MEETINGS SCHEDULED FOR DECEMBER

Location:

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

THURSDAY, JANUARY 23, 2014

Regular Board Meeting
Jelatis Conference Room – Third Floor
1:00 p.m.

REVISED
The agenda in in this packet was revised following distribution. There are no other changesl.

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, 2014.

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.

Minnesota Housing Finance Agency
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Equal Opportunity Housing and Equal Opportunity Employment

REVISED AGENDA
Minnesota Housing Finance Agency
Board Meeting
Thursday, January 23, 2014
1:00 p.m.

Jelatis Conference Room – Third Floor
400 Sibley Street, St. Paul, Minnesota 55101

1. **Call to Order**
2. **Roll Call**
3. **Agenda Review**
4. **Approval of Minutes**
   A. Regular Meeting of December 19, 2013
5. **Reports**
   A. Chair
   B. Commissioner
   C. Committee
6. **Consent Agenda**
   A. Proposed Revisions to the 2014/2015 Housing Tax Credit (HTC) Program Qualified Allocation Plan (QAP) and Procedural Manual
   B. Modification, Lower Sioux Indian Community Proposal, Community Homeownership Impact Fund
7. **Action Items**
   A. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2014 Series A
   B. Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds
   C. Low- and Moderate-Income Rental (LMIR) Bridge Loan (BL)
   - Commonbond VA Housing Fort Snelling, Minneapolis
   D. Auditor Selection
   E. Net Asset and Investment Guidelines for General Reserve Account Assets
   F. Housing Trust Fund Re-entry Rental Assistance Initiative
8. **Discussion Items**
   A. 2014 Division Work Plans Summary
9. **Informational Items**
   A. Semi-annual Variable Rate Debt and Swap Performance Review as of January 1, 2014
10. **Other Business**
    A. Executive Session: Commissioner's Performance Goals
11. **Adjournment**

MINUTES

MINNESOTA HOUSING FINANCE AGENCY BOARD MEETING
Thursday, December 19, 2013
1:00 p.m.
State Street Conference Room – 1st Floor
400 Sibley Street, St. Paul, MN 55101

1. **Call to Order.**
   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:00 p.m.
2. **Roll Call.**
   Members present: John DeCramer, Joe Johnson, Ken Johnson, Stephanie Klinzing. Steve Johnson joined the meeting at 1:01 p.m. Rebecca Otto joined the meeting at 1:05 p.m. Absent: Gloria Bostrom.
   Minnesota Housing staff present: Tal Anderson, Paula Beck, Mike Haley, Susan Haugen, Karen Johnson, Kurt Keena, Janine Langsjoen, Diana Lund, Eric Mattson, Kirsten Partenheimer, John Patterson, Carolyn Polito, Leslee Post, Paula Rindels, Joel Salzer, Becky Schack, Kim Stuart, Will Thompson, Mary Tingerthal, Heidi Welch, Don Wyszynski.
   Others present: Paul Rebholz, Wells Fargo; Jean Lee, CHI/RRFC, APAHC; Chip Halbach, Minnesota Housing Partnership; Tom O'Hern, Office of the Attorney General.
3. **Agenda Review**
   There were no changes to the agenda.
4. **Approval of the Minutes.**
   A. Regular Meeting of November 21, 2013
   Stephanie Klinzing moved approval of the minutes as written. John DeCramer seconded the motion. Motion carries 5-0.
5. **Reports**
   A. Chair
   There was no chairman's report.
   B. Commissioner
   Commissioner Tingerthal announced that she would need to leave the meeting early to attend a press event at which the new state plan to prevent homelessness would be publically be released. A copy of the plan was provided to members. Commissioner Tingerthal added that Minnesota Department of Education Commissioner Cassellius would be speaking at the event, as would Department of Human Services Commissioner Jesson, who with Commissioner Tingerthal co-chaired the Interagency Council on Homelessness. Carleen Rhodes, President and CEO of Minnesota Philanthropy Partners and co-chair of Heading Home Minnesota would also provide remarks, focusing on the commitment of the private sector to the success of the plan. Mayor Coleman and Mayor-elect Hodges would be providing remarks as well. The day's event would also announce the action taken at the last board meeting selecting awardees for the highly mobile students' pilot program, which allocates rental assistance to stabilize housing for families with school age children. These families are also working with established education programs to create opportunities for their children to succeed in school.

   Tingerthal added that she was very pleased with the final meeting of Commissioners and that there was a level of real commitment, not just from the Commissioners but also from the staff charged with completing the work outlined in the plan. The plan includes twelve action steps and each step has an assigned team. In the plan, there is only one clear legislative ask and that is for an allocation of housing infrastructure bonds. Minnesota Housing has submitted a total bonding request of $100 million that includes both general obligation and housing infrastructure bonds. The proceeds would be used to preserve housing and also to fund new supportive housing for persons who've experienced homelessness. The next step is for interagency groups to meet and develop plans, which may include redirecting funds for a variety of uses. The goal of the group is to develop these plans by early June, at which time Commissioners will meet and determine what resources they will include in their budget planning. The group has been deliberate about the timing of the work within the plan and this will result in some tangible recommendations. Tingerthal added that she is excited about the plan and that Cathy ten Broeke, State Director to Prevent and End Homelessness, has done a great job of instilling a lot of excitement and energy into the group of people who are charged with carrying out the plan.

Next, Tingerthal pointed out a memo that was provided to members inviting them to a presentation prior to the January board meeting. As part of the state initiative to work with tribal members of Minnesota, in connection with an executive order issued with the goal of improving relationships between agencies and tribal nations, the Agency is fortunate to have a long working relationship with Karen Diver, Chairwoman of the Fond-du-Lac Band of Lake Superior Chippewa, who has prepared and will present to staff a presentation entitled “"We Are Your Neighbors - A Journey Toward Better Understanding of American Indians." The presentation will be given twice on the day of the next board meeting and members were invited to attend the morning session and also join Commissioner Tingerthal for lunch with Chairwoman Diver. Tingerthal added that Chairwoman Diver is dynamic speaker with a lot of requests for her time and the Agency is grateful she will spend her day with us.

Commissioner Tingerthal shared that the Agency has identified its new chief financial officer. Rob Tietz, coming from the Iowa HFA, will join the Agency on January 21 and members would meet him at the next meeting. Current chief financial officer, Don Wyszynski, has extended his retirement date in order to provide an overlap with Mr. Tietz.

The following employee introductions were made:

- Diana Lund introduced Carolyn Polito. Ms. Polito comes to the Agency from Cornerstone Group, a development organization and previously worked in property management for market rate buildings. Ms. Polito recently received her master's degree in real estate.

C. Committee

There were no committee reports.

6. Consent Agenda

A. 2014 Meeting Dates

B. Resolution Relating to State Appropriation Bonds (Housing Infrastructure), Series 2013; Amending Resolution No. MHFA 13-019

Auditor Otto stated that she had a conflict with one scheduled meeting during 2014. **MOTION:** Stephanie Klinzing moved to approve the consent agenda and the adoption of Resolution No. MHFA 13-065, amending Resolution No. MHFA 13-019. Steve Johnson seconded the motion. Motion carries 6-0.

7. Action Items

A. Approval, Income Limit Calculation Revisions, Single Family Programs

Kirsten Partenheimer requested approval of these revisions to the income limit calculations and to use industry standard qualifications for the Step Up program. Ms. Partenheimer stated that the changes have come about from an annual focus group with top producing lenders, where there was discussion about how to improve homeownership by emerging markets households. Loan officers shared that these households tend to be larger or have temporary household members and because of this it was harder to qualify these families. Staff worked with Planning, Research, and Evaluation department and validated the observations. Staff also had follow up conversations with lenders and heard anecdotal evidence about scenarios seen with emerging markets households. Ms. Partenheimer added that income qualification for the Mortgage Credit Certificate program is bound to the tax code and staff reviewed those portions of the tax code and found them to be less restrictive than the Agency's guidelines. The tax code requires only that the income of mortgagors or persons on the note be included for qualification; Agency policy requires inclusion of the income of all household members over the age of 18.

Ms. Partenheimer stated that both the deferred and monthly down payment assistant programs follow the qualification standards of the first mortgage programs and will be changed in concert with any changes to first mortgage lending guidelines. Changes to the Impact Fund and the Fix Up fund would come to the board during 2014.

Ms. Partenheimer requested that the Step Up program be simplified to make it easier for lenders to do business with us. The Agency has the opportunity to use an industry standard qualifying calculation for the program, which would streamline the program and make it easier for lenders, who are very supportive of the change. Ms. Partenheimer added that staff will monitor all programs for intended and unintended consequences to ensure the changes are having the intended impact.

In response to a question from Ms. Klinzing, Ms. Partenheimer stated that extensive outreach and trainings will be offered to mitigate any confusion amongst lenders regarding program requirements. In response to a question from Mr. Joe Johnson, statistics were shared regarding the number of applications received for the different first mortgage lending programs. Mike Haley shared that the lenders we work with have looked at us as a source to provide first time homebuyer loans. Staff found early on that there was a significant amount of training needed in the lender network to inform them of the opportunities available for non-first time homebuyers. Educating lenders about all the programs offered by the Agency will continue to be an area of considerable emphasis as the year goes by. **MOTION:** Auditor Otto moved approval of the program changes and the subsequent necessary changes to the program manuals. Mr. Joe Johnson seconded the motion. Motion carries 6-0.

B. Continuation of Rental Rehabilitation Deferred Loan Pilot Program

Susan Haugen presented a request for a continuation of the Rental Rehabilitation Deferred Loan Program for an additional 20 months. Ms. Haugen stated that the program focuses on applications that were not competitive in the RFP due to their size and other reasons. The program focuses on communities with job growth and high need preservation for which other resources are not available.

Ms. Haugen added that in April, 2013 the Board approved several modifications to make the program more accessible to the owners of smaller properties (those with 10 or fewer units) and that commitments under the pilot have almost doubled since those changes were implemented.

In response to a question from Mr. DeCramer, Ms. Haugen stated that staff currently plans to continue with current administrators, but new administrators may apply if they will provide coverage in a part of the state that does not currently have an administrator. The ultimate goal is to have statewide coverage, excluding the Twin Cities metro area.

MOTION: Ms. Klinzing moved approval of the continuation of the pilot program. Mr. DeCramer seconded the motion. Motion carries 6-0.

C. Amendment to the 2014 Affordable Housing Plan (AHP): Rental Rehabilitation Deferred Loan (RRDL) Pilot Program and Rental Rehabilitation Loan (RRL) Program

There was not a presentation for this request, which was considered following item 7.D.

Motion: Ms. Klinzing moved approval of the amendments to the Affordable Housing Plan. Mr. Joe Johnson seconded the motion. Motion carries 6-0.

D. Selection/Commitment, Asset Management Loan, Todd 27, Long Prairie D0710

Ms. Leslee Post presented this request for an asset management loan for Todd 27, a 100% Section 8 development approximately 60 miles northwest of Saint Cloud. Ms. Post added that the development is a family development but does have 12 one-bedroom units that are generally occupied by seniors. **MOTION:** Mr. Joe Johnson moved approval of the request and the adoption of Resolution No. MHFA 13-066. Auditor Otto seconded the motion. Motion carries 6-0.

8. Discussion Items

A. Agency Risk Profile

Risk Manager Will Thompson presented highlights of the updated Risk Profile, stating that additional staff completed assessments this year and that report now contains trend information. No action needed.

9. Informational Items

A. Report of Complaints Received by Agency or Chief Risk Officer

Information item, no action needed.

10. Other Business

None.

11. Adjournment.

The meeting was adjourned at 1:37 p.m.

AGENDA ITEM: 6.A
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Proposed Revisions to the 2014/2015 Housing Tax Credit (HTC) Program Qualified Allocation Plan (QAP) and Procedural Manual

CONTACT: Kayla Schuchman, 651-296-3705
kayla.schuchman@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff is recommending adoption of a motion for approval of the proposed revisions for the 2014/2015 Housing Tax Credit Qualified Allocation Plan (QAP) and Procedural Manual.

FISCAL IMPACT:
This is a federally sponsored program not funded from state appropriations and will not have any fiscal impact on the Agency's financial condition.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- 2014/2015 Housing Tax Credit Program, QAP and Procedural Manual Proposed Revisions
- Preservation Geographic Priority Areas Methodology

BACKGROUND:
The Federal Tax Reform Act of 1986 created the Housing Tax Credit Program (HTC) for qualified residential rental properties. The HTC program is the principal federal subsidy contained within the tax law for acquisition/substantial rehabilitation and new construction of low-income rental housing.

Section 42 of the Internal Revenue Code (IRC), requires that state allocating agencies develop a Qualified Allocation Plan (QAP) for the distribution of the tax credits within their jurisdiction. The QAP is subject to modification or amendment to ensure the provisions conform to the changing requirements of the IRC, applicable state statute, the changing environment and to best promote the Agency's strategic priorities. Staff has reviewed the HTC program and is preparing the necessary modifications.

In the past, Minnesota Housing has received feedback that the annual schedule of publishing the QAP in March of each year, with applications for tax credits governed by that QAP due in June of that same year, provided insufficient time for developers to prepare applications meeting the priorities published in the QAP. In response, in January 2013 staff proposed a one-time only two-year QAP, the 2014/2015 QAP, which will allow for an ongoing adjustment in the annual schedule to provide an additional year to developers between publication of the annual QAP and the application due date.

In evaluating the June 2013 application round for 2014 Round 1 Housing Tax Credits, staff has determined that amendments are needed to the 2014/2015 QAP for the upcoming 2015 Housing Tax Credit funding rounds, to add clarity around the Preservation scoring criteria in the currently adopted 2014/2015 policy documents. Proposed revisions would apply only to credits allocated under the 2015 Housing Tax Credit year, and would not apply to applications received for 2014 Housing Tax Credit Round 2, due January 28, 2014.

A summary of the proposed revisions for the 2014/2015 QAP and Manual will be made available for public review on the Agency's web site following Board approval along with a notice of the upcoming HTC 2014/2015 QAP public hearing. While a public hearing on the 2014/2015 QAP was already held in February 2013, the Agency will invite comments from the public regarding the currently proposed amendments at a public hearing scheduled for February 20, 2014. Staff will review all comments related to these amendments, and changes will be incorporated into the HTC QAP and/or Manual where appropriate. The Board will review the final 2014/2015 HTC QAP and Procedural Manual revisions at its March 27th Board meeting.

Upon obtaining final Agency Board and Governor approval of the HTC QAP and Procedural Manual, the Request for Proposals for 2015 Round 1 and Round 2 will be issued, application materials will be posted on Minnesota Housing's website and staff will provide technical assistance to applicants.

In addition, any proposed policy changes for the 2016 QAP will be brought to the Board for review at the February 27th meeting. Proposed revisions for 2016 will be made available and the Agency will invite comments from the public at a hearing scheduled for March 20, 2014. Staff will review all comments and incorporate changes into the HTC QAP and/or Manual for final review by the board at its April 24th meeting.

2014/2015 Housing Tax Credit Program, QAP and Procedural Manual
Proposed Revisions

Statutory
No statutory changes are proposed.

Qualified Allocation Plan and/or Procedural Manual

The following amendments to the existing Preservation of Federally Assisted Units and Preservation of Existing Housing Tax Credit Units scoring criteria are proposed based on additional experience:

1. **Revise methodology for geographic priority areas under the Preservation of Federally Assisted Units scoring criterion**

   The 2014/2015 QAP approved by the Board in April 2013 provided that properties with federal assistance would need to be in an area experiencing job or household growth to be considered for the highest tier of points under the Preservation of Federally Assisted Units scoring criterion. While the job growth priority areas were established based on city, household growth areas were mapped by census tract. In evaluating applications against household growth areas with applications received through 2014 Round 1, the priority census tracts were found to be problematic as census tracts can be quite large, covering hundreds of square miles in rural areas, and containing multiple small townships. Because of this, a census tract doesn't always capture a "housing market," while the purpose of prioritizing these areas was to target strong housing markets. To correct for this, the methodology has been revised to also evaluate smaller cities in addition to census tracts. Refer to the Preservation Geographic Priority Areas Methodology attachment for household growth areas and a more detailed explanation of the methodology used.

2. **Revise priorities under the Preservation of Federally Assisted Units, Preservation of Existing Housing Tax Credits scoring criteria**

   The current criteria require a property to have an as-is condition that does not meet Minnesota Housing's minimum design standards in order to be considered at high risk of loss. The design standards published in Minnesota Housing's Rental Housing Design and Construction Standards define only broad terms about property condition, and do not serve as a good reference in determining which portion of a property's physical component needs are truly critical. Staff recommends instead referencing HUD's Uniform Physical Condition Standards (UPCS), which provide a much more detailed standard that can be reported by the developer and validated by Agency architects to determine whether the condition of a physical component puts the property at risk. Because UPCS does not include a measure for some major building exterior components and mechanical systems, any critical physical need reported without a corresponding UPCS standard must be supported by independent third party professional certification.

   In addition, clarification is recommended to allow tribal properties subsidized under the Native American Self-Determination Act (NAHASDA) to be eligible for points under the Preservation of Federally Assisted Units scoring criterion. With publication of the 2014/2015 QAP, the definition of federal assistance was revised to remove reference to specific federal subsidy programs, including NAHASDA, and the criteria for eligibility were revised in a way that is difficult for NAHASDA properties to document eligibility. The combination of these two changes causes confusion about whether NAHASDA properties are eligible for points under Preservation of Federally Assisted Units, and clarification is necessary to remedy this.

