

NOTICE

\$75,000,000 Minnesota Housing Finance Agency
Homeownership Finance Bonds, 2012 Series B
(GNMA and FNMA Pass-Through Program) (Non-AMT))

Official Statement, dated October 3, 2012

The Official Statement, dated October 3, 2012, has been posted on this website as a matter of convenience. The posted version of the Official Statement has been formatted in Adobe Portable Document Format (Adobe Acrobat 10.0). Although this format should replicate the Official Statement distributed on behalf of the Agency in connection with the issuance of the bonds, the appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat 10.0 may cause the Official Statement that you view or print to differ from the Official Statement.

The posting of the Official Statement is not an offer to sell or a solicitation of an offer to buy any Bonds. *Under no circumstances shall the Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

The Agency may remove this copy of the Official Statement from this website at any time.

NEW ISSUE**RATING:** Moody's: Aaa (negative outlook)
(See "Rating" herein.)

This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information about the Series Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in this Official Statement.

**\$75,000,000**

**Minnesota Housing Finance Agency
Homeownership Finance Bonds, 2012 Series B
(GNMA and FNMA Pass-Through Program) (Non-AMT)[†]**

Dated Date: Date of Delivery**Due: as shown below**

<i>Tax Exemption</i>	Interest on the above-captioned 2012 Series B Bonds (the "Series Bonds") is not includable in gross income for federal income tax purposes or taxable net income of individuals, trusts and estates for Minnesota income tax purposes. (For additional information, including further information on the application of federal and state alternative minimum tax provisions to the Series Bonds, see "Tax Exemption and Related Considerations" herein.)
<i>Redemption</i>	All or a portion of the Series Bonds are subject to optional and mandatory redemption, including redemption at par, without premium, as described under "The Series Bonds" herein.
<i>Security</i>	The Series Bonds are secured, on a parity with Outstanding Bonds heretofore or hereafter issued under the Bond Resolution, by a pledge of Bond proceeds, Program Obligations, Investment Obligations, Revenues and other assets held under the Bond Resolution, except as otherwise expressly provided therein. The Series Bonds are also general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. <i>The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Series Bonds and the Series Bonds are not a debt of the State.</i> (See "Security for the Bonds" herein.)
<i>Interest Payment Dates</i>	The first day of each month, commencing January 1, 2013, and, in respect of a Series Bond to be redeemed, the redemption date.
<i>Denominations</i>	Upon original issuance, \$1.00 or any multiple thereof; thereafter, \$0.01 or any multiple thereof.
<i>Closing/Settlement</i>	November 28, 2012 through the facilities of DTC in New York, New York.
<i>Bond Counsel</i>	Kutak Rock LLP, Atlanta, Georgia.
<i>Underwriters' Counsel</i>	Dorsey & Whitney LLP, Minneapolis, Minnesota.
<i>Trustee</i>	Wells Fargo Bank, National Association, in Minneapolis, Minnesota.
<i>Book-Entry-Only System</i>	The Depository Trust Company. (See Appendix D hereto.)

\$75,000,000 2.25% Series Bonds due December 1, 2042 at 100% (CUSIP 60416QFU3*)

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

RBC Capital Markets**Morgan Stanley****Piper Jaffray & Co.**

The date of this Official Statement is October 3, 2012.

[†]Interest not included in the calculation of adjusted current earnings of corporations for purposes of the federal alternative minimum tax. (See "Tax Exemption and Related Considerations" herein.)

*The CUSIP number has been assigned by an organization not affiliated with the Agency and is included for the convenience of the owners of the Series Bonds. The Agency is not responsible for the selection or uses of the CUSIP number, nor is any representation made as to its correctness on the Series Bonds or as indicated above. A CUSIP number may be changed after the issuance date. CUSIP® is a registered trademark of the American Bankers Association.

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriters to give any information or representations, other than those contained in the Official Statement, and, if given or made, such other information or representations must not be relied upon as having been an offer to buy nor shall there be any sale of the Series Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Agency since the date hereof.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “intend,” “expect,” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Agency, its Program and the Series Bonds could cause actual results to differ materially from those contemplated in the forward-looking statements.

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

In connection with this offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued.

THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	3
THE AGENCY	5
ESTIMATED SOURCES AND USES OF FUNDS	11
THE SERIES BONDS.....	12
SECURITY FOR THE BONDS.....	13
GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES	15
FANNIE MAE MORTGAGE-BACKED SECURITIES	18
FREDDIE MAC MORTGAGE-BACKED SECURITIES.....	20
THE MASTER SERVICER.....	23
THE HOMEOWNERSHIP FINANCE PROGRAM.....	23
OTHER PROGRAMS	27
TAX EXEMPTION AND RELATED CONSIDERATIONS.....	28
LITIGATION	31
LEGAL MATTERS	31
RATING.....	31
FINANCIAL ADVISOR.....	31
UNDERWRITING	32
MISCELLANEOUS	32
 APPENDIX A AUDITED FINANCIAL STATEMENTS OF THE AGENCY FOR THE FISCAL YEAR ENDED JUNE 30, 2012	
APPENDIX B SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING	
APPENDIX C SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION	
APPENDIX D BOOK-ENTRY-ONLY SYSTEM	
APPENDIX E FORM OF OPINION OF BOND COUNSEL	

OFFICIAL STATEMENT
relating to
\$75,000,000
MINNESOTA HOUSING FINANCE AGENCY
HOMEOWNERSHIP FINANCE BONDS,
2012 SERIES B (GNMA AND FNMA PASS-THROUGH PROGRAM)

This Official Statement (which includes the Appendices) provides certain information concerning the Minnesota Housing Finance Agency (the “Agency”), created by Minnesota Statutes, Chapter 462A, as amended (the “Act”), and its Homeownership Finance Bonds, 2012 Series B (GNMA and FNMA Pass-Through Program) (the “Series Bonds”), in connection with the offering and sale of the Series Bonds by the Agency and for the information of all who may become initial owners of the Series Bonds. The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted December 11, 2009 (as amended and supplemented in accordance with its terms, the “Bond Resolution”), and a series resolution of the Agency adopted September 27, 2012 (the “2012B Series Resolution”). (The Bond Resolution and the 2012B Series Resolution are herein sometimes referred to as the “Resolutions.”)

The Homeownership Finance Bonds Outstanding in the aggregate principal amount of \$573,415,000 as of August 31, 2012, under the Bond Resolution, and any additional Homeownership Finance Bonds hereafter issued pursuant to the Bond Resolution, including the Series Bonds, will be equally and ratably secured thereunder (except as otherwise expressly provided therein) and are herein sometimes called the “Bonds.”

The Resolutions should be referred to for the definitions of capitalized terms used herein, some of which are reproduced in this Official Statement. The summaries and references herein to the Act, the Resolutions, and other documents are only outlines of certain provisions and do not purport to summarize or describe all the provisions thereof. All references herein to the Act and the Resolutions are qualified in their entirety by reference to the Act and the Resolutions, copies of which are available from the Agency, and all references to the Series Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Resolutions.

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota. The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of purchasing, making or otherwise participating in the making of long-term mortgage loans to persons and families of low and moderate income for the purchase of residential housing upon the determination by the Agency that such loans are not otherwise available from private lenders upon equivalent terms and conditions.

Since its creation in 1971, the Agency has issued bonds to purchase single family mortgage loans, to purchase home improvement loans and to finance multifamily developments. In addition to financing loans through the issuance of debt, the Agency finances grants and loans through State and federal appropriations and its Alternative Loan Fund in the Residential Housing Finance Bond Fund. Please refer to the comments under the heading “Net Assets Restricted by Covenant” in the notes to the financial statements included in Appendix A to this Official Statement.

Prior to the fall of 2009, the Agency purchased “whole loans” (i.e., the Agency directly purchased single family mortgage loans from lenders) and financed such purchases with proceeds of its bonds. In September 2009, the Agency changed its single-family mortgage lending program to acquire mortgage-backed securities guaranteed as to timely payment of principal and interest by a Federal Mortgage Agency (as defined in the Resolutions, “Program Securities”) instead of directly acquiring mortgage loans. (See “The Homeownership Finance Program—History and Transition to ‘MBS’ Model.”)

