staff Contact(s):**
Tom O'Hern, 651.296.9796, tom.ohern@state.mn.us
Rachel Robinson, 651.297.3125, rachel.robinson@state.mn.us

**Request Type:**

☒ Approval
☒ Motion
☐ Resolution

☐ No Action Needed
☐ Discussion
☐ Information

**Summary of Request:**
Approve agreement with the Metropolitan Council to award funds to help cover the costs of connecting a manufactured home park in Corcoran to the regional wastewater treatment system and to help preserve affordable housing.

**Fiscal Impact:**
None.

**Meeting Agency Priorities:**
☒Improve the Housing System
☐Preserve and Create Housing Opportunities
☐Make Homeownership More Accessible
☐Support People Needing Services
☐Strengthen Communities

**Attachment(s):**
Background

The Metropolitan Council (“Met Council”) approved a Manufactured Home Park ("MHP") Preservation Pilot Grant to help cover the cost of connecting the Maple Hill Estates manufactured home park (Maple Hill Estates) in Corcoran to the regional wastewater treatment system and to help preserve affordable housing. Maple Hill Estates has 191 units.

Under Minnesota Statutes, section 471.59, subdivision 1, the Met Council and Minnesota Housing are authorized to enter into joint powers agreements under which they can perform on behalf of other governmental units services or functions they are authorized to provide for themselves. It is required that the governing bodies of each governmental unit approve such agreements. Minnesota Housing has authority to enter into this agreement under Minn. Stat. section 462A.06, subd. 6.

The Met Council will pay $237,317 as a MHP Pilot Grant to Minnesota Housing which in turn will make the funds available to Maple Hill Estates to defray the costs of connecting Maple Hill Estates to the regional wastewater treatment system.

In exchange for the funding, Maple Hill Estates will continue to operate the property as a manufactured home park with affordable rents for 20 years. It will limit all lot rent increases to not more than 5 percent in a year.

The funding will help the City of Corcoran provide affordable housing.

MINNESOTA HOUSING

**Board Agenda Item:** 8.A
**Date: 1/23/2020**

**Item:** 2020 Capital Budget Recommendation

**Staff Contact(s):**
Dan Kitzberger, 651.296.3706, dan.kitzberger@state.mn.us
Ryan Baumtrog, 651.296.9820, ryan.baumtrog@state.mn.us

**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☒ Discussion
☐ Information

**Summary of Request:**
Governor Walz and Lt. Governor Flanagan announced a $260 million proposal for housing in their Local Jobs and Projects Bill. This includes $200 million in Housing Infrastructure Bond authorization and $60 million in State General Obligation bonds for public housing rehabilitation.

**Fiscal Impact:**
Loans financed with Housing Infrastructure Bond proceeds issued by Minnesota Housing generally do not earn interest for the agency.

Loans to public housing financed by State General Obligation Bond proceeds do not have any fiscal impact on the Agency as the State, not the Agency issues the bonds and the loan does not earn interest for the agency.

**Meeting Agency Priorities:**
☐Improve the Housing System
☒Preserve and Create Housing Opportunities
☐Make Homeownership More Accessible
☒Support People Needing Services
☒Strengthen Communities

**Attachment(s):**
- Will be provided at the meeting

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MINNESOTA HOUSING

**Board Agenda Item:** 9.A
**Date: 1/23/2020**

**Item:** Post-Sale Report, Homeownership Finance Bonds (HFB), 2019 Series H

**Staff Contact(s):**
Kevin Carpenter, 651.297.4009, kevin.carpenter@state.mn.us

**Request Type:**

☐ Approval
☐ Motion
☐ Resolution

☒ No Action Needed
☐ Discussion
☒ Information

**Summary of Request:**
The Agency sold $48,324,326 of Homeownership Finance Bonds on December 11, 2019 with a closing on December 23, 2019. 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:**
☐Improve the Housing System
☐Preserve and Create Housing Opportunities
☐Make Homeownership More Accessible
☐Support People Needing Services
☐Strengthen Communities

**Attachment(s):**
- Post-Sale Report

CSG | advisors

Via Email Delivery

**M E M O R A N D U M**

**Date:** **December 13, 2019**

**To:** **Minnesota Housing Finance Agency**

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

**Re:** **Post-Sale Report**
**$48,324,326 Homeownership Finance Bonds (HFB)**
**2019 Series H (Non-AMT)**

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***BOND CRITERIA***

The 2019 Series H Homeownership Finance Bonds refunded outstanding single-family bonds from the New Issue Bond Program, including Series 2010 A and 2009A-1. The bonds also financed $4.9 million of new production in order to fund the resulting zero participations.
The key criteria for issuing the debt were:

1. ***Achieve interest rate savings from refunding the prior bonds.***

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

3. ***Enable Minnesota Housing to continue ongoing contributions to key state housing needs*** by strengthening its long-term sustainability.