Current (Preservation of Federally Assisted Units):

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development ("HUD") or U.S. Department of Agriculture Rural Development ("RD") program that is not scheduled to sunset or expire.

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

☐ **Imminent Risk of Loss – 30 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss within three years of application date for the following reasons:

   ☐ Prepayment/opt-out/mortgage maturity and conversion to market rate housing.

   Attach evidence (narratives), including eligibility dates, with copies of relevant expiring contracts, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence all of the following:

   ☐ Location in either a jobs growth area or household growth area (as published by Minnesota Housing); and

   ☐ Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

   ☐ The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and amenities necessary to match market comparable units.

Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

☐ **High Risk of Loss – 25 Points**

1. To obtain these points, the existing federal assistance must be at risk of loss under one of the following two thresholds:

   ☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and the local need for subsidized units can be demonstrated by data evidencing rent-burdened population (as published by Minnesota Housing): Cost Burdened Lower Income Renters You can find this information in the agency's community profiles interactive mapping tool or

☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and property is located in either jobs growth area or household growth area (as published by Minnesota Housing); Preservation Geographic Priority Areas

AND

either 2a. or 2b. is true.

1. Reason for high risk of loss:

2a. ☐ Substantial physical needs identified by third party assessment to support the following conclusions:

- i. As-is condition of property does not meet Minnesota Housing's minimum design standards, and
- ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of federally assisted units, and
- iii. Identified scope of work required to meet minimum design standards exceeds the available reserves.

Attach evidence of most recent REAC score or RD classification, outstanding code violations or other inspection results that threaten sustained operations under the federal assistance.

Attach worksheet showing certification of the costs related to repair or replacement of physical improvements not currently meeting Minnesota Housing's design standards and available reserves.

OR

2b. ☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

- i. Bankruptcy/insolvency
- ii. Self-determination of diminishing or insufficient capacity by nonprofit board

Current (Preservation of Existing Housing Tax Credits):

These points are available only to existing Minnesota Housing tax credit projects applying for tax credits from Minnesota Housing's competitive allocation process (consolidated RFP) and qualified tax exempt projects applying for a preliminary determination letter from Minnesota Housing as the credit allocator.

To obtain the related points, the existing tax credit housing must meet all of the following:

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (Qualified Contract) within the next 12 months (developments that have exercised their option to opt out under the Qualified Contract process are not eligible for points in this category); and

2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years; and

3. The proposal will not result in the displacement of existing low and moderate income residents;

4. The development must claim and be eligible for points under Serves Lowest Income Tenants/Rent Reduction.

AND either 5a. or 5b. is true (check one)

5a ☐ **Imminent Risk of Loss –10 points**

Attach evidence including eligibility dates and copies of relevant documents that describe option to file for Qualified Contract and to fully evidence both of the following:

☐ Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

☐ The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and additional amenities necessary to match market comparable units.

5b. ☐ **High Risk of Loss – 7 Points**

Due to:

☐ Substantial physical needs identified by third party assessment to support the following conclusions:

i. As-is condition of property does not meet Minnesota Housing's minimum design standards; and
ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of Housing Tax Credit units; and
iii. Identified scope of work required to meet minimum design standards exceeds the available reserves.

Attach evidence of most recent UPCS (Uniform Physical Condition Standards) findings, outstanding code violations or other inspection results that threaten sustained operations under the housing tax credit program.

Attach worksheet showing certification of the costs related to repair or replacement of physical improvements not currently meeting the Minnesota Housing's design standards and available reserves.

OR

☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

i. Bankruptcy
ii. Self-determination of diminishing or insufficient capacity by nonprofit board

Proposed – Preservation of Federally Assisted Units (revisions underlined/black lined):

DEFINITION - Any housing receiving project based rental assistance, operating subsidies, or mortgage interest reduction payments under a U.S. Department of Housing and Urban Development ("HUD") or U.S. Department of Agriculture Rural Development ("RD") program that is not scheduled to sunset or expire. NAHASDA is eligible for points under Imminent Risk of Loss provided that criteria 1.b. and 1.c. are met, and eligible for points under High Risk of Loss provided that either criterion 2.a. or 2.b. is met.

In order to obtain the related points, the owner shall continue renewals of existing project based housing subsidy payment contract(s) for as long as the assistance is available. Except for "good cause" the owner must not evict existing subsidized residents and must continue to renew leases for those residents.

☐ **Imminent Risk of Loss – 30 Points**

2. To obtain these points, the existing federal assistance must be at risk of loss within three years of application date ~~for the following reasons~~ due to p~~P~~repayment/opt-out/mortgage maturity and conversion to market rate housing.

   Attach evidence (narratives), including eligibility dates, with copies of relevant expiring contracts, loan documents that describe the ability to pre-pay the financing including required approvals and/or penalties AND documentation to fully evidence all of the following:

   ☐ a. Location in either a jobs growth area or household growth area (as published by Minnesota Housing); and

   ☐ b. Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

   ☐ c. The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and amenities necessary to match market comparable units.

Minnesota Housing, at its sole discretion, must agree that a market exists for a conversion to market rate housing.

☐ **High Risk of Loss – 25 Points**

2. To obtain these points, the existing federal assistance must be at risk of loss under one of the following two thresholds:

   ☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and the local need for subsidized units can be demonstrated by data evidencing rent-burdened population (as published by Minnesota Housing): Cost Burdened Lower Income Renters You can find this information in the agency's community profiles interactive mapping tool

or

☐ Contract expiration/opt-out or mortgage maturity/prepayment within six years of application date and property is located in either jobs growth area or household growth area (as published by Minnesota Housing); Preservation Geographic Priority Areas

AND

either 2a. or 2b. is true.

2. Reason for high risk of loss:

2a. ☐ ~~Substantial~~ Critical physical needs identified by third party assessment to support the following conclusions:

i. As-is condition of a property's physical component(s) does not meet:
   1. ~~Minnesota Housing's minimum design standards~~HUD's Uniform Physical Condition Standards (UPCS), or ~~and~~
   2. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and

ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of federally assisted units, and
   1. Identified scope of critical physical needs~~work required to meet minimum design standards~~ exceeds the available reserves.

Attach evidence of most recent REAC score or RD classification, outstanding code violations or other inspection results that threaten sustained operations under the federal assistance. Evidence of inspection results is not required for NAHASDA.

Attach Determination of Critical Physical Needs worksheet. ~~showing certification of the costs related to repair or replacement of physical improvements not currently meeting Minnesota Housing's design standards and available reserves.~~

OR

2b. ☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

iii. Bankruptcy/insolvency
iv. Self-determination of diminishing or insufficient capacity by nonprofit board

Proposed (Preservation of Existing Housing Tax Credit Units):

These points are available only to existing Minnesota Housing tax credit projects applying for tax credits from Minnesota Housing's competitive allocation process (consolidated RFP) and qualified tax exempt projects applying for a preliminary determination letter from Minnesota Housing as the credit allocator.

To obtain the related points, the existing tax credit housing must meet all of the following:

1. The development received a Minnesota Housing allocation of housing tax credits and is eligible to exercise their option under the provisions of Section 42(h)(6)(E)(i)(II) and 42(h)(6)(F) (Qualified Contract) within the next 12 months (developments that have exercised their option to opt out under the Qualified Contract process are not eligible for points in this category); and
2. Applicant agrees to maintain the Housing Tax Credit Units in the development for at least 30 years; and
3. The proposal will not result in the displacement of existing low and moderate income residents;
4. The development must claim and be eligible for points under Serves Lowest Income Tenants/Rent Reduction.

AND either 5a. or 5b. is true (check one)

5a ☐ **Imminent Risk of Loss –10 points**

Attach evidence including eligibility dates and copies of relevant documents that describe option to file for Qualified Contract and to fully evidence both of the following:

☐ Market for conversion evidenced by significant rent differential and low physical vacancy rate (4% or lower) for market rate comparable units (comparable units to be validated by Minnesota Housing at Minnesota Housing's discretion); and

☐ The property's ability to command market rents as evidenced by direct comparison to local market comparable units and amenities. Conversion scenario must result in sufficient additional revenue to support improvements and additional amenities necessary to match market comparable units.

5b. ☐ **High Risk of Loss – 7 Points**

Due to:

☐ ~~Substantial~~Critical physical needs identified by third party assessment to support the following conclusions:

i. As-is condition of a property's physical component(s) does not meet:
   a. ~~Minnesota Housing's minimum design standards~~HUD's Uniform Physical Condition Standards (UPCS), or ~~and~~
   b.
   c. For building exterior components and mechanical systems for which UPCS does not provide a measure, critical need(s) supported by an independent third party professional certification, and

ii. Repair/replacement of major physical plant components have been identified which will result in 15+ years sustained operations of Housing Tax Credit units; and

iii. Identified scope of ~~work required to meet minimum design standards~~ critical physical needs exceeds the available reserves.

Attach evidence of most recent UPCS ~~(Uniform Physical Condition Standards)~~ findings, outstanding code violations or other inspection results that threaten sustained operations under the housing tax credit program.

Attach Determination of Critical Physical Needs worksheet ~~showing certification of the costs related to repair or replacement of physical improvements not currently meeting the Minnesota Housing's design standards and available reserves~~.

OR

☐ A change in ownership is necessary due to deterioration of capacity as evidenced by threat to units remaining decent, safe, and affordable due to events such as:

iii. Bankruptcy

iv. Self-determination of diminishing or insufficient capacity by nonprofit board

Preservation Geographic Priority Areas
In the preservation priority, there are three geographic based areas defined in the self-scoring worksheet – regional definition, jobs and household growth communities, and rent burdened areas. This methodology defines each. Applicants will find interactive maps to identify whether a property falls within these areas on Minnesota Housing's website – www.mnhousing.gov > Research & Publications > Community Profiles.

1. Regional Definitions

For the purposes of obtaining points for number of units preserved, the state is broke into three geographic regions, the Twin Cities seven county metropolitan area, Greater Minnesota counties part of a Metropolitan Statistical Area, and rural counties not included in the previous two categories. Table 1 below displays a list of counties in the Metro and Greater Minnesota MSAs.

Table 1 – Metro and MSA Counties

Region	Minnesota Counties
Duluth MSA	Carlton, Saint Louis
Fargo MSA	Clay
Grand Forks MSA	Polk
La Crosse MSA	Houston
Mankato MSA	Blue Earth, Nicollet
Rochester MSA	Dodge, Olmsted
Saint Cloud MSA	Benton, Stearns
Twin Cities 7 County Metro	Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, Washington
Twin Cities MSA (outside of 7 County Metro)	Chisago, Isanti, Sherburne, Wright

2. Job and Household Growth Communities Methodology

The methodology for determining areas with job growth is consistent with the methodology used in the "workforce housing" priority. The two priority areas differ with the workforce housing priority's inclusion of top job centers in total jobs and the preservation priority's inclusion of household growth.

Areas can be defined as a growth community in two ways, through job or household growth. Job growth areas are determined by a city or township's job growth between 2007 and 2012, based on data from the Minnesota Department of Employment and Economic Development's Quarterly Census of Employment and Wages[1]. Household growth areas are determined by a *census tract's* growth in total households between 2000 and 2012, based on data from the US Census's Decennial Census and American Community Survey.

2.1 Job Growth

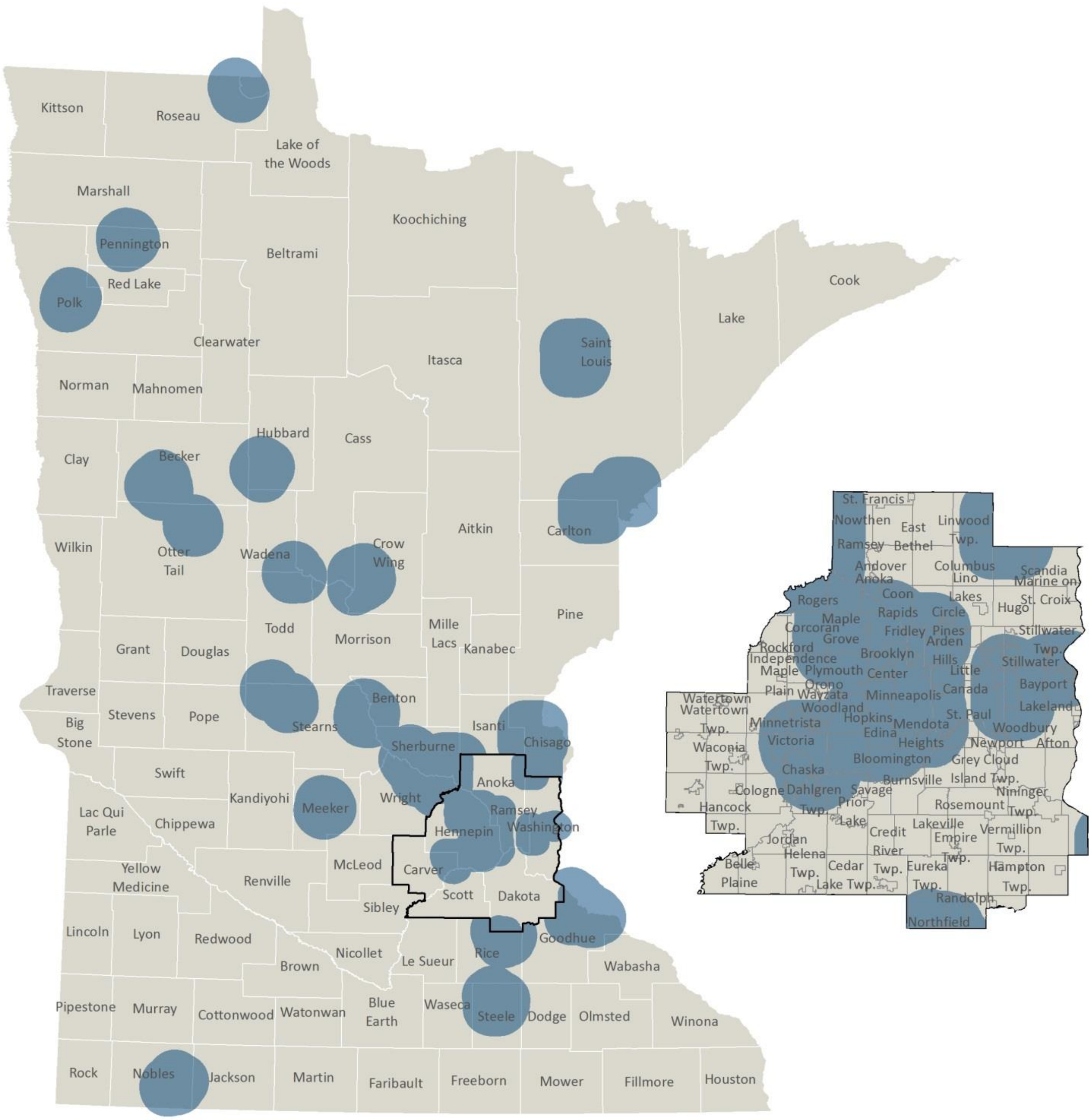
To be identified as a community with job growth, the top 10 communities in job growth between 2007-2012 are selected for the Twin Cities seven county metro area, and all communities in Greater Minnesota with any job growth between 2007-2012 are selected. To meet the job growth definition, communities must meet or exceed 2,000 jobs in 2012. Areas within five miles of communities in the Twin Cities seven county metro area and within 10 miles of communities in Greater Minnesota are included for a modest commuteshed. Table 2 below and the map on page 2 list and show the communities that meet this definition. An interactive version of this map is available on the Minnesota Housing website: www.mnhousing.gov > Research & Publications > Community Profiles.

Table 2 – Job Growth Communities 2007-2012

Twin Cities Top 10 Job Growth	Greater Minnesota Job Growth	
Brooklyn Park, Hennepin	Albertville, Wright	North Branch, Chisago
Chanhassen, largely Carver	Baxter, Crow Wing	Northfield, largely Rice
Edina, Hennepin	Becker, Sherburne	Owatonna, Steele
Golden Valley, Hennepin	Cloquet, Carlton	Park Rapids, Hubbard
Hopkins, Hennepin	Crookston, Polk	Perham, Otter Tail
Maple Grove, Hennepin	Detroit Lakes, Becker	Red Wing, Goodhue
Minneapolis, Hennepin	Elk River, Sherburne	Sartell, largely Stearns
Mounds View, Ramsey	Hermantown, Saint Louis	Sauk Centre, Stearns
Oak Park Heights, Washington	Litchfield, Meeker	Staples, largely Todd
Oakdale, Washington	Melrose, Stearns	Thief River Falls, Pennington
	Monticello, Wright	Warroad, Roseau
	Mountain Iron, Saint Louis	Worthington, Nobles
		Wyoming, Chisago

[1] http://mn.gov/deed/data/data-tools/qcew.jsp

Job Growth Priority Areas



Includes areas within five miles of the top 10 job growth communities in the Twin Cities Metro, and within ten miles of all job growth communities (for communities with at least 2,000 jobs) in Greater Minnesota.