The Series Bonds are being issued to provide money for the Agency to be used along with certain contributed funds of the Agency, to continue its Program of purchasing Program Securities guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (“GNMA Securities”), the Federal National Mortgage Association (“Fannie Mae Securities”) or the Federal Home Loan Mortgage Corporation

(“Freddie Mac Securities”) and backed by pools of mortgage loans (i) insured by the Federal Housing Administration (the “FHA”) of the United States Department of Housing and Urban Development (“HUD”) pursuant to the National Housing Act of 1934, as amended (the “Housing Act”), (ii) guaranteed by the Veterans Administration (“VA”) pursuant to the Servicemen’s Readjustment Act of 1944, as amended, (iii) guaranteed by USDA Rural Development (formerly Rural Economic and Community Development) (“USDA Rural Development”), under its Guaranteed Rural Housing Loan Program, or (iv) insured by private mortgage insurance issued by an entity acceptable to the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) or having certain loan-to-value ratios or other characteristics acceptable to Fannie Mae or Freddie Mac (“Program Loans”), which have been made by certain mortgage lending institutions (the “Lenders”) to qualified persons or families of low and moderate income to finance the purchase of single-family residences in Minnesota.

The Program Securities (or participations therein) to be funded with proceeds of the Series Bonds will be GNMA Securities or Fannie Mae Securities and will be acquired on the date of issuance of the Series Bonds (the “2012B Program Securities”). Repayments and prepayments of principal of Program Loans backing 2012B Program Securities, which are to be credited to the subaccount in the Revenue Fund related to the Series Bonds, will be applied to the mandatory redemption of the Series Bonds as described under “The Series Bonds—Mandatory Redemption.”

As of September 25, 2012, the Agency had acquired with its own funds 25 GNMA Securities in approximately \$21.7 million in outstanding principal amount with an average pass-through interest rate of 3.40% and 30 Fannie Mae Securities in approximately \$10.9 million in outstanding principal amount with an average pass-through interest rate of 3.29%. These GNMA Securities and Fannie Mae Securities are expected to be part of the 2012B Program Securities and the remaining 2012B Program Securities will be GNMA Securities or Fannie Mae Securities with a pass-through rate of not less than 3.00%. No more than 25% of the outstanding principal amount of 2012B Program Securities acquired upon issuance of the Series Bonds will be Fannie Mae Securities. The Agency will file with the Municipal Securities Rulemaking Board, at its internet repository named “Electronic Municipal Market Access” (“EMMA”), a document identifying the 2012B Program Securities by pool number, pass-through rate and outstanding principal amount no later than two Business Days after the date of issuance of the Series Bonds.

The Series Bonds are secured on a parity with Outstanding Bonds heretofore and hereafter issued under the Bond Resolution (except as otherwise expressly provided therein and in the Program Series Resolution), by a pledge of all Program Obligations, Investment Obligations, Revenues and other assets held and received by the Agency pursuant to the Bond Resolution. Under the Bond Resolution, the Agency is authorized to acquire Program Obligations which consist of (i) Program Securities backed by Program Loans or (ii) Program Loans. (See “Security for the Bonds” and “Appendix C – Summary of Certain Provisions of the Bond Resolution.”) Because the Agency has recently changed its Program to an MBS model, it currently expects to use proceeds of future Bonds issued under the Bond Resolution to finance the acquisition of Program Securities and not Program Loans.

The Series Bonds are also general obligations of the Agency payable from any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The net assets of the General Reserve and the Alternative Loan Fund are legally available if needed to pay debt service on any obligations of the Agency, including the Series Bonds. (See “The Agency—Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund.”) (For purposes of the Resolutions, the General Reserve is designated as the “General Reserve Account.”)

Although the State has appropriated amounts to the Agency for various specific purposes (see “The Agency—State Appropriations”), the Agency generally pays its general and administrative expenses from certain interest earnings and fees charged in connection with its bond-funded programs. For programs funded through State appropriations, the Agency recovers the costs of administering the programs from such appropriations only to the extent of interest earnings on the appropriations. The appropriations are not available to pay debt service on the Bonds.

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or shall be obligated to pay the principal or redemption price of or interest on the Series Bonds and neither

the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to such payment.

THE AGENCY

Purpose

The Agency was created in 1971 by the Act as a public body corporate and politic, constituting an agency of the State of Minnesota, in response to legislative findings that there existed in Minnesota a serious shortage of decent, safe, and sanitary housing at prices or rentals within the means of persons and families of low and moderate income, and that the then present patterns of providing housing in the State limited the ability of the private building industry and the investment industry to produce such housing without assistance and resulted in a failure to provide sufficient long-term mortgage financing for such housing.