4. ***Use bond volume cap as efficiently and sparingly as possible,*** to continue both its single-family and multi-family programs.

***KEY RESULTS FOR MINNESOTA HOUSING***

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

- ***Spread and Zero Participations***. The agency increased the spread it had been earning on the mortgage-backed securities under the prior issue by about 55 basis points, creating approximately $4.9 million additional zero participations.
- ***Attractive Bond Yield.*** The bond rate was 2.47% on this tax-exempt series, compared to 3.02% on the prior bonds.

- ***Economic Return to Minnesota Housing.*** Minnesota Housing is projected to obtain approximately $2 million of present value savings at 150% PSA, in the form of additional spread and zero participations.

- ***Choices.*** Minnesota Housing compared taxable and tax-exempt refunding options as well as whether to refund an additional issue of prior bonds which had marginal savings.

- ***Hedging.*** The small amount of new loans in the issue remained fully hedged until bonds were sold. Minnesota Housing had a loss of $32,000 when it terminated the hedges.

- ***Sizing.*** The issue was sized based on the amount of outstanding bonds to be refunded plus the amount of new money needed to help comply with IRS yield requirements.

***Implications.*** Key implications include:

- ***Pass-Through Approach*.** Minnesota Housing has been the national leader in issuing single-family pass-through bonds to help finance production on-balance sheet. The net financial benefit from pass-through bonds compared to traditionally structured bonds varies from issue to issue. Because the bonds primarily refunded outstanding bonds with 10 year old mortgage-backed securities, the expected average life was shorter than for an all-new money issue (6.7 years versus 8.9 years on Series G at 150% PSA). Although the yield curve is relatively flat, this allowed the bonds to be sold at a slightly lower yield than an all new money issue.

- ***Balance Sheet Management.*** Minnesota Housing continues to be able to finance 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. The issue only required approximately $12,000 of new volume cap. An additional $4,918,942 of cap will be recycled by direct refundings of bonds that will be redeemed on 1/1/20.

***TIMING AND STRUCTURE***

***Timing.*** The issue was priced on Wednesday Dec. 11th, for closing on Monday, Dec. 23rd.

***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.

- Refund the prior issue on a tax-exempt basis, thus increasing the amount of zero participations to assist future financings.

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

***BOND SALE RESULTS.*** Key highlights are:

1. ***Investor Interest for Series 2019 H.*** There was good interest for these pass-through bonds at the pricing level of 2.47%, from 7 institutional investors, totaling approximately $55 million.

2. ***Treasuries.*** Yields have dropped dramatically this year, driven by the trade war with China and the Fed shifting from rate hikes to 3 rate cuts before pausing. The 10-year dropped from 2.91% when HFB Series 2018 IJ was priced in December 2018 to 2.65% when HFB 2019 AB was priced on Feb. 7, 2019 and 2.64% when RHFB 2019 ABCD was priced on March 7th. Resurgence of the trade war with China led to a flight for quality, with the 10-year dropping to 2.42% when HFB 2019 CD was priced on May 14, 2.10% when 2019 E was priced on June 13, 2.13% when 2019 F was priced in July, and 1.55% when RHFB EFGH was priced in mid-August. Rates have increased from those very low summer levels, with continued positive domestic growth and on-again off-again trade news with China. The 10-year Treasury was 1.88% when Series G was priced on November 13 and dipped to 1.79% on the date of pricing of Series H.

   Minnesota Housing's timing was fortunate: the 10-year rose to 1.90%, 11 basis points higher, the day after the pricing.

3. ***Municipals*****.** The municipal market index outperformed Treasuries during the first half of 2019, reflecting positive inflows into municipal bond funds, high redemptions and modest new supply. When 2019 CD was priced in May, the 10-year MMD Index had dropped to 71.5% of the 10-year Treasury, the lowest ratio in several years. Since then, Treasury yields initially plummeted far more than municipals, and the MMD/Treasury ratio returned to more typical levels in the mid 80% range. In the last month, since 2019 G, municipals again somewhat outperformed Treasuries.