Job Growth Areas

Minnesota Housing Finance Agency

Source: Minnesota Housing analysis of American Community Survey 2008-2012 data, Date: 12/27/2013

2.2 Household Growth

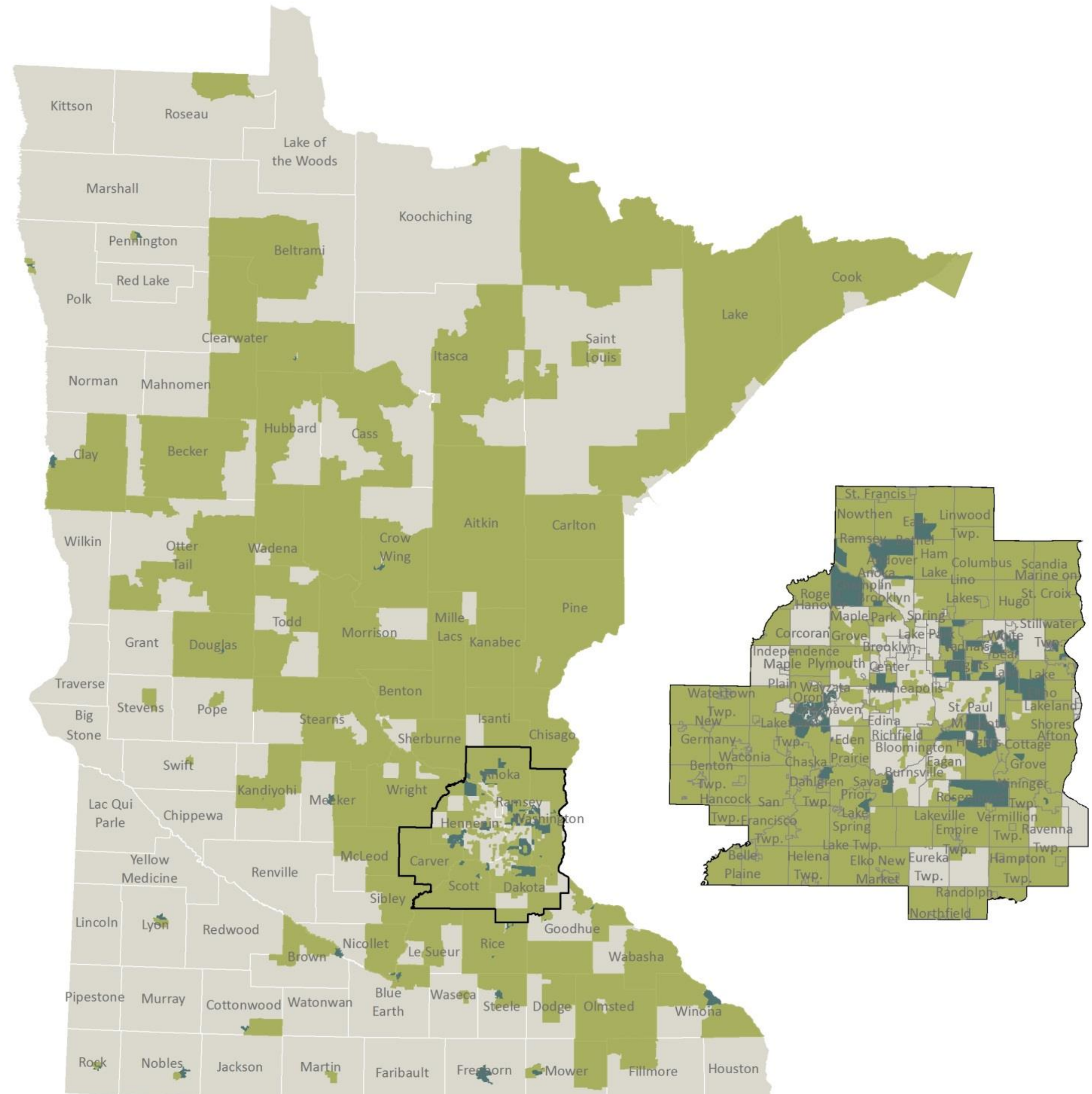
To be identified as a community with household growth, an area may be eligible in two ways. First, census tracts with total household growth of 100 and greater between 2000 and 2012 are eligible. An increase of 100 households represents the 60th percentile of household change statewide (60% of Census Tracts in the state had a change in households less than 100).

Census tracts are variable sized geography that contain, on average, 1,500 households. As such, tracts can range in size from small neighborhoods within an urban area to hundreds of square miles in rural areas, containing multiple small townships. Because of this variability a census tract doesn't always capture a "housing market". Smaller cities and townships can also capture a market. Larger cities (more than 15,000 households) often have multiple neighborhoods and housing markets. Data for cities and townships with fewer than 1,500 households is not always reliable from the American Community Survey.

Thus, medium sized cities, those between 1,500 and 15,000 households are also evaluated for growth. Medium sized cities contain between 1-10 census tracts and could be considered a single housing market. Medium sized cities with growth of at least 100 households are added to the census tracts with growth to form a more complete eligibility area.

The map on the next page shows the areas eligible under the household growth criterion. An interactive version of this map is available on the Minnesota Housing website: www.mnhousing.gov > Research & Publications > Community Profiles.

Household Growth Priority Areas



Tracts, HH Change >100	
Medium Sized Cities, HH Change >100	

Medium sized cities include those containing between 1,500 and 15,000 households, and are shown where a tract does not achieve the growth threshold of 100 households.

Minnesota Housing Finance Agency

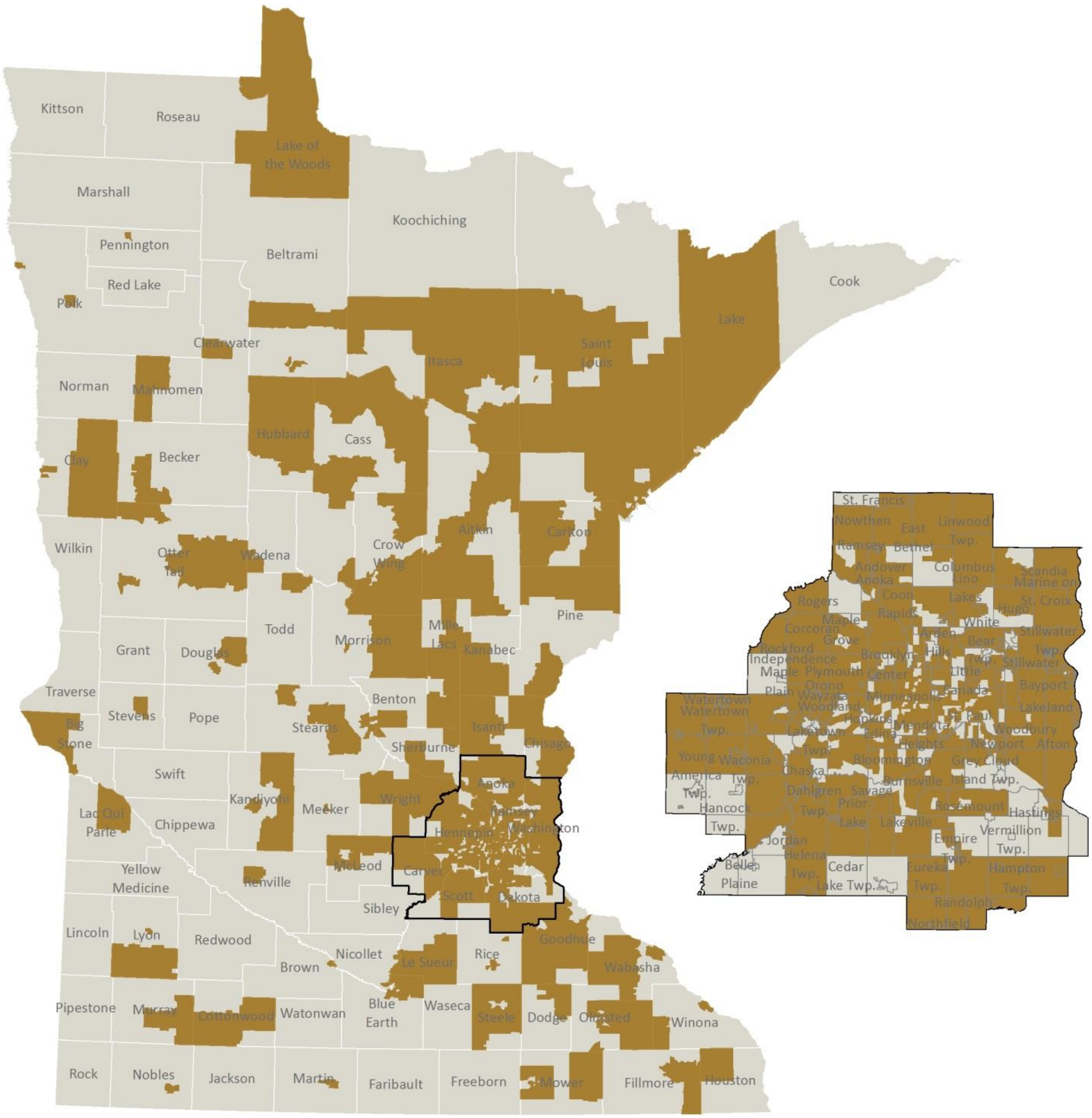
Source: Minnesota Housing analysis of 2000 Census and 2008-2012 American Community Survey, Date: 12/27/2013

3. Cost Burdened Renters

To be identified as a community with a substantial share of cost burdened renters, census tracts must be in the top 60% of census tracts ranked by share of lower income renters (annual incomes less than $50,000) spending more than 30% of their income on housing.

Using data from the American Community Survey 2008-2012 sample, the 40th percentile for lower income cost burdened renters in a tract is 61%. Thus, census tracts where the percentage of lower income renters who are cost burdened is at or greater than 61% meet this criterion. The map on the next pages shows the census tracts achieving this threshold. An interactive version of this map is available on the Minnesota Housing website: www.mnhousing.gov > Research & Publications > Community Profiles.

Cost Burdened Renters, Priority Areas



>61% of Renters
are Cost Burdened

Source: Minnesota Housing analysis of American Community Survey 2008-2012 data, Date: 12/27/2013

Minnesota Housing Finance Agency

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Minnesota Housing Finance Agency

AGENDA ITEM: 6.B.
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Modification, Lower Sioux Indian Community Proposal, Community Homeownership Impact Fund

CONTACT:

Luis Pereira, 651-296-8276
luis.pereira@state.mn.us

Tal Anderson, 651-296-2198
tal.anderson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☑ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other:

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Approve several modifications and clarifications regarding the commitment of funds for the Lower Sioux Indian Community Home Ownership Initiative Phase II, previously approved by the Minnesota Housing board under the 2013 Single Family Request for Proposals.

FISCAL IMPACT:
$39,600 of the awarded $435,600 will be deemed a grant and will not be required to be repaid by LSIC.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background

BACKGROUND:
During the contract negotiations period that followed the November 7, 2013 Minnesota Housing Board approval of applications for funds under the Single Family Request for Proposals, it came to staff's attention that certain modifications and clarifications needed to be made to the LSIC Home Ownership Initiative. The changes are due primarily to the fact that the award is more properly characterized as funding for LSIC mortgage lending rather than as a construction program.

Proposed Modifications:

1. It is more appropriate to deem the property transactions as contract for title and not contract for deed transactions since LSIC will always own the real property.

2. LSIC will be entitled to receive an administrative fee out of the award, in the form of a grant, in the amount of $39,600, for use by LSIC for program costs. This is instead of LSIC retaining a portion of the interest on loans received as originally proposed. Because of this change, all principal and interest on loans paid to LSIC by tribal households will deposited by LSIC into a separate account to be used for one of two purposes: 1) to fund additional eligible contract for title projects located in the Lower Sioux Indian Community; or 2) to repay Minnesota Housing the principal amount of the loan plus any earned, but unspent, interest in the account at the end of the deferred loan term.

3. LSIC must track its costs for program administration and servicing of the contract for title loans on an annual basis and provide that information to Minnesota Housing.

Minnesota Housing Finance Agency

AGENDA ITEM: 7.A
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Rental Housing Bonds, 2014 Series A

CONTACT: Don Wyszynski, 651-296-8207 don.wyszynski@state.mn.us
Rob Tietz, 651-297-4009 rob.tietz@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: Finance

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff is preparing to issue bonds to provide a bridge loan to CBVA Minneapolis Limited Parnership for the Fort Snelling project. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of the bond issue on a not-to-exceed basis.

FISCAL IMPACT:
The transaction will result in the Agency earning approximately a 1% spread on the bonds.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- None

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AGENDA ITEM: 7.B
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Resolution Authorizing Issuance and Sale of Minnesota Housing Finance Agency Residential Housing Finance Bonds

CONTACT: Don Wyszynski, 651-296-8207, don.wyszynski@state.mn.us
Rob Tietz, 651-297-4009, rob.tietz@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: Finance

ACTION:

☐ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Agency staff is preparing to issue bonds to provide funds for the acquisition of newly originated mortgage backed securities. Kutak Rock LLP, the Agency's bond counsel, will send the resolution and Preliminary Official Statement describing the transaction under separate cover. The Board will be asked to adopt a resolution approving the terms of one or more bond issues on a not-to-exceed basis.

FISCAL IMPACT:
The transaction will result in the Agency earning the maximum allowable spread on the bonds.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Background memo from CSG Advisors

CSG | advisors

Minnesota Housing Finance Agency
Potential Single-Family Approach for 2014

PURPOSE

As staff and CSG Advisors have indicated in prior post-sale analyses, Board meetings and in the underwriter selection process, MHFA like other housing finance agencies faces challenges in using bond financing for new single-family production.

The good news is that:

a) MHFA's new single-family pipeline continues to be robust (approximately $ 350 million of loans closed in 2013, and at current levels, a similar amount in 2014), and
b) MHFA's system for hedging and selling new mortgage-backed securities is working well, both for the taxable loans it was originally intended for and, since July, for the tax-exempt loans as well.

At the same time, the Agency seeks to be able to retain and bond finance at least a significant share of new production. Such on-balance sheet production provides a stable ongoing revenue stream for Agency operations and funding of Pool 3, as opposed to relying on fluctuations in up-front revenue from new production. The single-family pass-through bond market, which the Agency pioneered nationally in July 2012 and continued to use through June 2013, is still a potentially useful tool, but does not enable MHFA to earn at or near full spread in the current market.

The purpose of this memo is to summarize an alternative approach that RBC, ourselves, the other members of the finance team and staff have been developing that would allow MHFA to potentially utilize bond financing for a significant portion of 2014 production.

CRITERIA

In evaluating such options, we have outlined the following important criteria:

1. **Avoid Major Interest Rate Risk.** The current hedging system is designed to protect the Agency against changes in interest rates from the time loans are reserved until they are either sold or permanently financed. New options that include bond financing should not significantly increase that risk, since the Agency has a limited amount of zero participations (about $7 million) that it can utilize if interest rates were to rise.

2. **Continue High Ratings on all MHFA's Single-Family Bonds.** New bond financing should be structured in such a way as to maintain the current high (AA or AAA ratings) on MHFA's existing single-family indentures, and not create long-term stresses on indentures that could create future problems.

3. **Provide At Least a Comparable Expected Level of Return to Selling MBS.** In deciding whether to sell MBS or include them in a bond financing, MHFA should look at the overall expected return at a range of prepayment speeds, to determine that (a) bond financing can reasonably result in the same or better returns than (b) selling the same MBS and reinvesting

cash in current available investments. Such comparison needs to take into account any gains or losses the Agency would have as a result of not 'rolling over' hedges and putting the loans in a bond issue instead.

4. **Enhance Long-Term Financial Sustainability.** The mix, if any, of bond financing and sales of MBS, should provide more balanced and financially sustainable results for MHFA over the long term, taking into account likely prepayment speeds and various interest rate markets.

RECOMMEND APPROACH: USE OF EXISTING OVERCOLLATERALIZATION

RBC has tested and we have reviewed a variety of bond structures and approaches to see which ones are likely to do well under the Criteria and thus provide viable options for the Agency, depending on the exact interest rates when financings occur. Based on that review, including cumulative impacts of multiple bond issues on the indentures and on the Agency as a whole, we believe the following structures make sense for upcoming bond issues, such as 2014 Series A.

1. **Use of Existing Overcollateral.** The RHFB indenture has a significant amount of loans and mortgage-backed securities that are not associated with any individual outstanding bond issue (e.g. the old bonds may have paid off, or loans may have been transferred into the indenture in the past to meet overall rating agency tests). This 'additional' collateral is approximately $50 million. These loans need to remain in the indenture to meet rating agency tests, but the fact that these loans have higher interest rates and shorter maturities than new loans creates an important potential resource for MHFA.

   The earlier principal payment on these loans can be used, together with the principal payments on new bond loans, to allow more of the new bond principal to occur in the early years. This allows MHFA to sell more bonds at a lower interest rate, thus allowing MHFA to achieve at or near full spread without using any of its remaining zero participations.

   Depending on the exact interest rates and maturities when new bonds are sold, the existing overcollateral may enable MHFA to finance up to $150 million of new production without using zero participations. We would suggest such financings be done in increments, such as for example three $50 million series, given the nature of MHFA's loan reservation pipeline.

   In order to make it possible to move quickly to take advantage of bond market opportunities, we would suggest that the Board consider approving a single resolution allowing up to $150 million of new bonds to be issued in one or more series. This allows staff to size each issue efficiently to take advantage of the bond market and the particular mix of loans currently in its pipeline, and to do so quickly without needing an additional Board meeting before proceeding. The results of each sale would of course be reported at the subsequent Board meeting in any event.