Structure

Under the Act, the membership of the Agency consists of the State Auditor and six public members appointed by the Governor with the advice and consent of the Senate for terms of four years. Pursuant to the Act, each member continues to serve until a successor has been appointed. The Chairman of the Agency is designated by the Governor from among the appointed public members. Pursuant to state law, the State Auditor may delegate duties and has delegated her duties as a member of the Agency in the event that the Auditor is unable to attend a meeting of the Agency.

The present members of the Agency, who serve without compensation (except for per diem allowance and expenses for members not otherwise compensated as public officers), are listed below.

Kenneth R. Johnson, Chairman – Term expires January 2015, Woodbury, Minnesota – Retired
Economic Development Executive

The Honorable *Rebecca Otto* — *Ex officio*, St. Paul, Minnesota – State Auditor

Joseph Johnson III, Vice Chairman — Term expires January 2013, Duluth, Minnesota – Banker

Steven Johnson, Member — Term expires January 2014, Apple Valley, Minnesota – Chief
Financial Officer

Gloria J. Bostrom, Member — Term expires January 2016, Roseville, Minnesota – Retired

John DeCramer, Member — Term expires January 2016, Marshall, Minnesota – Magnetics
Engineer

Stephanie Klinzing, Member – Term expires January 2015, Elk River, Minnesota – Writer and
Publisher

Staff

The staff of the Agency presently consists of approximately 220 persons, including professional staff members who have responsibilities in the fields of finance, law, mortgage underwriting, architecture, construction inspection and housing management. The Attorney General of the State of Minnesota provides certain legal services to the Agency.

The Commissioner is appointed by the Governor. The Act authorizes the Commissioner of the Agency to appoint such permanent and temporary employees as the Commissioner deems necessary subject to the approval of the Commissioner of Management and Budget.

The principal officers and staff related to the Program are as follows:

Mary Tingerthal — Commissioner. Ms. Tingerthal was appointed Commissioner effective February 1, 2011. Before her appointment, Ms. Tingerthal was President of Capital Markets Companies for the Housing

Partnership Network where she coordinated the work of the Housing Partnership Fund, which provides acquisition and predevelopment financing; Housing Partnership Ventures, which serves as the Network's investment vehicle; the Charter School Financing Partnership, a new conduit for charter school loans; and the Network's housing counseling intermediary and neighborhood stabilization programs. In 2008, she was instrumental in establishing the National Community Stabilization Trust -- a nationwide company dedicated to helping local organizations put vacant and foreclosed properties back into productive reuse. Prior to that, Ms. Tingerthal held senior management positions with the National Equity Fund, GMAC Residential Funding, the City of Saint Paul, and the Community Reinvestment Fund. She worked for the Agency beginning in the late 1970s when she spent 10 years working with the Agency's home improvement division. Ms. Tingerthal holds a Master's Degree in Business from Stanford Graduate School of Business, and a Bachelor of Arts Degree from the University of Minnesota. She serves as the vice chair of the Consumer Advisory Council to the Federal Reserve Board and serves on the Boards of the National Housing Trust, the National Community Investment Fund, and on the investment committee of the Calvert Foundation.

Barbara Sporlein — Deputy Commissioner, appointed effective November 7, 2011. Her primary responsibilities are talent management, agency-wide planning, inter-agency collaboration, and credit risk management. Prior to this position, Ms. Sporlein was the Director of Planning for the City of Minneapolis between 2004 and 2011. As Planning Director she was responsible for the City's long range planning, transportation planning, development consultation and review, heritage preservation, environmental review, public art program, and zoning administration and enforcement. Prior to that position, Ms. Sporlein served as the Deputy Director of the Saint Paul Public Housing Agency between 1994 and 2004, and as a City Planner for the City of Saint Paul from 1990 to 1994. Ms. Sporlein has a Bachelor of Science Degree in Geography from the University of Wisconsin-Madison, a Master of Planning Degree from the Humphrey School of Public Affairs at the University of Minnesota, and a Certificate in Advanced Studies in Public Administration from Hamline University. Ms. Sporlein serves on the Board of Directors for the Daniel Rose Center for Public Leadership in Land Use, and is a member of the Citizens League, the Urban Land Institute, the Minnesota Chapter of National Association of Housing and Redevelopment Organizations, and the American Planning Association. Ms. Sporlein is a Certified Public Housing Manager and Housing Finance Professional.