| Issue | Date | 10-Year Treasury | 10-Year MMD | MMD/Treasury Ratio |
|---|---|---|---|---|
| 2018 HFB G/H | 10/17/18 | 3.19% | 2.72% | 85.3% |
| *2018 RHFB EFGH* | 11/14/18 | 3.12% | 2.70% | 86.5% |
| 2018 HFB IJ | 12/13/18 | 2.91% | 2.40% | 82.5% |
| 2019 HFB AB | 2/7/19 | 2.65% | 2.14% | 80.8% |
| *2019 RHFB ABCD* | 3/7/19 | 2.64% | 2.08% | 78.8% |
| 2019 HFB CD | 5/14/19 | 2.42% | 1.73% | 71.5% |
| 2019 HFB E | 6/13/19 | 2.10% | 1.66% | 79.0% |
| 2019 HFB F | 7/16/19 | 2.13% | 1.58% | 74.2% |
| *2019 RHFB EFGH* | 8/20/19 | 1.55% | 1.23% | 79.4% |
| **2019 HFB G** | **11/13/19** | **1.88%** | **1.58%** | **84.0%** |
| **2019 HFB H** | **12/11/19** | **1.79%** | **1.42%** | **79.3%** |
| **Change from 2019 HFB G** | | **- 9 bp** | **- 16 bp** | **- 4.7%** |

4. ***Comparison to GNMA Yields.*** Investors compare yields on pass-through issues to current-coupon GNMAs, although pass-through bonds provide much less liquidity in the global markets. GNMA yields dropped by 15 basis points since the last pass-through, 2019 G in November, while Treasury's dropped by 9 basis points. The result is that Minnesota Housing's spread to GNMA's was only 4 basis points, compared to 23 basis points on its last tax-exempt pass-through issue in May. The exceptional tightness partly reflects the shorter average life on this largely refunding issue.

| | 2018 I/J Dec. '18 | 2019 A/B Feb. '19 | 2019 C/D May '19 | 2019 E June '19 | 2019 F July '19 | 2019 G Nov. '19 | 2019 H Dec. '19 |
|---|---|---|---|---|---|---|---|
| **Minn. Housing bond yield** | | | | | | | |
| **Tax-Exempt** | 3.60% | 3.45% | 3.15% | n.a. | n.a. | **n.a.** | **2.47%** |
| **Taxable** | 4.00% | 3.80% | 3.55% | 3.25% | 3.23% | **3.02%** | **n.a.** |
| **Yield on GNMA I, 3.0 current coupon, at dealer prepay speed** | 3.42% | 3.15% | 2.92% | 2.71% | 2.70% | **2.58%** | **2.43%** |
| **Minn. Housing v. GNMA** | | | | | | | |
| **Tax-exempt** | +18 bp | +30 bp | +23 bp | n.a. | n.a. | **n.a.** | **+4 bp** |
| **Taxable** | +58 bp | +65 bp | +63 bp | +54 bp | +53 bp | **+44 bp** | **n.a.** |

5. ***Comparable Tax-Exempt Pass-Through Transactions:*** *Aside from Minnesota, the other* issuer of tax-exempt pass-through bonds in 2019 was Colorado. The shorter average life of this largely refunding issue helps explain the extraordinarily low spread to Treasuries.

| | **Minn. Tax-Ex. 2018 C** | **Minn. Tax-Ex. 2018 E** | **Minn. Tax-Ex. 2018 G** | **Colorado Tax-Ex. 2018 BB-1** | **Minn. Tax-Ex. 2018 I** | **Minn. Tax-Ex. 2019A** | **Minn. Tax-Ex. 2019 C** | **Minn. Tax-Ex. 2019 H** |
|---|---|---|---|---|---|---|---|---|
| **Size** | $30.3 m. | $47.8 m. | $31.8 m. | $46.7 m. | $23.0 m. | $35.6 m. | $13.7 m. | $48.3 m. |
| **Rating** | Aaa | Aaa | Aaa | Aaa | Aaa | Aaa | Aaa | Aaa |
| **Type** | New Money | New Money | New Money | New Money | New Money | New Money | New Money | 89% Refunding 11% New |
| **Pricing Date** | 4/12/18 | 8/16/18 | 10/17/18 | 10/18/18 | 12/13/18 | 2/7/19 | 5/14/19 | 12/11/19 |
| **Price** | Par | Par | Par | 102.935 Premium | Par | Par | Par | Par |
| **Ave. Life at 150% PSA: in years** | 8.7 | 8.9 | 8.8 | 8.4 | 8.9 | 8.9 | 8.9 | 6.7 |
| **Yield** | 3.30% | 3.45% | 3.75% | 3.80% (@ 125% PSA) | 3.60% | 3.45% | 3.15% | 2.47% |
| **Spread to 10yr US Treas.** | +47 bp | +58 bp | +56 bp | +64 bp | +69 bp | +80 bp | +73 bp | +68 bp |
| **Spread to 10yr MMD** | +90 bp | +102bp | +103bp | +107 bp | +120 bp | +131 bp | +142 bp | +105 bp |
| **Spread to 3% GNMA (at Dealer Prepay Speed)** | -2 bp | +10 bp | +3 bp | +9 bp | +18 bp | +30 bp | +23 bp | +4 bp |
| **Underwriter** | RBC | RBC | RBC | RBC | RBC | RBC | RBC | RBC |