   Each bond sale would be designed so that it is intended to meet all of the Criteria outlined above. Most important, we believe that structuring new bonds taking into account the shorter average life of existing collateral, can provide a safe and efficient way to finance a portion of the pipeline.

ADDITIONAL AND SUBSEQUENT APPROACHES

Two other approaches also appear to be desirable and should be utilized after using the existing overcollateral in the HMRB indenture. Either of these would be analyzed in detail and brought to the Board before approving bond issue(s) using them.

1. **Bond Refunding Opportunities.** Later in the year, there are potential opportunities to refund outstanding bonds at today's lower interest rates; the savings created by a tax-exempt refunding can be used to help finance new loans at lower interest rates while giving MHFA full spread. This was the approach used in the 2013 ABC bond issue and is potentially very desirable for MHFA depending on interest rates at the time of the refunding.

2. **Possible Use of Variable Rate Bonds Fully Hedged by Cash in Indenture.** Any use of variable rate bonds would be very carefully scrutinized to assure it does not add to indenture risks, as set forth in the HMRB criteria guidelines adopted by the Board in 2007 and that have helped protect the Agency during the financial crisis. The HMRB indenture provides a situation that is similar to many other HFA single-family indentures: a significant amount of cash (because of termination of downgraded guaranteed investment contracts, loan prepayments, etc.). This cash is invested in money market funds and thus in low interest rate environments like today is earning virtually nothing. As a result, MHFA like almost all state HFAs, performs much better in high interest rate environments than in low ones.

To reduce this gap, and to do better in low rate environments, MHFA can consider issuing a limited amount of variable rate bonds without interest rate swaps. Since the rate on these bonds tracks the rate earned on cash already under the indenture, the cash provides a natural 'hedge': the higher rates move on the bonds, the higher MHFA's investment earnings. Equally important, when interest rates are low, MHFA pays very low rates on these bonds.

To make this approach safe and avoid liquidity risks, it would be designed in conjunction with floating rate notes placed with the Federal Home Loan Bank or other bank, so there is no risk of higher liquidity fees or termination or downgrading of liquidity facilities. Under these circumstances, and possible with purchase of interest rate caps to provide additional protection if rates do rise, we think such an approach is likely to be quite useful for the Agency.

In any case, either of these approaches would be presented to the Board before such bond issues would be structured and sold.

MAINTAINING THE PIPELINE

The current approach of hedging reservations under the pipeline is a good one that protects MHFA against interest rate risk. To include loans in a bond issue, regardless of the structure, means removing those loans from the pipeline (e.g. not rolling over interest rate hedges and financing rather than selling that amount of loans). To help assure this is done safely and with the least risk to the Agency, careful timing will be needed in terms of pricing and closing of each bond issue. This is another reason that smaller, more frequent bond issues will be safer for the Agency.

AGENDA ITEM: 7.C
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: CommonBond VA Housing Fort Snelling

CONTACT: Dan Walsh, 651-296-3797
dan.walsh@state.mn.us

Susan Thompson, 651-296-9838
susan.thompson@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:

Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the issuance of a Low and Moderate Income Rental Bridge Loan (LMIR BL) program commitment in an amount not to exceed $6,000,000, subject to the review and approval of the Mortgagor, the terms and conditions of the Agency mortgage loan commitment and Mortgage Credit Committee approval. This loan will be made from the proceeds of the Agency's tax-exempt bonds.

FISCAL IMPACT:

The 2013 Affordable Housing Plan (AHP) allocated $90 million in new activity for the LMIR program, including $70 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. Funding for this loans falls within the approved budget and the loan will be made at interest rates and terms consistent with what is described in the AHP. The LMIR Bridge loan will generate $45,000 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):

- Background
- Development Summary
- Resolution

Background

The Minnesota Housing Finance Agency (Agency) Board, at its October 25, 2012, meeting, approved this development for processing under the Low and Moderate Income Rental Bridge Loan (LMIRBL), Housing Infrastructure Bond (HIB), and Economic Development and Housing Challenge (EDHC) Programs. The following summarizes the changes in the composition of the proposal since that time:

DESCRIPTION:	**SELECTION**		**COMMITMENT**		**VARIANCE**	
Total Development Cost	$ 15,554,802		$16,837,143		$1,282,341	
Gross Construction Cost	$ 11,677,000		$12,448,679		$771,679	
Agency Sources:						
LMIR Bridge Loan (TE Bond)	$ 8,500,000		$6,000,000		($2,500,000)	
Housing Infrastructure Bond-HTF	$ 5,420,799		$ 5,420,799		$0	
EDHC	$ 598,893		$ 598,893		$0	
Total Agency Sources	$14,519,692		$12,019,692		($2,500,000)	
Other Non-Agency Sources:						
Housing Tax Credit Proceeds - Minnesota Equity Fund	$3,260,196		$3,779,932		$519,736	
Historic Tax Credit Proceeds – Minnesota Equity Fund	$5,174,914		$5,489,342		$314,428	
VA Site Cleanup Funds	$ 600,000		$600,000		$0	
FHF*	$ 200,000		$200,000		$0	
Home Depot Foundation	$300,000		$300,000		$0	
Philanthropic Contributions	$ 0		$350,000		$350,000	
Sales Tax Rebate	$0		$98,177		$98,177	
Gross Rents:						
Unit Type	**# of DU**	**Rent**	**# of DU**	**Rent**	**# of DU**	**Rent**
O BR / SRO	45	$671	45	$651	0	$0
1 BR	7	$831	7	$831	0	$0
2 BR	2	$1,079	1	$992	0	$48
3 BR	4	$ 1,435	4	$1,305	0	($130)
Total Number of Units	58		58		0	

Factors Contributing to Variances:
TDC has increased primarily due to the refinement in the scope of work and increased syndicator required reserves. The increase is funded through increased Syndication proceeds and philanthropic contributions. Syndication has increased due to an increase in tax credit pricing from an estimated $0.899/credit at selection to $0.977/credit.

LMIR Bridge Loan decreased due to inclusion of Housing Infrastructure Bonds which reduced the need for other tax exempt bond financing to qualify for tax credits.

NOTE: Twenty units in the development will be benefitted by project-based Veterans Affairs Supportive Housing ("VASH") vouchers: Section 8 housing assistance for veterans that ensures that households pay no more than 30% of their household income toward housing. The remaining 38 units will receive project-based rental assistance through a combination of Section 8 (18 units) and Group Residential Housing (GRH) (20 units). Seven units will be deemed to serve households experiencing long-term homelessness.

Board Agenda Item: 7.C
Attachment: Development Summary

DEVELOPMENT SUMMARY
DEVELOPMENT:

				D7601	
Name:	CommonBond VA Housing Fort Snelling			App#:	M16362
Address:	Multiple building addresses				
City:	Minneapolis	County:	Hennepin	Region:	MHIG

MORTGAGOR:

Ownership Entity: CBVA Minneapolis Limited Partnership
General Partner/Principals: CommonBond VA Housing LLC with CommonBond Communities as sole member

DEVELOPMENT TEAM:

General Contractor: Sand Companies Inc., Waite Park
Architect: Sand Companies Inc., Waite Park
Attorney: Faegre Baker Daniels LLP, Minneapolis
Management Company: CommonBond Housing, Saint Paul
Service Provider: CommonBond Communities, Saint Paul

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 6,000,000	LMIR Bridge Loan	
(not to	Funding Source:	Tax Exempt Future Bond Sale
exceed)	Interest Rate:	2.0 (Estimated*)
	Term (months):	30

* The interest rate on the LMIR Bridge Loan will be based on the market rate at the time of the bond sale.

RENT GRID:

UNIT TYPE	NUMBER	UNIT SIZE (SQ. FT.)	GROSS RENT	AGENCY LIMIT	INCOME AFFORD-ABILITY*
0BR/SRO	25	500	$ 651	$ 432	$ 26,040
0BR/SRO	20	500	$ 651	$ 721	$ 26,040
1BR	7	600	$ 800	$ 463	$ 32,000
2BR	2	1,200	$ 970	$ 555	$ 38,800
3BR	4	1,300	$ 1,305	$ 642	$ 52,200
TOTAL	58				

- All units in this development are assisted by either Veteran's Affairs Supportive Housing, Section 8, Group Residential Housing vouchers or a combination thereof. With this assistance, tenants pay 30% of their income towards housing and the development receives rents up to the payment standard of the issuer of the voucher.

Purpose
The proposal is for the renovation and conversion of five buildings into permanent rental housing targeted toward veterans who have experienced homelessness. The development is located near the Minneapolis Veterans Affairs ("VA") medical campus at Fort Snelling's Upper Post. The development includes four three-bedroom, two two-bedroom, seven one-bedroom and 45 studio apartments across five closely situated two-story walk-up buildings. Project-based Veterans Affairs Supportive Housing ("VASH") subsidy vouchers are anticipated for 20 of the units. A VASH voucher is Section 8 Housing Assistance Payment contract rental assistance combined with supportive services from the VA. The remaining 38 units will have project-based rental assistance through a combination of Section 8 (18 units) and Group Residential Housing (GRH) (20 units).

The development is located within one mile of social service organizations and parks. It is also adjacent to the Fort Snelling Hiawatha light rail station and numerous bus routes. Leveraging the major light rail transit infrastructure investment is one of the strengths of this development.

Target Population
The targeted population is disabled veterans who have experienced homelessness with incomes at or below 60% AMI. The majority of the units are for single individuals, and eight units can serve households with children. Seven units will serve households who have experienced long-term homelessness.

Project Feasibility
The development will not have an amortizing mortgage, but is being funded with tax credits, Agency deferred funds and philanthropic resources. Agency funds include Housing Infrastructure Bond ("HIB") proceeds and Economic Development and Housing Challenge ("EDHC") deferred funding. Construction financing will be funded with Minnesota Housing tax exempt bond proceeds. Housing Tax Credits and Historic Tax Credits will generate $9.3MM of equity.

Development Team Capacity
CommonBond Communities is the Midwest's largest nonprofit provider of affordable housing with services and has served the region for over 40 years. CommonBond has developed and currently owns or manages over 5,000 affordable rental apartments and townhomes throughout 50 cities in Minnesota, Wisconsin and Iowa.

CommonBond Housing will provide management services. CommonBond Housing was established in 1971 and currently manages over 92 developments with a total of 5,122 units. It reports a corporate staff of 65 engaging in management and marketing, creating a unit to staff ratio of 86:1. Its portfolio includes Section 8, tax credit, Section 202, public housing, homeless and long-term homeless units.

Physical and Technical Review
The development will rehabilitate five National Historic buildings. The construction cost with contingency is $12,448,679 ($214,632/unit) and includes environmental remediation and historic requirements. Sand Companies Construction is qualified and has delivered many high quality projects for the Agency.

Market Feasibility
The proposed rents equal the Metro Housing and Redevelopment Authority payment standard and assume that the VASH, Section 8 and GRH are secure. Comparable developments in Minnesota Housing's portfolio offering supportive housing for veterans have less than a 3% average historical vacancy rate and extensive waiting lists. The market study notes a 3% average vacancy rate for comparable affordable units in the area and strong future demand for affordable housing. This proposal is further strengthened by a proposed cooperative agreement between CommonBond, the Minneapolis VA Health System and

Hennepin County Human Services. The development is connected to commercial centers and major employers via the regional high service transit network. Nearby employment sites include the VA Hospital, the Mall of America, the Minneapolis St. Paul International Airport and the University of Minnesota. The median rent in Hennepin County is $853, and 68% of Hennepin County renters are rent burdened.

Supportive Housing

CommonBond is the service provider through its Advantage Services Division and provides services at many of the developments in its portfolio including Commerce Apartments and Lexington Commons. All referrals will come through the VA case managers, who work extensively in the community doing outreach. The VA will provide treatment for veterans with chemical use issues. CommonBond will provide an array of services on site including case management, tenant engagement activities, life skills, budgeting, education and employment connections, as well as connecting tenants to mental health and chemical health services and primary health care. Many of these services will be provided at the VA Medical Center, which is close to Fort Snelling. CommonBond also provides educational, recreational and other services for children.

DEVELOPMENT COST SUMMARY (estimated):

	Total		Per Unit
Total Development Cost	$16,837,143		$290,296*
Acquisition or Refinance Cost	$0		$0
Gross Construction Cost	$12,448,679		$214,632
Soft Costs (excluding Reserves)	$3,091,208		$53,297
Non-Mortgageable Costs (excluding Reserves)	$0		$0
Reserves	$1,297,256		$22,366
Agency Deferred Loan Sources			
Hsg Infrastructure Bonds HTF (permanent)	$5,420,799		$93,462
EDHC (permanent	$598,893		$10,326
LMIR Bridge Loan (short-term)	$6,000,000		$103,448
Total Agency Sources	$12,019,692		$207,236
Total Loan-to-Cost Ratio		71%	(short-term)
Total Loan-to-Cost Ratio		36%	(permanent)
Other Non-Agency Sources			
Syndication Proceeds	$3,779,932		$65,171
Historic Credit Proceeds	$5,489,342		$94,644
VA Site Cleanup Funds	$600,000		$10,345
FHF	$200,000		$3,448
Home Depot Foundation	$300,000		$5,172
Philanthropic Contributions	$350,000		$6,034
Sales Tax Rebate	$98,177		$1,693
Total Non-Agency Sources	$10,817,451		$186,508

- On October 25, 2012, the Board approved the selection of this development. At the time of selection, the proposed TDC per unit was 28% above the predictive model estimate of $210,000 per unit. Contributing to this higher TDC are unique and complex project elements, including renovations to meet historic standards, environmental remediation and supportive services reserves. Since selection, the TDC has increased 8%.

Board Agenda Item: 7.C
Attachment: Resolution

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

RESOLUTION NO. MHFA 14-

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

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

Name of Development:	CommonBond VA Housing Fort Snelling
Sponsor:	CommonBond Communities
Guarantor:	CommonBond Communities
Location of Development:	Minneapolis
Number of Units:	58
General Contractor:	Sand Companies Inc., Waite Park
Architect:	Sand Companies Inc., Waite Park
Amount of Development Cost:	$16,837,146
Amount of LMIR Bridge Loan (not to exceed):	$6,000,000

WHEREAS, the Agency has determined that such applicant is an eligible sponsor under the Agency's rules; that such construction 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, the Agency has reviewed the application and found the same to be in compliance with Minn. Stat. ch. 462A and the Agency's rules, regulations and policies;

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a construction loan under the LMIR BL Program from the sale of new tax-exempt bonds to said applicant for the indicated development, subject to the following and conditions:

1. The LMIR Bridge loan amount shall be in an amount not to exceed $6,000,000; and

2. The closing of the LMIR Bridge loan shall be on or before July 31, 2014; and

3. The LMIR Bridge loan shall be financed with the proceeds of tax-exempt bonds of the Agency, and the commitment is subject to the ability of the Agency to sell bonds on terms and conditions and in a time and manner acceptable to the Agency; and

4. The interest rate on the LMIR Bridge loan will be based on the interest rate on the series of bonds issued to finance the LMIR Bridge loan plus up to the maximum allowable spread. The interest rate is estimated to be 2.0 percent per annum payable monthly, with principal payable in a balloon payment no more than 30 months after closing; and

5. Agency staff shall review and approve the mortgagor and, if the ownership entity is different than the mortgagor, the ownership entity; and

6. The mortgagor shall execute an Agency mortgage loan commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

7. CommonBond Communities (or an affiliate entity approved by the Agency) shall guaranty the mortgagor's construction completion and payment obligations, including principal and interest, under the LMIR Building Loan Agreement, the LMIR Note, the LMIR Mortgage and the LMIR Regulatory Agreement (if any); and

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

Adopted this 23rd day of January 2014.

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CHAIRMAN

Minnesota Housing Finance Agency

AGENDA ITEM: 7.D
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Auditor Selection

CONTACT: Bill Kapphahn, 651-215-5972 William.Kapphahn@state.mn.us
Terry Schwartz, 651-296-2404 Terry.Schwartz@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☐ Resolution ☐ No Action Required

SUMMARY REQUEST:
Approve the selection of McGladrey & Pullen, LLP as the Agency's independent auditors for the fiscal years ending June 30, 2014 through June 30, 2017.

FISCAL IMPACT:
Fees for audit attestation services for the four fiscal years, based upon the parameters described in the Request for Proposal (RFP), are $105,000, $108,000, $111,500, and $114,500.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Copy of proposal to provide audit services (provided to board members under separate cover)

On November 21, 2013, the board approved a policy that requires an RFP for independent audit attestation services every four fiscal years and mandatory auditor rotation every eight years. Under this new policy, the Agency's incumbent audit firm was not eligible to continue to provide audit services at this time.

In December, 2013, Agency staff published notice of an RFP for audit attestation services. Five audit firms requested a copy of the RFP but only McGladrey & Pullen, LLP submitted a formal proposal. Their proposal was evaluated by Agency staff and judged to be satisfactory in all respects, including the organization's size and available resources, audit approach, quality of engagement personnel, and proposed fees. Staff recommends that the board engage McGladrey & Pullen, LLP to provide audit services for the next four fiscal years.