Don Wyszynski — Chief Financial Officer, appointed effective September 16, 2011. Mr. Wyszynski has served as the Agency's Director of Financial Strategy since September 2006, and has previous experience working for the Agency as Finance Director (1976-1978) and Deputy Director (1978-1981). In between, he was an investment banker for RBC Capital Markets, LLC and its predecessor companies from 1991 to 2006 working with various municipal issuers and housing finance agencies in the Midwest, and from 1981 to 1991 he served as a municipal financial advisor for Evensen Dodge Inc. Mr. Wyszynski started his professional career as a public accountant, and has a Bachelors degree in Business Administration from the University of Minnesota.

William Kapphahn — Director of Finance effective September 2008. Mr. Kapphahn has managed debt and investments for the Agency since September 2007. Previously Mr. Kapphahn was Controller for the Agency from November 1998 to September 2007. From June 1996 to October 1998, he was Director of Finance and Administration at Children's Home Society and Family Services with responsibility for accounting, information systems, and facility management. Previous to that, he held various accounting positions of increasing responsibility at The Saint Paul Foundation, Amherst H. Wilder Foundation, Servomation Corporation, and Land O' Lakes, Inc. Mr. Kapphahn holds a Masters degree in Business Administration with a concentration in Finance and a Bachelor of Arts degree in Business Administration from the University of St. Thomas, St. Paul, Minnesota.

Paula Beck — General Counsel, appointed effective October 26, 2011. Ms. Beck's previous experience with the Agency includes her role as Counsel from 2009 until her General Counsel appointment and as an Assistant Attorney General representing the Agency from 1999 to 2004. From 2004 to 2009, Ms. Beck served as Associate General Counsel for Sherman Associates, Inc., a Minneapolis-based developer of residential and commercial real estate, including affordable housing, and from 1997 to 1999, she was an associate at the Minneapolis-based law firm of Leonard, Street and Deinard. Ms. Beck earned her law degree from Harvard Law School and holds a Bachelor of Arts degree from Swarthmore College in Pennsylvania.

Michael A. Haley — Assistant Commissioner, Minnesota Single Family Division since September 1980. From January 1972 to September 1980, he was Assistant Vice President of the Marquette National Bank of Minneapolis with responsibility for the Bank's residential mortgage operations which included secondary market sales and operations, business development and mortgage loan underwriting and approval. Mr. Haley has a Masters

degree in Business Administration and a Bachelor of Arts degree from the University of St. Thomas, St. Paul, Minnesota. Mr. Haley also is a graduate of the Mortgage Bankers Association of America School of Mortgage Banking.

The Agency's offices are located at 400 Sibley Street, St. Paul, Minnesota 55101, and its general telephone number is (651) 296-7608. The Agency's Investor Relations Representative may be reached at the Agency's general telephone number. The Agency's website address is <http://www.mnhousing.gov>. No portion of the Agency's website is incorporated into this Official Statement.

Independent Auditors

The financial statements of the Agency as of and for the year ended June 30, 2012, included in this Official Statement as Appendix A have been audited by CliftonLarsonAllen LLP (formed as a result of the merger of LarsonAllen LLP and Clifton Gunderson LLP on January 2, 2012), independent auditors, as stated in their report appearing herein.

The auditors have not performed any agreed-upon procedures in respect of any financial statements of the Agency after June 30, 2012.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix A as of and for the fiscal year ended June 30, 2012 are presented in combined "Agency-wide" form followed by "fund" financial statements presented for its major funds in order to comply with the requirements of Statement No. 34 of the Governmental Accounting Standards Board.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Owners and Beneficial Owners (as defined in Appendix B hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the "Agency Annual Report") and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency Annual Report is to be filed by the Agency no later than 120 days after the close of each fiscal year, commencing with the fiscal year ending June 30, 2013, with the Municipal Securities Rulemaking Board, at its EMMA internet repository. The notices of the occurrence of events, if any, are also to be filed with EMMA. (See "Appendix B — Summary of Continuing Disclosure Undertaking.")

The specific nature of the information to be contained in the Agency Annual Report or the notices of events, and the manner in which such materials are to be filed, are summarized in "Appendix B — Summary of Continuing Disclosure Undertaking." These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5) (the "Rule"). During the past five years, the Agency has not failed to comply in any material respect with any previous undertakings it has entered into with respect to the Rule.