Series H was exceptional because it blended 10-year old mortgage backed securities and new ones, creating a shorter average life than most new money issues. Taking into account the relative benefits of the shorter life compared to past new money tax-exempt issues, the 2.47% level seemed very appropriate. While some smaller investors indicated even lower levels, RBC was able to persuade the major buyer to reduce their requested yield to 2.47%.

***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.

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***ISSUE DETAILS***

***Economic Calendar.*** The key releases leading up to the sale included CPI, which came in slightly higher than expected, while Core CPI remained, as expected at 0.2%. The Federal Reserve meeting on the same day as the sale offered no news, as the Fed continued to maintain interest rates at current levels. Daily swings in news and rumors of trade talks pushed up interest rates the day before the sale, down on the day of the sale and up again the following day, creating an unusually choppy market.

***Municipal Calendar*.** The week before the sale was one of the busiest of the year, with $18 billion of bonds sold, followed by $13 billion in the week of the sale as underwriters sought to price financings before the holidays. Structured single-family issues during the week of sale included North Carolina for $150 million, MassHousing for $61 million and Montana for $42 million.

***MBS Yields.*** MBS yields are very relevant because investors can choose between purchasing MBS directly or buying Minnesota Housing's bonds backed by MBS. As described above, bond purchasers look as much to the spread between Minnesota Housing's taxable pass-through bonds and MBS as they do to the spread between Minnesota Housing bonds and Treasuries. Since the last tax-exempt pass-through issue in June, GNMA yields dropped by 28 basis points, while Treasuries dropped by 31 basis points. If Series H had been all-new money, the yield might have been higher than it actually was, perhaps about 2.60%, but that would still have been 45 basis points lower than in June.

| Type | Delivery | Coupon | Measure | Oct 17, 2018 | Dec 13, 2018 | Feb 7, 2019 | May 14, 2019 | Jun 13, 2019 | July 16, 2019 | Nov 13, 2019 | Dec. 11, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **GNMA** | Current | 3.0 | Price | 95.70 | 97.48 | 99.08 | 100.45 | 101.48 | 101.52 | 102.08 | 102.72 |
| | | | Yield* | 3.72% | 3.42% | 3.15% | 2.92% | 2.71% | 2.70% | 2.58% | 2.43% |
| | | | Dealer Forecast % PSA | 146% | 148% | 147% | 173% | 195% | 205% | 210% | 224% |
| **FNMA** | Current | 3.5 | Price | 97.58 | 98.83 | 100.30 | 101.27 | 102.11 | 102.11 | 102.36 | 102.69 |
| | | | Yield* | 3.82% | 3.66% | 3.45% | 3.24% | 3.00% | 2.85% | 2.78% | 2.61% |
| | | | Dealer Forecast % PSA | 117% | 122% | 133% | 224% | 284% | 383% | 407% | 443% |
| **10yr US Treas.** | n/a | n/a | Yield | 3.19% | 2.91% | 2.65% | 2.42% | 2.10% | 2.13% | 1.88% | 1.79% |
| **10yr MMD** | n/a | n/a | Yield | 2.72% | 2.40% | 2.14% | 1.73% | 1.66% | 1.58% | 1.58% | 1.42% |
| **GNMA to 10-Year Treasury** | n/a | n/a | Yield* | 116.6% | 117.5% | 118.9% | 120.7% | 129.0% | 126.8% | 137.2% | 135.8% |
| **GNMA to 10-Year MMD** | n/a | n/a | Yield* | 136.8% | 142.5% | 147.2% | 168.8% | 163.3% | 170.9% | 163.3% | 171.1% |
| **Minnesota Housing** | Tax-exempt<br>Taxable | | | **3.45%**<br>**3.80%** | **3.75%**<br>**4.10%** | **3.60%**<br>**4.00%** | **3.45%**<br>**3.80%** | **3.15%**<br>**3.55%** | **n.a.**<br>**3.25%** | **n.a.**<br>**3.02%** | **2.47%**<br>**n.a.** |

* Yield at dealer forecast prepayment speed

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