AGENDA ITEM: 7.E
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Net Asset and Investment Guidelines for General Reserve Account Assets

CONTACT: Don Wyszynski, 651-296-8207, don.wyszynski@state.mn.us
Bill Kapphahn, 651-215-5972, william.kapphahn@state.mn.us

REQUEST:

☑ Approval ☑ Discussion ☐ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☑ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests adoption of the attached Resolution which mitigates the unintended impacts of certain new accounting guidance and certain investment transactions, thereby preserving the intent of the related prior board resolutions that described the method of calculating the amount available to transfer to Pool 3/Foundation.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership
☐ Preserve federally-subsidized rental housing
☑ Address specific and critical needs in rental housing markets
☐ Prevent and end homelessness
☑ Prevent foreclosures and support community recovery
☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Redlined resolution
- Final resolution

The Agency established investment guidelines for the General Reserve Account funds in 1988. Those guidelines were subsequently amended in conjunction with the Agency's funds restructuring in 2007 whereby the Agency began segregating Pool 3/foundation assets from the sustainable lending operations of the Agency (General Reserve Account and bond funds exclusive of Pool 3). The 2007 amendment, along with an additional amendment in 2009, established net asset requirements that require the Agency to maintain or grow the net assets of the General Reserve Account and bond funds exclusive of Pool 3 each year.

Net asset increases each year are the result of Agency net earnings (revenues in excess of expenses) net of any transfers to Pool 3, which by Board policy can only occur to the extent there are current year net earnings in the sustainable lending operations.

There is one accounting change that will take effect in the current fiscal year and certain inter fund investment transactions that distort the Agency's operating net earnings in a manner that will not be consistent with the true economic impact of the Agency's operations.

First, Governmental Accounting Standards Board Statement No. 65 required that, on July 1, 2013, the balances of certain asset and liability accounts move to net assets. This change means that the beginning balance of net assets for the current fiscal year is not the same as the ending balance of net assets for the prior fiscal year. This is problematic because the calculation of the net asset requirement for the General Reserve Account and bond funds assumes (correctly, under normal circumstances) that the change in the ending balance of net assets from one fiscal year to the next equals net earnings for the current fiscal year. This will not be the case in fiscal 2014 and will therefore skew the calculation of the net asset requirement unless this situation is provided for in the definition of the net asset requirement calculation. The new language in the proposed board resolution that accommodates the effect of this particular accounting guidance will also accommodate the effect of any future accounting guidance that requires a change to the beginning balance of net assets.

The second change involves consideration of the financial effects of buying and selling investment securities between Agency funds. Because that activity must be recorded as an arms-length transaction, the security's unrealized gain or loss becomes a realized gain or loss to the selling fund. Since the calculation of the net earnings for the net asset requirement excludes the effects of unrealized gain or loss on a security, the act of buying and selling an investment security between Agency funds causes the amount of unrealized gain or loss to change from being excluded to being included in net earnings. This skews the Agency's net earnings from a transaction that is essentially an internal Agency transaction, unless this situation is provided for in the definition of the net asset requirement calculation

The attached resolution restates the Agency's net asset and investment guidelines for the General Reserve Account, incorporating previous related resolutions and reflecting the revisions (either underlined or struck through) discussed above.

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

RESOLUTION NO. MHFA 14-

RESOLUTION REGARDING NET ASSET RQUIREMENTS AND INVESTMENT GUIDELINES FOR GENERAL RESERVE ACCOUNT ASSETS

WHEREAS, the Agency must remain fiscally responsible and avoid unreasonable risks in order to continue to be self-sustaining, to honor debt obligations and to achieve its mission; and

WHEREAS, the Agency has accumulated and maintained a balance of assets that is available to pay its debt obligations, to provide adequate reserves against loan losses, and to provide for the administration of programs, a portion of which assets must be maintained within the Agency's Bond Resolutions and the remainder of which must be maintained within the Agency's General Reserve Account; and

WHEREAS, assets in the General Reserve Account can only be used for the administration and financing of housing programs in accordance with the policy and purposes of Minnesota Statutes Chapter 462A, as amended; and

WHEREAS, the Agency adopted Resolution No. MHFA 88-7, on January 28, 1988 (and subsequently amended by Resolution No. MHFA 07-16 on April 26, 2007 and by Resolution No. MHFA 09-55 on September 24, 2009) to provide net asset requirements and investment guidelines in order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans; and

WHEREAS, because of certain changes in generally accepted accounting principles that take effect in the current fiscal year and because of realized losses resulting from the sale of investment securities between Agency funds, the Agency finds it desirable to clarify the effects on the calculation of the net assets required to be held in Pool 2 (Housing Investment Fund)

NOW THEREFORE, BE IT RESOLVED:

That Resolution MHFA No. 88-7, Resolution MHFA No. 07-16 and Resolution MHFA No. 09-55 are rescinded in their entirety and the following net asset requirements and investment guidelines for general reserve account assets shall apply:

1. That in order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans, the following net asset requirements and investment guidelines will be used for assets available to the General Reserve Account;

   - Pool 1 (Housing Endowment Fund): An amount equal to 1% of loans outstanding (excluding loans in Pool 3) will be invested in short-term, investment grade securities at market interest rates. Assets in Pool 1 will be held in the General Reserve Account.

- Pool 2 (Housing Investment Fund): An amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of: Pool 3; all unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and interest rate hedges entered into by the Agency for which the unrealized loss or gain will not be realized if the security or interest rate hedge 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) to be ~~the greater of $615 million or~~ at least equal to the combined net assets of the same funds for the immediately preceding audited fiscal year end (but adjusted to include changes to the combined net assets resulting from required retroactive application of newly implemented generally accepted accounting principles). Assets will be invested in investment quality housing loans or investment grade securities. Assets of Pool 2 will be held in a fund of the Residential Housing Finance Bonds resolution.

- Pool 3 (Housing Affordability Fund): Net assets in excess of the required balances for Pools 1 and 2 may be invested in investment grade securities and used for programs not resulting in amortizing investment quality loans which may include, but are not limited to:
  - Zero-percent loans;
  - Loans at interest rates substantially below market:
  - High risk loans;
  - Deferred loans;
  - Revolving loans; and
  - Grants and rental assistance.

  Assets of Pool 3 will be held in the bond funds.

2. That the Agency will continually evaluate the net asset requirements and investment ~~policy~~ guidelines contained herein in consideration of changes in the economy, credit rating~~s~~ agency standards and the Agency's risk profile.

Adopted this 23rd day of January, 2014

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CHAIRMAN

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

RESOLUTION NO. MHFA 14-

RESOLUTION REGARDING NET ASSET RQUIREMENTS AND INVESTMENT GUIDELINES FOR GENERAL RESERVE ACCOUNT ASSETS

WHEREAS, the Agency must remain fiscally responsible and avoid unreasonable risks in order to continue to be self-sustaining, to honor debt obligations and to achieve its mission; and

WHEREAS, the Agency has accumulated and maintained a balance of assets that is available to pay its debt obligations, to provide adequate reserves against loan losses, and to provide for the administration of programs, a portion of which assets must be maintained within the Agency's Bond Resolutions and the remainder of which must be maintained within the Agency's General Reserve Account; and

WHEREAS, assets in the General Reserve Account can only be used for the administration and financing of housing programs in accordance with the policy and purposes of Minnesota Statutes Chapter 462A, as amended; and

WHEREAS, the Agency adopted Resolution No. MHFA 88-7, on January 28, 1988 (and subsequently amended by Resolution No. MHFA 07-16 on April 26, 2007 and by Resolution No. MHFA 09-55 on September 24, 2009) to provide net asset requirements and investment guidelines in order to provide financial security for the Agency’s bondholders and to provide additional resources for housing loans; and

WHEREAS, because of certain changes in generally accepted accounting principles that take effect in the current fiscal year and because of realized losses resulting from the sale of investment securities between Agency funds, the Agency finds it desirable to clarify the effects on the calculation of the net assets required to be held in Pool 2 (Housing Investment Fund)

NOW THEREFORE, BE IT RESOLVED:

That Resolution MHFA No. 88-7, Resolution MHFA No. 07-16 and Resolution MHFA No. 09-55 are rescinded in their entirety and the following net asset requirements and investment guidelines for general reserve account assets shall apply:

3. That in order to provide financial security for the Agency's bondholders and to provide additional resources for housing loans, the following net asset requirements and investment guidelines will be used for assets available to the General Reserve Account;

   - Pool 1 (Housing Endowment Fund): An amount equal to 1% of loans outstanding (excluding loans in Pool 3) will be invested in short-term, investment grade securities at market interest rates. Assets in Pool 1 will be held in the General Reserve Account.

- Pool 2 (Housing Investment Fund): An amount that will cause the combined net assets in the General Reserve Account and bond funds (exclusive of: Pool 3; all unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and interest rate hedges entered into by the Agency for which the unrealized loss or gain will not be realized if the security or interest rate hedge 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) to be the greater of $615 million at least equal to the combined net assets of the same funds for the immediately preceding audited fiscal year end (but adjusted to include changes to the combined net assets resulting from required retroactive application of newly implemented generally accepted accounting principles). Assets will be invested in investment quality housing loans or investment grade securities. Assets of Pool 2 will be held in a fund of the Residential Housing Finance Bonds resolution.

- Pool 3 (Housing Affordability Fund): Net assets in excess of the required balances for Pools 1 and 2 may be invested in investment grade securities and used for programs not resulting in amortizing investment quality loans which may include, but are not limited to:
  - Zero-percent loans;
  - Loans at interest rates substantially below market:
  - High risk loans;
  - Deferred loans;
  - Revolving loans; and
  - Grants and rental assistance.

  Assets of Pool 3 will be held in the bond funds.

4. That the Agency will continually evaluate the net asset requirements and investment policy guidelines contained herein in consideration of changes in the economy, credit ratings agency standards and the Agency's risk profile.

Adopted this 23rd day of January, 2014

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CHAIRMAN

AGENDA ITEM: 7.F
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Housing Trust Fund Re-entry Rental Assistance Initiative

CONTACT: Carrie Marsh, 651-215-6236
carrie.marsh@state.mn.us

Elaine Vollbrecht, 651-296-9953
Elaine.vollbrecht@state.mn.us

REQUEST:

☑ Approval ☐ Discussion ☐ Information

TYPE(S):

☐ Administrative ☑ Commitment(s) ☐ Modification/Change ☐ Policy ☑ Selection(s) ☐ Waiver(s)

☐ Other: ______________________

ACTION:

☑ Motion ☑ Resolution ☐ No Action Required

SUMMARY REQUEST:
Staff requests the adoption of the attached Resolution authorizing $613,000 in Housing Trust Fund (HTF) funding to be administered through the HTF Rental Assistance program. This action will create 5 new grants to existing rental assistance administrators, providing up to 24 months of funding from April 1, 2014 through March 30, 2016. Funding is for temporary rental assistance for persons exiting a Minnesota Correctional Facility.

FISCAL IMPACT:
$500,000 of the requested HTF funds are one-time state appropriations designated for this special Governor's Initiative and therefore do not adversely impact the Agency's financial position. An additional $113,000 is requested from the Housing Trust Fund, which is a small portion of the funds appropriated as an increase to the base budget.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☐ Strengthening Organizational Capacity

ATTACHMENT(S):
- Background
- Funding Recommendation
- Resolution

Background

The new State Plan to Prevent and End Homelessness (the Plan), adopted December 19, 2013 includes twelve strategies and associated actions recommended to occur during the next two years in order to have the greatest impact on preventing and ending homelessness. Strategy six of the plan, facilitates access to stable housing for ex-offenders through work with corrections agencies and community providers. This Re-entry Initiative will assist ex-offenders to reintegrate into communities through housing and access to jobs, services and transportation.

The Governor recommended funding for rental assistance for ex-offenders, which was approved by the Minnesota Legislature during the 2013 session for the 2014-2015 biennium. One million dollars was appropriated to the Agency, of which $500,000 was designated to a specific organization which serves ex-offenders primarily in Minneapolis, and Minnesota Housing has entered into a contract with that organization for the provision of rental assistance.

The remaining $500,000 was put into a Request for Proposals and issued on October 21, 2013. Minnesota Housing received eight proposals, for the total amount of $1,397,360 in order to serve 95 households per month at full utilization. Eligible applicants were limited to existing rental assistance administrators. Additional interest in the initiative was indicated by five other groups who ultimately decided not to apply for the funds.

Also appropriated in the 2013 session was an increase of $1.4 million to the base budget of the Housing Trust Fund. As noted later in this report, a small amount from this HTF base budget increase is being recommended to supplement the $500,000 described above for the RFP selections.

Funds available under the Housing Trust Fund Rental Assistance program provide temporary rental subsidy payments and, in some instances, security deposits and other eligible housing related expenses for persons living in eligible units typically rented in the open market from private landlords.

The Department of Corrections and Minnesota Housing have collaborated on the initiative, working together to determine population targeting and the details of the competitive RFP. Eligibility criteria for the program were jointly determined to include high risk adults exiting a Minnesota Correctional Facility who are on Intensive Supervised Release or Supervised Release. High risk is “defined by a validated assessment tool (e.g. Level of Service/Case Management Inventory (LS/CMI)) or individuals who are homeless or at risk of homelessness upon release.” The goals of the Re-entry Initiative are to help individuals secure stable housing and to reduce recidivism.

As published in the State Register, priority was given to applicants who:

1. Demonstrate experience promoting housing stability for high risk individuals.
2. Express a commitment to collaborate with Corrections staff and other organizations on a program, particularly with respect to referrals, services, and data collection for purposes of evaluation.
3. Identify a need for housing assistance for the target population.

Staff from Department of Corrections and Minnesota Housing reviewed the applications, scoring out of a possible 65 points.

Grants will be effective April 1, 2014 for a term of two years. Staff from both state agencies will assist administrators with referral, intake and transition planning.

Staff is considering making available FHPAP funds to be used for housing tenancy supports, similar to the dollars made available in the Homeless and Highly Mobile Families Initiative. If funds are available, Minnesota Housing will solicit requests from applicants approved for this Initiative funding.

Program Funding Recommendation

Staff is requesting the $500,000 that was placed in the RFP to be awarded as detailed below. Additionally, staff recommends $113,000 of the $1.4 million of the state appropriated funds to the base budget of the Housing Trust Fund also be used for this initiative. This will fund five of the eight proposals, representing $613,000 in funding to serve up to 53 households. The five proposals recommended most exemplify the priorities of the program. The three non-selected proposals, while competitive, did not as fully meet these priorities. The funds will be administered under the HTF Program and will provide rent subsidies for up to 24 months, as well as security deposits and other housing and administrative related expenses. Administrators are expected to assist households to transition to other appropriate housing prior to the end of the grant term.

Recommended for Funding

Administrator Name	Service Area	Recommended Funding	Target Households per Month
Bemidji HRA	Beltrami County	$ 143,000	15
Itasca HRA	Itasca County	$ 66,000	7
Mental Health Resources/Ujamaa Place	St Paul and Metro area	$ 133,000	12
Scott County CDA /Carver County CDA	Scott and Carver Counties	$ 61,000	4
South Metro Human Services	Ramsey County	$ 210,000	15
Total		**$ 613,000**	**53**

Bemidji County HRA has partnered with the Northwest Indian Opportunity Industrialization Center (NWIOC) and local Department of Corrections (DOC) staff who will work with offenders to provide case management, support and supervision. NWIOC's primary purpose is to offer Job Placement Services in a culturally conducive setting.

Itasca County HRA and the local DOC staff are collaborating with the Northland Counseling Center (NCC). NCC will provide case management, mental health services, employment and benefits assistance, and tenant advocacy services, or may refer to other agencies when appropriate.

Mental Health Resources will administer the rental assistance and Ujamaa Place will provide services targeted at building community and changing the lives of young Black men. Services include empowerment and life skills classes, GED assistance, basic needs assistance and development of a transition plan.

Scott County CDA and the Carver County CDA, as part of the Scott Carver Housing Coalition / Continuum of Care are utilizing this initiative as one strategy to achieve the goals of their Heading Home Plan. This network of providers will be utilized for referrals to appropriate programs.

South Metro Human Services has a Day Reporting program with dedicated caseworkers who complete a comprehensive assessment and treatment plan tailored to the participant's needs. SMHS caseworkers also coordinate basic logistical services including transportation, employment assistance, and obtainment of identification. This program works in collaboration with Ramsey County Corrections.

Forty-two percent of the housing opportunities recommended are in Greater Minnesota, and fifty-eight percent are in the metro area. These percentages do not include the $500,000 of designated funds for use primarily in Minneapolis.

The Department of Corrections and Minnesota Housing plan to work together to offer technical assistance for referrals and intake for grantees as well as on the evaluation of this Initiative.

Board Agenda Item: 7.F.
Attachment: Resolution

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

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING SELECTION/COMMITMENT TO FUND HOUSING TRUST FUND (HTF) RENTAL ASSISTANCE GRANTS

WHEREAS, the Minnesota Housing Finance Agency (Agency) has received applications to provide rental assistance for ex-offenders.

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into grant agreements using State and Agency resources as set forth below, subject to changes allowable under the multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the following Grantees the total recommended amounts for two years;

Grantee	Property Number	Award
Bemidji HRA	D4616	$ 143,000
Itasca HRA	D7683	$ 66,000
Mental Health Resources	D6280	$ 133,000
Scott County CDA and Carver County CDA	D3534	$ 61,000
South Metro Human Services	D5528	$ 210,000

2. The issuance of grant agreements in form and substance acceptable to the Agency staff and the closing of the individual grants shall occur no later than six months from the adoption date of this Resolution; and

3. The sponsors and such other parties shall execute all such documents relating to said grant, to the security therefore, as the Agency, in its sole discretion, deems necessary.