In addition to the information required by the Continuing Disclosure Undertaking, the Agency also uses its best efforts to prepare a quarterly disclosure report for each of its single family bond resolutions (including the Bond Resolution) and a semiannual disclosure report for its rental housing bond resolution. Recent reports are available at the Agency's website at <http://www.mnhousing.gov/investors>, but no information on the Agency's website is incorporated into this Official Statement. The Agency is also committed to providing appropriate credit information as requested by any rating agency rating the Bonds at the Agency's request.

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

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

pledged to the payment of the Bonds or any other debt obligations of the Agency but, to the extent funds are available therein, are generally available to pay any debt obligations of the Agency, including the Bonds.

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

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

Under the investment guidelines effective July 1, 2007 (as amended by a resolution adopted September 24, 2009), the required size of Pool 1 (which is intended to be a liquidity reserve) is 1% of gross loans receivable (excluding mortgage-backed securities, appropriated loans and loans credited to Pool 3) and the required size of Pool 2 is an amount that would cause the combined net assets (exclusive of unrealized gains and losses resulting from marking to market investment securities, including mortgage-backed securities, and swaps entered into by the Agency for which the unrealized loss or gain will not be realized if the security or swap is held to maturity or its optional termination date) in the General Reserve, in Pool 2, and in the funds pledged under bond resolutions to be the greater of \$615 million or the combined net assets of the same funds as of the immediately preceding fiscal year end. Currently, this amount is \$675.36 million, representing the combined net assets of these funds so calculated as of June 30, 2012. Pool 2 is intended to comprise amortizing interest-bearing housing loans or investment grade securities. Pool 1 and Pool 2 represent, with assets pledged to pay bonds of the Agency, the sustainable lending operations of the Agency. Pool 3 represents the more mission-intensive operations of the Agency and is intended to comprise deferred, zero percent and low interest-rate loans and grants and, for unapplied funds, investment grade securities. Pool 3 is not subject to the investment guidelines. Loan activity related to loans financed by funds in Pool 2 and Pool 3 is recorded as part of the Alternative Loan Fund. All interfund transfers are approved by the Agency. A further discussion of Pools 1, 2 and 3 and the amounts credited thereto as of June 30, 2012 appears in the notes to the financial statements of the Agency included in Appendix A to this Official Statement under the heading "Net Assets Restricted by Covenant" at pages 54 and 55 therein (however, the amounts of the Pool 2 requirement as of June 30, 2012 and June 30, 2011 on page 54 therein stated as combined net assets fail to exclude unrealized gains and losses as described above and thus overstate the Pool 2 requirement).

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

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	Fiscal Year Ended <u>June 30, 2012</u>	Fiscal Year Ended <u>June 30, 2011</u>
Revenues		
Fees earned and other income ⁽¹⁾	\$ 8,865	\$10,289
Interest earned on investments	63	292
Unrealized gain (loss) on investments	70	(95)
Administrative reimbursement ^{(2), (3)}	<u>21,622</u>	<u>20,733</u>
Total revenues	30,620	31,219
Expenses		
Salaries and benefits	17,541	17,716
Other general operating expenses	<u>5,236</u>	<u>5,714</u>
Total expenses	22,777	23,430
Revenues over expenses	7,843	7,789
Non-operating transfer of assets between funds ⁽⁴⁾	(9,659)	(10,029)
Change in net assets	(1,816) ⁽⁵⁾	(2,240) ⁽⁵⁾
Net assets beginning of period	<u>21,929</u>	<u>24,169</u>
Net assets end of period	<u>\$20,113</u>	<u>\$21,929</u>