Adopted this 23th day of January, 2014.

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CHAIRMAN

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Minnesota Housing Finance Agency

AGENDA ITEM: 8.A
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: 2014 Division Work Plans Summary

CONTACT: Barb Sporlein, 297-3125
barb.sporlein@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☑ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
For informational purposes, staff is summarizing the major key initiatives in the 2014 Divisional Work Plans that implement the 2013-2015 Strategic Plan and 2014 Affordable Housing Plan.

FISCAL IMPACT:
None. These plans are consistent with the approved 2013-2015 Strategic Plan, 2014 Affordable Housing Plan and 2014 Operating Budget.

MEETING AGENCY PRIORITIES:

☑ Promote and support successful homeownership ☑ Preserve federally-subsidized rental housing

☑ Address specific and critical needs in rental housing markets ☑ Prevent and end homelessness

☑ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT:
- 2014 Work Plan Summary

2014 Division Work Plans Summary

Minnesota Housing takes a systematic approach to its overall strategic management and performance reporting. The system includes a "family of documents" that is integrated and builds off each other. The planning documents include the Strategic Plan, Affordable Housing Plan, divisional work plans, and individual work plans (see attached outline of the planning documents). Each has corresponding performance reports including quarterly reports to the board, quarterly reports for divisional review meetings, regular reports for program managers and staff, and individual performance appraisals. This system creates a strategy management feedback loop for continuous improvement - the result should be an agency that gets better and better at achieving its mission.

The 2013-2015 Strategic Plan was approved by the Board in July 2012. It defines the Agency's vision, mission, values, priorities, and strategies. The five strategic priorities are:

1) Preserve federally-subsidized rental housing
2) Promote and support successful homeownership
3) Address specific and critical needs in rental housing markets
4) Prevent and end homelessness
5) Prevent foreclosures and support community recovery

The Strategic Plan also includes several cross-cutting principles and priorities, as well as strategies for strengthening the Agency's organizational capacity.

The Affordable Housing Plan (AHP) is the annual business plan for carrying out the Agency's core work for the upcoming year and implementing the Strategic Plan. It was approved by the Board in September 2013. The AHP outlines key programmatic and policy initiatives for the year, specifies program-by-program funding, and establishes production targets. In total, the plan allocates about more than $795 million of federal, state, and agency housing resources, which will assist approximately 65,000 households or housing units.

Each division develops an annual work plan for implementing the Strategic Plan and AHP. These plans identify funding and production levels, key division/section activities, responsibilities, expected outcomes and program level measures. Below is a summary of the major, key initiatives in the divisional work plans (this is not an exhaustive list of core business or special projects):

- Continue to provide low interest mortgages and enhancements (Start Up, Step Up, HOME HELP, Deferred Payment Loans, Monthly Payment Loans, and Mortgage Credit Certificates);
- Focus first time homebuyer marketing activity on reaching emerging market homebuyers by creating a new Targeted Mortgage Opportunity Program and an Enhanced Financial Capacity Initiative to help address barriers faced by households of color;
- Deliver the single-family home improvement program (Fix Up), including the new targeted home improvement program for modest income homeowners;
- Select and begin implementation of a new single-family loan production system to improve operations and customer service;
- Monitor and manage the single family loan portfolio to ensure that Minnesota Housing is supporting successful homeownership for households needing the Agency's assistance;
- Implement the Governor's Housing-Jobs growth Initiative to promote economic development by financing workforce housing in parts of the state where companies are poised to expand but there is not enough affordable housing;

- Develop a proactive approach to first mortgage lending to increase production, including successful implementation of HUD Multifamily Accelerated Processing (MAP) lending and securitization of MAP loans;
- Implement the new Business Plan to Prevent and End Homelessness, including the development of a two-year action plan and improved inter-agency alignment and collaboration;
- Implement phase one of the redesign of the multifamily production business processes to improve efficiency and integration;
- Implement three new rent assistance programs for (1) ex-offenders transitioning out of correctional institutions, (2) highly-mobile families with school-age children, and (3) persons with disabilities (HUD Section 811 Program);
- Implement a new preservation approach:
    - Implement the PINES (Preservation: Identifying Needs, Exploring Strategies) pilot to proactively target high priority preservation developments,
    - Design and integrate a revised preservation criterion for the selection and funding of high priority rental developments,
    - Develop a five-year preservation plan and enhance collaboration with Minnesota Preservation Plus Initiative,
    - Enhance partnership with Interagency Stabilization Group and Interagency Stewardship Council, and
    - Develop a statewide affordable housing database;
- Implement the new Asset Management Alignment Project, including a new risk-based monitoring approach;
- Develop policies and strategies for assisting seniors so they can age in place and remain in their communities;
- Expand the new loan servicing software for the Agency's multifamily amortizing loans to include deferred loans so that servicing is more integrated and dynamic;
- Deliver comprehensive internal professional development programs to supplement external resources, including topics related to Microsoft Office software applications, leadership development and housing finance;
- Redesign the Agency's intranet to make it easier to navigate and more user friendly; and
- Update the Agency Risk Profile and complete risk assessments on several agency programs.

Strategy Management Framework Planning Documents

Strategic Plan

Three year blueprint for agency's work

Vision - Mission - Priorities - Strategies

Affordable Housing Plan (AHP)

One-year plan for funding programs and implementing the Strategic Plan

- ***Establishes funds available for commitment by program***
- ***Identifies key initiatives***
- ***Establishes production targets:***
  Estimated number of units & households to be assisted
- ***Provides historical, market, and policy context and rationale***

Division/Section Work Plans

Annual plans for implementing the Strategic Plan & Affordable Housing Plan

- ***Linked to Strategic Plan priorities and strategies and AHP initiatives***
- ***Reflects funding and production levels in AHP***
- ***Identifies key division/section activities***
- ***Identifies responsibilities and expected outcomes***
- ***Identifies program level measures***

Individual Work Plans

Annual plans for implementing the Strategic, Affordable Housing, Divisional Plans

- ***Linked to activities in the Division/Section Work Plans, which are linked to AHP initiatives and Strategic Plan priorities and strategies***
- ***Reflects funding and production levels in Affordable Housing Plan***
- ***Identifies specific responsibilities and activities***
- ***Captures on-going core work***
- ***Identifies team and individual expected outcome (including performance measures)***

AGENDA ITEM: 9.A
MINNESOTA HOUSING BOARD MEETING
January 23, 2014

ITEM: Semi-annual Variable Rate Debt and Swap Performance Review as of January 1, 2014

CONTACT: Bill Kapphahn, 651-215-5972
William.Kapphahn@state.mn.us

Don Wyszynski, 651-296-8207
Don.Wyszynski@state.mn.us

REQUEST:

☐ Approval ☐ Discussion ☑ Information

TYPE(S):

☐ Administrative ☐ Commitment(s) ☐ Modification/Change ☐ Policy ☐ Selection(s) ☐ Waiver(s)

☐ Other: ______________________________

ACTION:

☐ Motion ☐ Resolution ☑ No Action Required

SUMMARY REQUEST:
The Agency's board-approved Debt Management Policy calls for the ongoing review and management of swap transactions including regular reporting to the board. This reporting is accomplished though the Semi-annual Variable Rate Debt and Swap Performance Report.

FISCAL IMPACT:
None.

MEETING AGENCY PRIORITIES:

☐ Promote and support successful homeownership ☐ Preserve federally-subsidized rental housing

☐ Address specific and critical needs in rental housing markets ☐ Prevent and end homelessness

☐ Prevent foreclosures and support community recovery ☑ Strengthening Organizational Capacity

ATTACHMENT(S):
- Report Highlights
- Report: Semi-annual Variable Rate Debt and Swap Performance Review as of January 1, 2014

- All of the Agency's swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

- Basis Risk: During the period July, 2013 to December, 2013 the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation. Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

- Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from $27.4 million on July 1, 2013 to $22.6 million on January 1, 2014. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts' market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events.

- Liquidity Risk: The short-term credit ratings of all the Agency's liquidity providers were unchanged from July 1, 2013 to January 1, 2014.

- Long-term Debt, Fixed vs. Variable Graph: Total outstanding variable rate debt increased to 17% of total long-term debt at January 1, 2014 compared to 16% at July 1, 2013. The increase is due to net redemptions/maturities of fixed-rate debt slightly exceeding the redemptions/maturities of variable-rate debt.

Minnesota Housing
Finance Agency

Semi-annual Variable Rate Debt and Swap Performance Report

January 01, 2014

Semiannual Variable-Rate Debt and Swap Performance Report

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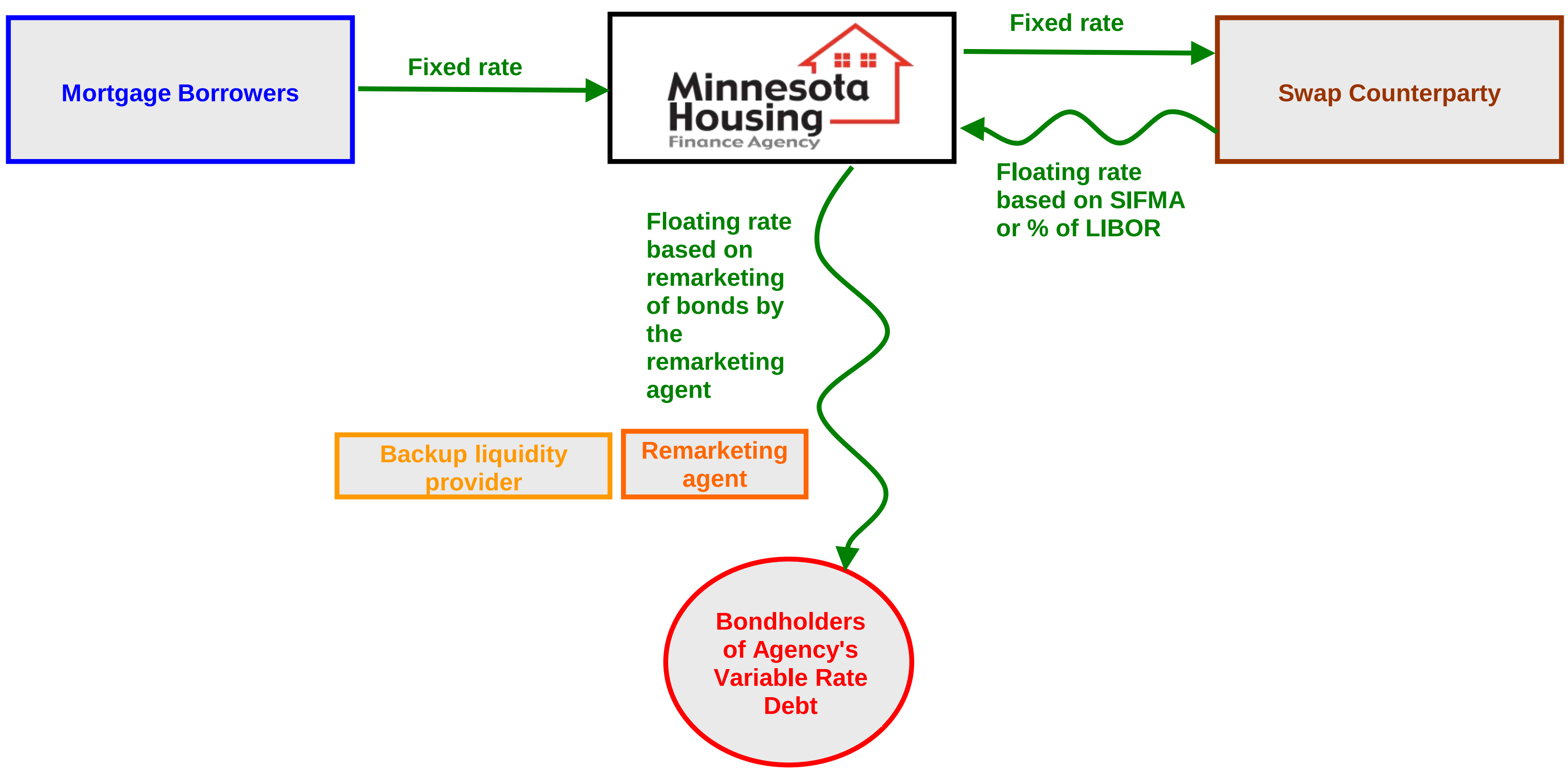
Floating-to-Fixed Interest Rate Swap Structure

Overview



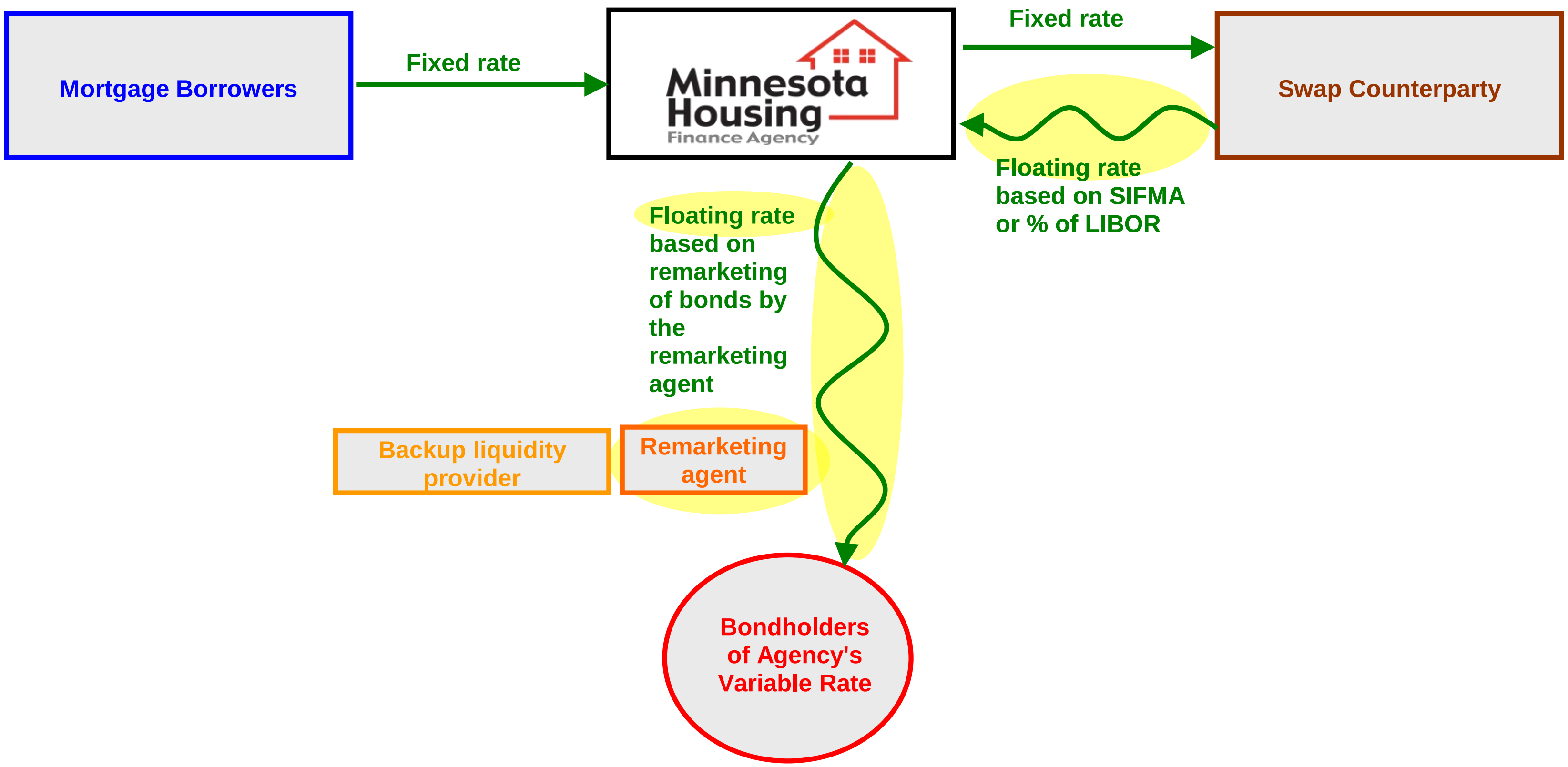
Overview of Swaps

January 01, 2014

Bond Series	Issue Date	Original Notional Amount of Swap	Notional Amount Outstanding	Counterparty	Floating Rate Received
RHFB 2003 B	07/23/2003	$ 25,000,000	$ 18,935,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2003 J	10/15/2003	25,000,000	12,925,000	The Bank of New York Mellon	65% of LIBOR + 23 basis points
RHFB 2004 G	07/01/2204	50,000,000	25,725,000	Royal Bank of Canada	64% of LIBOR + 26 basis points
RHFB 2005 C	03/02/2005	25,000,000	15,480,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 I	06/02/2005	40,000,000	25,045,000	The Bank of New York Mellon	64% of LIBOR + 28 basis points
RHFB 2005 M	08/04/2005	60,000,000	36,430,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2006 C	03/21/2006	28,335,000	21,675,000	The Bank of New York Mellon	64% of LIBOR + 29 basis points
RHFB 2007 E (Taxable)	03/07/2007	25,000,000	10,255,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 J (Taxable)	05/17/2007	37,500,000	15,695,000	Royal Bank of Canada	One-month LIBOR
RHFB 2007 S	12/19/2007	18,975,000	18,975,000	The Bank of New York Mellon	100% of SIFMA Index Rate + 6 basis points
RHFB 2007 T (Taxable)	12/19/2007	37,160,000	19,300,000	The Bank of New York Mellon	One-month LIBOR
RHFB 2008 C	08/07/2008	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 C	02/12/2009	40,000,000	40,000,000	Royal Bank of Canada	64% of LIBOR + 30 basis points
RHFB 2009 F	12/01/2009	34,120,000	17,315,000	Royal Bank of Canada	100% of SIFMA + 8 basis points
	Totals	**$ 486,090,000**	**$ 317,755,000**		.

Floating-to-Fixed Interest Rate Swap Structure

Basis Risk

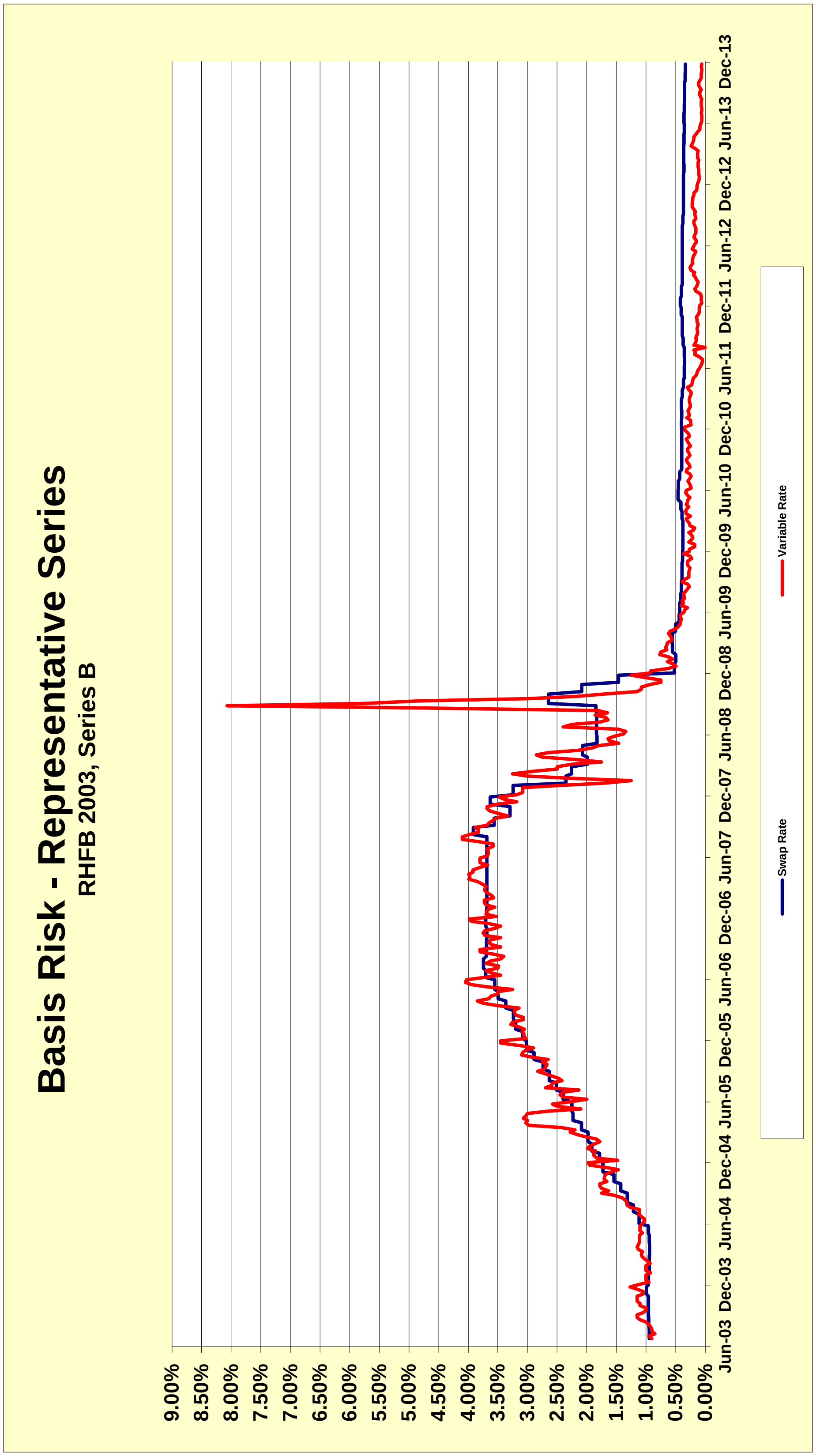


Basis Risk

January 01, 2014

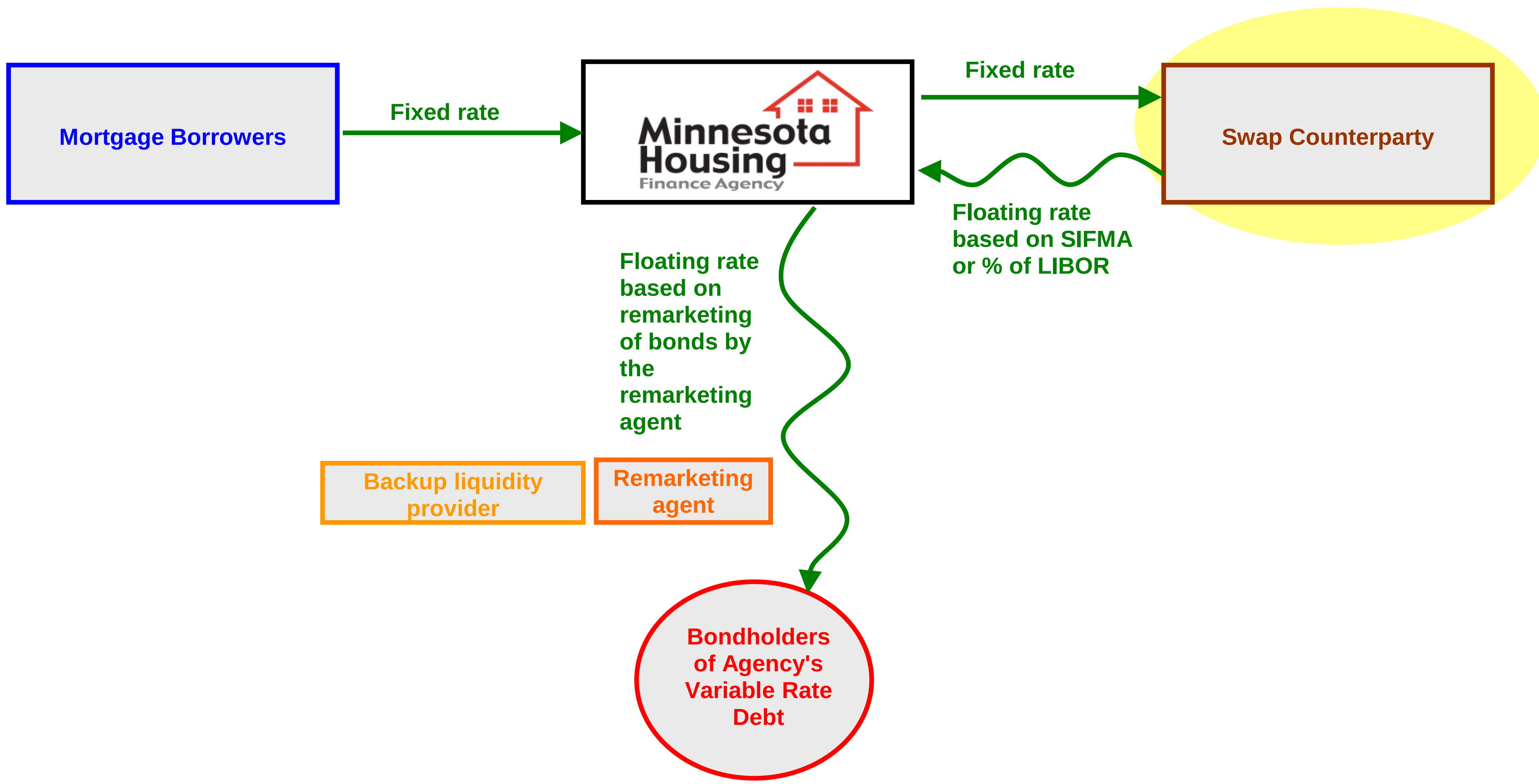
Bond Series	Issue Date	VRDO's and Swaps Outstanding	Net Variable Interest Paid (Received) Basis Risk	Contractual Swap Fixed Rate	Effective Swap Fixed Rate	Effective Rate As a Percentage of Swap Fixed Rate
RHFB 2003 B	07/23/2003	$ 18,935,000	$ (137,143)	3.532%	**3.479%**	98.50%
RHFB 2003 J	10/15/2003	12,925,000	(95,243)	4.183%	**4.140%**	98.97%
RHFB 2004 G	07/22/2004	25,725,000	(201,874)	4.165%	**4.113%**	98.75%
RHFB 2005 C	03/02/2005	15,480,000	(172,498)	3.587%	**3.494%**	97.41%
RHFB 2005 I	06/02/2005	25,045,000	(254,655)	3.570%	**3.482%**	97.54%
RHFB 2005 M	08/04/2005	36,430,000	(514,392)	3.373%	**3.250%**	96.35%
RHFB 2006 C	03/21/2006	21,675,000	(257,577)	3.788%	**3.657%**	96.54%
RHFB 2007 E (Taxable)	03/07/2007	10,255,000	123,837	5.738%	**5.832%**	101.64%
RHFB 2007 J (Taxable)	05/17/2007	15,695,000	195,961	5.665%	**5.766%**	101.78%
RHFB 2007 S	12/19/2007	18,975,000	(53,951)	4.340%	**4.293%**	98.92%
RHFB 2007 T (Taxable)	12/19/2007	19,300,000	319,786	4.538%	**4.707%**	103.72%
RHFB 2008 C	08/07/2008	40,000,000	(327,217)	4.120%	**3.969%**	96.33%
RHFB 2009 C	02/12/2009	40,000,000	(563,380)	4.215%	**3.927%**	93.17%
RHFB 2009 F	12/01/2009	17,315,000	(73,937)	2.365%	**2.300%**	97.25%
	Totals	**$ 317,755,000**	**$ (2,012,283) ***			

* The cumulative net of total variable interest paid on all VRDO's ($40,009,417) and all variable interest received from the swap counterparties ($42,021,700).


Basis Risk - Representative Series
RHFB 2003, Series B
9.00%
8.50%
8.00%
7.50%
7.00%
6.50%
6.00%
5.50%
5.00%
4.50%
4.00%
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
0.00%
Jun-03 Dec-03 Jun-04 Dec-04 Jun-05 Dec-05 Jun-06 Dec-06 Jun-07 Dec-07 Jun-08 Dec-08 Jun-09 Dec-09 Jun-10 Dec-10 Jun-11 Dec-11 Jun-12 Dec-12 Jun-13 Dec-13
Swap Rate
Variable Rate

Floating-to-Fixed Interest Rate Swap Structure

Counterparty / Termination Risk



Counterparty / Termination Risk

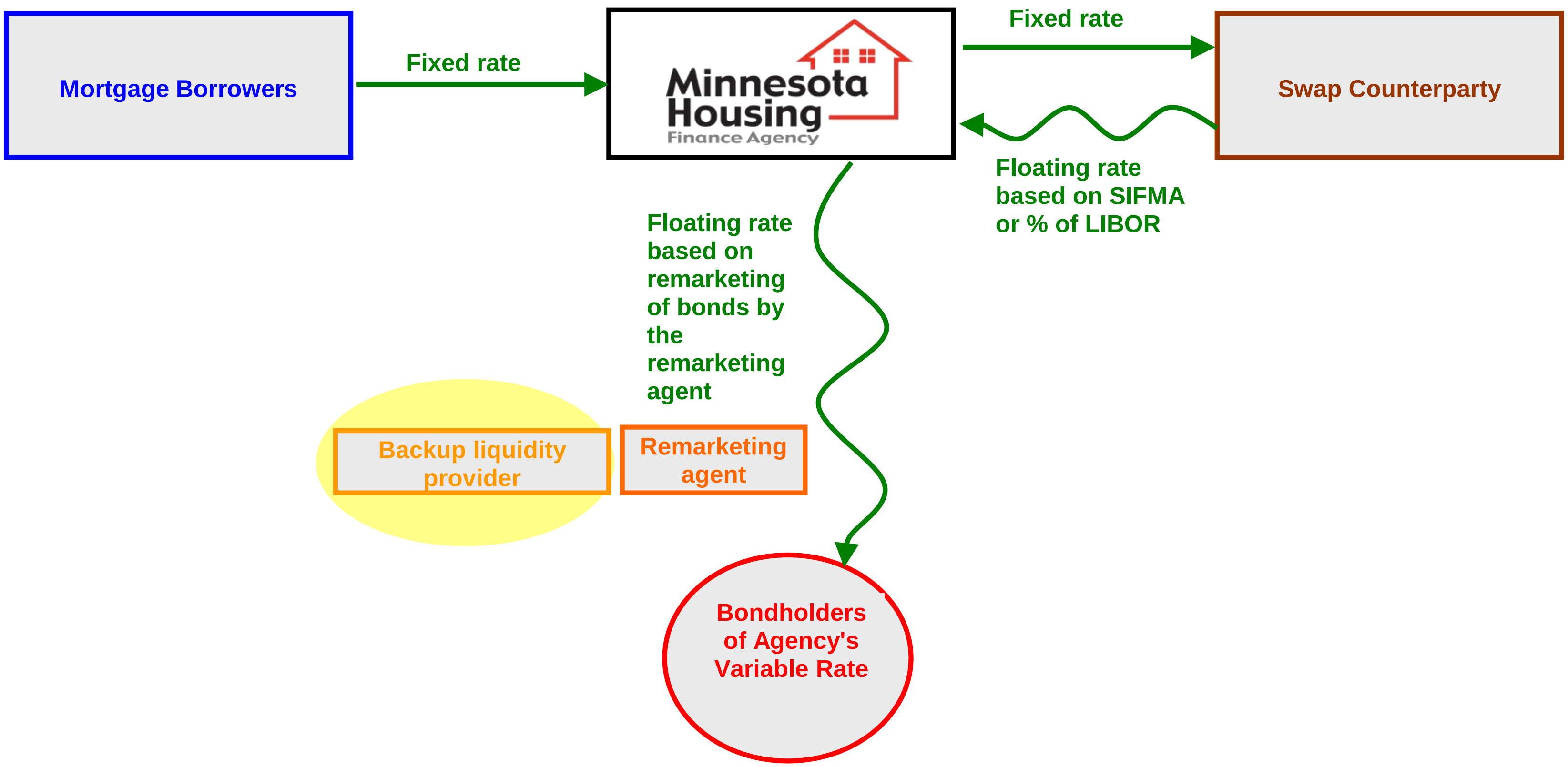
January 01, 2014

Bond Series	Counterparty	Long-term Credit Rating at Inception	Long-term Credit rating	Long-term Credit Outlook	Notional Amount Outstanding	Swap Maturity	Swap Average life at 100% PSA (years)	Swap Fixed Rate	Market Value*
RHFB 2003 B	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	$ 18,935,000	01/01/2033	21	3.532%	$ (992,901)
RHFB 2003 J	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	12,925,000	07/01/2033	14.3	4.183%	(1,226,976)
RHFB 2005 C	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	15,480,000	01/01/2035	9.2	3.587%	(435,365)
RHFB 2005 I	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	25,045,000	01/01/2036	9.2	3.570%	(1,086,461)
RHFB 2005 M	The Bank of New York Mellon	Aaa/AA	Aa1/AA-	Stable/Negative	36,430,000	01/01/2036	8.4	3.373%	(1,509,451)
RHFB 2006 C	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	21,675,000	01/01/2037	10.6	3.788%	(1,229,898)
RHFB 2007 S	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	18,975,000	07/01/2038	27.4	4.340%	(756,916)
RHFB 2007 T	The Bank of New York Mellon	Aa1/AA-	Aa2/AA-	Stable/Stable	19,300,000	07/01/2038	11.8	4.538%	(1,597,428)
	Total The Bank of New York Mellon				**168,765,000**				**(8,835,395)**
RHFB 2004 G	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	25,725,000	01/01/2032	11.3	4.165%	(2,091,924)
RHFB 2007 E	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	10,255,000	07/01/2038	12	5.738%	(1,334,749)
RHFB 2007 J	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	15,695,000	07/01/2038	11.8	5.665%	(2,058,416)
RHFB 2008 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2048	20.6	4.120%	(3,273,977)
RHFB 2009 C	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	40,000,000	07/01/2039	18.9	4.215%	(4,384,291)
RHFB 2009 F	Royal Bank of Canada	Aaa/AA-	Aa3/AA-	Stable/Stable	17,315,000	07/01/2039	4.2	2.365%	(611,756)
	Total Royal Bank of Canada				**148,990,000**				**(13,755,114)**
	Total All Swaps				**$ 317,755,000**				**$ (22,590,510)**

* A positive market value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination.
Valuations are provided by DerivActiv.

Floating-to-Fixed Interest Rate Swap Structure

Liquidity Risk



Liquidity Risk

January 01, 2014

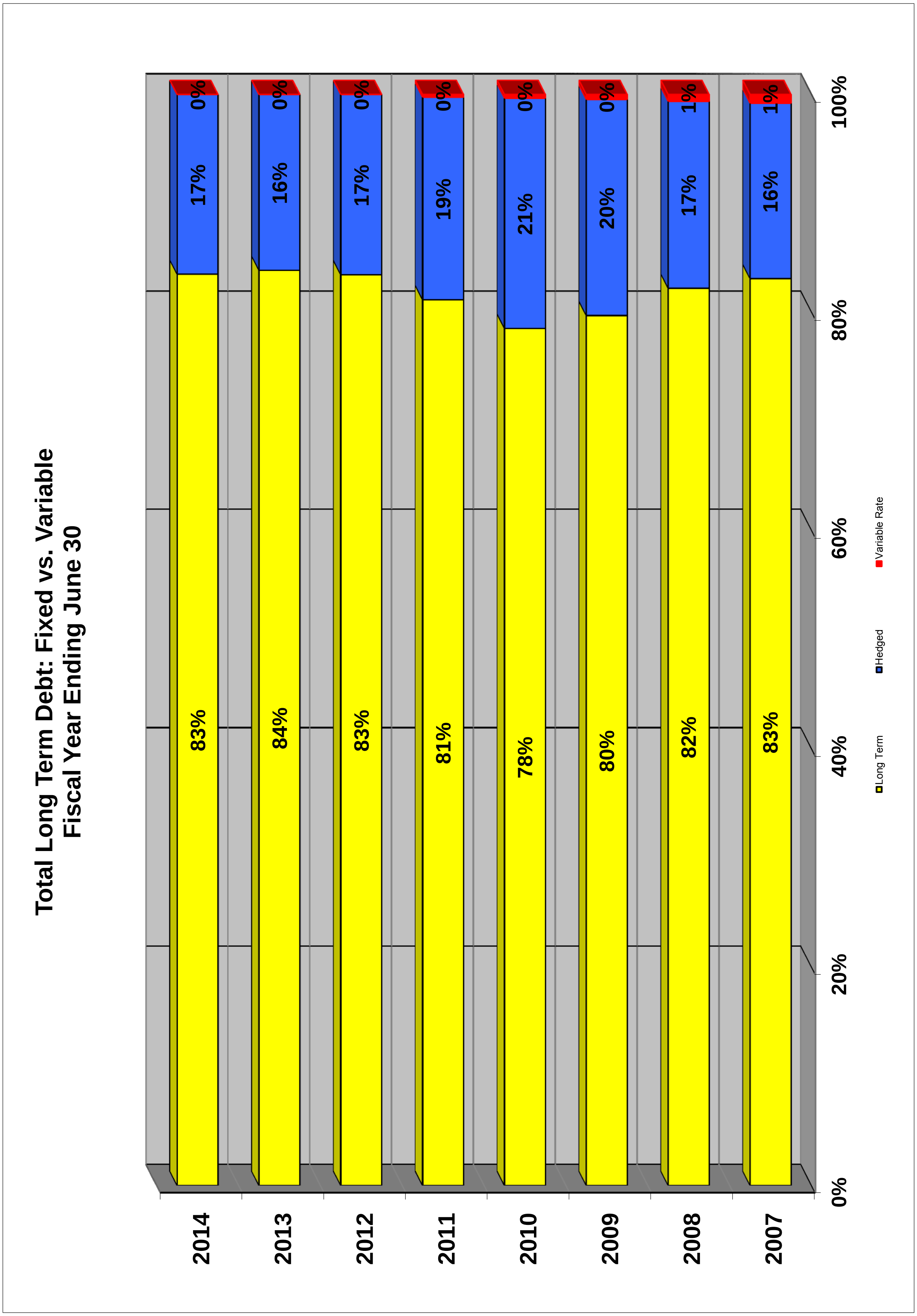
Bond Series	Current Liquidity Provider	Long-term Credit Rating	Long-term Credit Outlook	Short-term Credit Rating	VRDO's Outstanding	VRDO Maturity	Liquidity Facility Maturity	Liquidity Fee	Original Liquidity Fee
RHFB 2003 B	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	$ 18,935,000	01/01/2033	07/17/2015	0.650%	0.300%
RHFB 2003 J	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	12,925,000	07/01/2033	07/17/2015	0.650%	0.300%
RHFB 2004 G	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	25,725,000	01/01/2032	07/17/2015	0.650%	0.195%
RHFB 2005 C	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	15,480,000	01/01/2035	07/17/2015	0.650%	0.195%
RHFB 2005 I	Royal Bank of Canada	Aa3/AA-	Stable/Stable	P-1/A-1+	25,045,000	01/01/2036	07/17/2015	0.650%	0.195%
	Royal Bank of Canada subtotal				**98,110,000**				
RHFB 2005 M	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	36,430,000	01/01/2036	07/17/2015	0.685%	0.195%
RHFB 2006 C	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	21,675,000	01/01/2037	03/21/2015	0.450%	0.092%
RHFB 2007 E	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	10,255,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 J	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	15,695,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 S	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A--1+	18,975,000	07/01/2038	03/21/2015	0.450%	0.092%
RHFB 2007 T	Wells Fargo	Aa3/AA-	Stable/Stable	P-1/A-1+	19,300,000	07/01/2048	03/21/2015	0.450%	0.092%
	Wells Fargo subtotal				**122,330,000**				
RHFB 2008 C	FHLB - Des Moines[1]	Aaa/AA+	Stable/Stable	P-1/A-1+	40,000,000	07/01/2048	08/07/2015	0.250%	0.250%
RHFB 2009 C	FHLB - Des Moines[1]	Aaa/AA+	Stable/Stable	P-1/A-1+	40,000,000	07/01/2036	02/12/2016	0.250%	0.250%
RHFB 2009 F	FHLB - Des Moines[1]	Aaa/AA+	Stable/Stable	P-1/A-1+	17,315,000	07/01/2031	12/01/2016	0.250%	0.250%
	FHLB - Des Moines subtotal				**97,315,000**				
	Total All Liquidity Providers				**$ 317,755,000**				

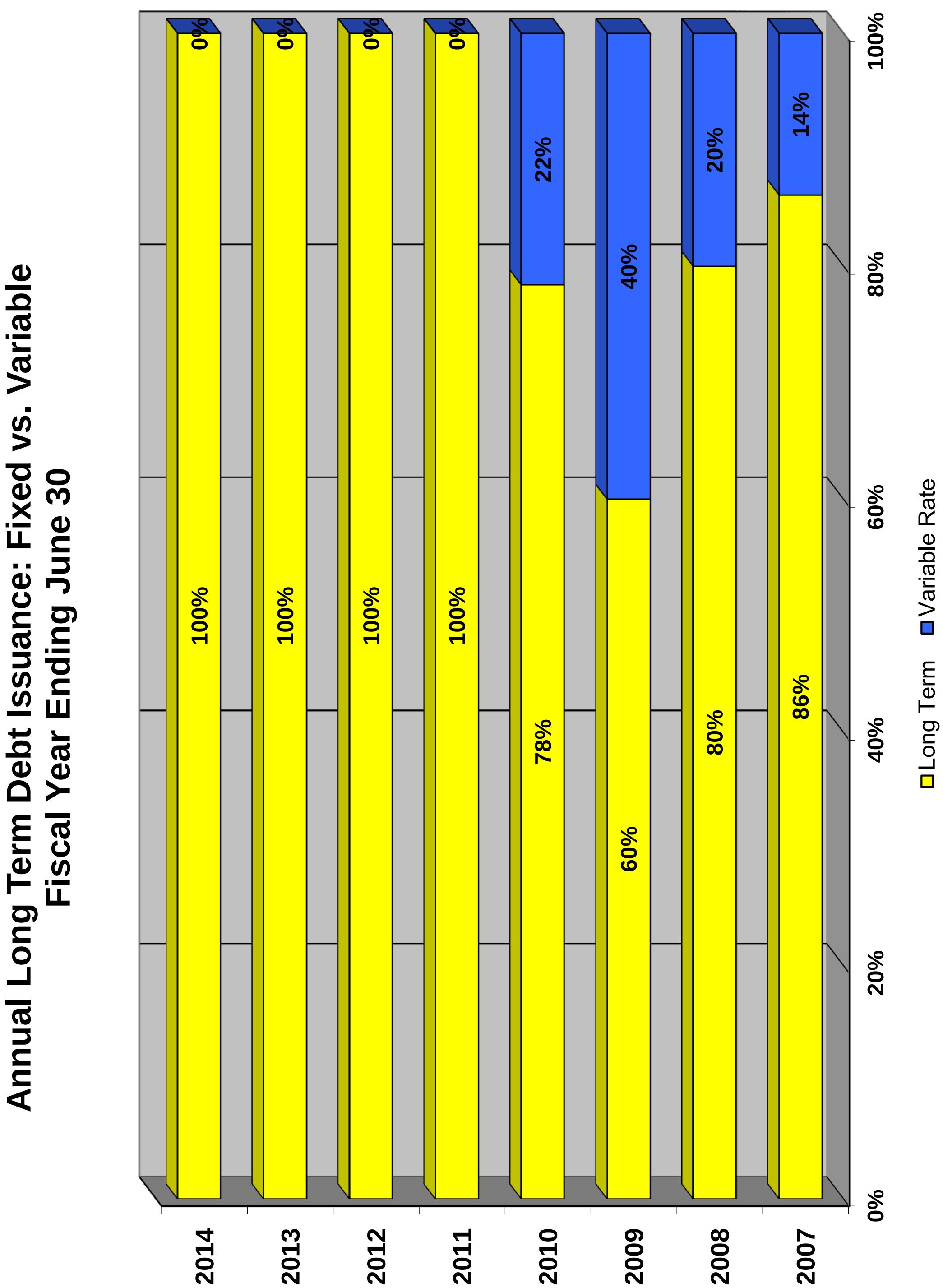
[1]Federal Home Loan Bank of Des Moines

LIQUIDITY RENEWAL REQUIREMENTS
January 01, 2014

Issue	Liquidity Provider	Final Swap Maturity	Full Optional Termination Date	Liquidity Expiration Date	Original Notional Amount	Outstanding Notional Amount as of 01/01/14	Scheduled Notional Amount Outstanding at Liquidity Expiration	Minimum Notional Amount Outstanding at Liquidity Expiration	Swap Counterparty
2003 B	Royal Bank of Canada	01/01/2033	01/01/2022	07/17/2015	25,000,000	18,935,000	20,725,000	9,975,000	BNY[1]
2003 J	Royal Bank of Canada	07/01/2033	01/01/2023	07/17/2015	25,000,000	12,925,000	12,090,000	8,145,000	BNY[1]
2004 G	Royal Bank of Canada	01/01/2032	07/01/2016	07/17/2015	50,000,000	25,725,000	23,810,000	17,325,000	RBC[2]
2005 C	Royal Bank of Canada	01/01/2035	01/01/2015	07/17/2015	25,000,000	15,480,000	13,110,000	-	BNY[1]
2005 I	Royal Bank of Canada	01/01/2036	01/01/2015	07/17/2015	40,000,000	25,045,000	16,310,000	-	BNY[1]
	Royal Bank of Canada subtotal				165,000,000	98,110,000	86,045,000	35,445,000	
2005 M	Wells Fargo	01/01/2036	07/01/2015	07/17/2015	60,000,000	36,430,000	29,945,000	-	BNY[1]
2006 C	Wells Fargo	01/01/2037	01/01/2016	03/21/2015	28,335,000	21,675,000	20,385,000	19,760,000	BNY[1]
2007 E	Wells Fargo	07/01/2038	07/01/2016	03/21/2015	25,000,000	10,255,000	9,445,000	6,890,000	RBC[2]
2007 J	Wells Fargo	07/01/2038	07/01/2016	03/21/2015	37,500,000	15,695,000	14,455,000	10,380,000	RBC[2]
2007 S	Wells Fargo	07/01/2038	07/01/2017	03/21/2015	18,975,000	18,975,000	18,975,000	18,975,000	BNY[1]
2007 T	Wells Fargo	07/01/2048	07/01/2017	03/21/2015	37,160,000	19,300,000	15,630,000	15,630,000	BNY[1]
	Wells Fargo subtotal				206,970,000	122,330,000	108,835,000	71,635,000	
2008 C	FHLB - Des Moines[3]	07/01/2048	07/01/2018	08/07/2015	40,000,000	40,000,000	40,000,000	33,210,000	RBC[2]
2009 C	FHLB - Des Moines[3]	07/01/2036	07/01/2019	02/12/2016	40,000,000	40,000,000	40,000,000	40,000,000	RBC[2]
2009 F	FHLB - Des Moines[3]	07/01/2016	NA	12/01/2016	34,120,000	17,315,000	-	-	RBC[2]
	FHLB - Des Moines subtotal				114,120,000	97,315,000	80,000,000	73,210,000	
	Total All Liquidity Providers				486,090,000	317,755,000	274,880,000	180,290,000	

[1]The Bank of New York Mellon
[2]Royal Bank of Canada
[3]Federal Home Loan Bank of Des Moines


Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30
2014
2013
2012
2011
2010
2009
2008
2007
83%
17%
0%
84%
16%
0%
83%
17%
0%
81%
19%
0%
78%
21%
0%
80%
20%
0%
82%
17%
1%
83%
16%
1%
0%
20%
40%
60%
80%
100%
Long Term
Hedged
Variable Rate



Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30
2014
2013
2012
2011
2010
2009
2008
2007
100%
0%
100%
0%
100%
0%
100%
0%
78%
22%
60%
40%
80%
20%
86%
14%
0%
20%
40%
60%
80%
100%
Long Term
Variable Rate

GLOSSARY OF TERMS

The following are explanations of certain terms used in this presentation:

Amortization Risk

Minnesota Housing is subject to amortization risk on its hedged VRDOs because the prepayments from mortgage loans securing the bonds may cause the outstanding principal amount of bonds to decline faster than the nominal amount of the swap. To manage amortization risk, termination options have been structured into its outstanding swaps to enable Minnesota Housing in certain circumstances to reduce the nominal amounts of the swaps to correspond to the outstanding principal amount of the bonds hedged by the swap. Additionally, Minnesota Housing may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

Basis risk refers to a mismatch between the floating interest rate received from the swap counterparty and the interest actually paid on the related series of Minnesota Housing's variable rate bonds. Under its outstanding swaps, Minnesota Housing pays a fixed interest rate and in return receives a floating variable rate based on LIBOR or the SIFMA Municipal Swap index, plus a specified spread if the swap relates to tax-exempt bonds. Minnesota Housing's bonds hedged by its swaps bear interest at a variable rate that is reset weekly, based on market conditions. Minnesota Housing's risk is that the variable interest payments received from the counterparty will be less than the variable interest payments actually paid on the bonds. This mismatch between the actual bond interest rate and the swap floating interest rate would cause additional interest expense to Minnesota Housing. A mismatch could occur for various reasons, including an increased supply of tax-exempt bonds, deterioration of the credit quality of Minnesota Housing or the liquidity facility provider, or a reduction of federal income tax rates for corporations and individuals. Basis risk varies over time due to inter-market conditions. Tax risk is a form of basis risk.

Counterparty Risk

Counterparty risk is the risk that the swap counterparty will not perform pursuant to the swap contract's terms, either in making regular payments or termination payments. Under a fixed payor swap, for example, if the counterparty defaults, Minnesota Housing could be exposed to unhedged variable rate bonds. The creditworthiness of the counterparty is indicated by its senior unsecured long-term credit rating. The outstanding swap agreements contain varying collateral requirements based on the respective parties' credit ratings and the fair value of the swaps to mitigate potential credit risk exposure.

LIBOR

London Interbank Offered Rate.

GLOSSARY OF TERMS (continued)

Liquidity Risk
Issuers of VRDOs face liquidity risk due to the ability of holders of the bonds to tender them for purchase upon short notice. The bonds are to be remarketed by a remarketing agent appointed by the issuer, but if the remarketing were to fail, the liquidity facility provider providing liquidity support to cover tenders would be required to purchase the bonds. In such event, the bonds, known as "bank bonds," would bear interest at a higher "bank rate" and be subject to principal amortization over a much shorter period than their stated terms. The bank rate typically floats at a few percentage points higher than the prime rate. Because of turmoil in the financial markets, substantially fewer financial institutions are providing liquidity facilities and at a substantially higher cost. Consequently, at the expiration of a liquidity facility, Minnesota Housing may have difficulty obtaining a replacement liquidity facility or may have to pay substantially higher fees.

SIFMA
Securities Industry and Financial Markets Association.

Tax Risk
All issuers who issue tax-exempt variable rate debt inherently accept risk arising from changes in marginal federal income tax rates. For variable rate tax-exempt bonds hedged with LIBOR-based swaps, basis risk may be realized if changes in the federal tax code alter the historical relationship between taxable and tax-exempt short-term rates on which the swap was structured.

Termination Risk
Termination risk is the risk that the swap may be terminated as a result of any of events specified in the swap, which may include a ratings downgrade for Minnesota Housing or its counterparties, covenant violation by either party, bankruptcy of either party, swap payment default by either party, events of default under the bond resolution and certain specified termination events.

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are

the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs
Variable Rate Demand Obligations ("VDROs") are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarketed by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.