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- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.
 - (2) Reimbursement from bond funds are transferred to the General Reserve in accordance with the Agency's Affordable Housing Plan based on adjusted assets. Adjusted assets are defined generally as total assets excluding the reserve for loan loss, unearned discounts on loans, premiums on loans, unamortized bond issuance costs, unrealized gains or losses on investments (including mortgage-backed securities and interest rate swap agreements), deferred loss on interest rate swap agreements and assets relating to escrowed debt.
 - (3) Reimbursement from appropriated accounts consists of the portion of direct and indirect costs of administering the programs funded by the appropriations. Costs associated with administering state appropriations are recovered only to the extent of interest earnings on the appropriations. Costs associated with administering federal appropriations generally are recovered from the appropriations.
 - (4) Excess assets from bond funds may be transferred to the General Reserve to the extent permitted by the resolution or indenture securing bonds of the Agency. In addition, funds in excess of the requirement for Pool 1 may be transferred from the General Reserve to the Alternative Loan Fund. See the comments under the heading "Net Assets Restricted by Covenant" in the notes to the financial statements of the Agency in Appendix A to this Official Statement for additional information.
 - (5) The significant reductions in net assets for fiscal years 2011 and 2012 reflect the reduction in the amount required to be retained in Pool 1 under the investment guidelines described above due to the fact that the Agency's whole loan single family mortgage loan portfolio is in runoff (as a result of transition to an MBS model (see "The Homeownership Finance Program—History and Transition to 'MBS' Model")). In addition, for each period there has also been a reduction in the carrying amount of certain net assets invested in capital assets.

State Appropriations

Over the years, the State Legislature has appropriated funds to the Agency to be used for low-interest loans, grants, programs for low- and moderate-income persons and families and other housing-related program costs. The Agency generally does not pay its general or administrative expenses from appropriated funds, although it can recover its allocable costs of administering State appropriations from investment earnings thereon. The State Legislature has appropriated funds to the Agency for its programs in every biennium since 1975. Most of the appropriations have been expended or committed by the Agency.

Over the past five years, appropriations to the Agency have totaled approximately \$293.6 million. Because of estimated State budget deficits for the biennium ended June 30, 2009, the Governor, among other actions, reduced by executive action the Agency's uncommitted and unexpended appropriations by \$4 million, reducing the Agency's appropriations for that biennium to \$129.6 million. For the biennium ended June 30, 2011, the Legislature appropriated approximately \$86.7 million to the Agency. To balance the budget in the first fiscal year of that biennium, the Governor effected unallotments in the aggregate amount of \$695 million, including \$512,000 of funds otherwise appropriated to the Agency. The Legislature adopted a supplemental budget bill reducing appropriations to the Agency in that biennium by an additional \$4.2 million.

For the current biennium ending June 30, 2013, which had a projected \$5 billion State budget deficit, the Legislature appropriated approximately \$76.1 million to the Agency, reflecting a reduction of approximately 6.3% to the Agency's base budget. The Agency does not expect that this reduction in appropriations will adversely affect its ability to operate the Program.

The appropriations are not available to pay debt service on the Bonds.

Agency Indebtedness

The principal amount of bonds and notes of the Agency which are outstanding at any time (excluding the principal amount of any refunded bonds and notes) is limited to \$5,000,000,000 by State statute. The following table lists the principal amounts of general obligation indebtedness of the Agency outstanding as of August 31, 2012:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	16	2048	\$ 158,825	\$ 93,460
Residential Housing Finance Bonds	60	2048	2,146,125	1,391,395
Homeownership Finance Bonds	15	2042	599,675	573,415
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	15,000
Total Debt Outstanding	92		\$2,919,625	\$2,073,270

*Does not include series of bonds or the original principal amount of any bonds that had been, as of August 31, 2012, defeased or paid in full, whether at maturity or earlier redemption.

The payment of principal of and interest on general obligations of the Agency as shown above may be made, if necessary, from the General Reserve or the Alternative Loan Fund. (See "Net Assets Restricted By Covenant and Operations to Date—General Reserve; Alternative Loan Fund" above.)

The Agency has entered into certain liquidity facilities and interest rate swap agreements in respect of certain of its outstanding Residential Housing Finance Bonds that bear interest at a variable rate and are subject to optional and mandatory tender. Certain information related to such variable rate bonds and swap agreements is included in the notes to the audited financial statements contained in Appendix A to this Official Statement. No representation is made as to the creditworthiness of any provider or counterparty on such facilities and agreements.

The Agency has issued its limited obligation notes from time to time for the purpose of preserving private activity bond volume cap by refunding the maturing principal or redemption price, as the case may be, of bonds previously issued by the Agency or by issuing a new money obligation. As of August 31, 2012, no such limited obligation notes were outstanding.

In 2009, the Agency issued \$13,270,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2009, to finance permanent supportive housing in two different multifamily housing developments. In 2011, the Agency issued \$21,750,000 in aggregate principal amount of its Nonprofit Housing Bonds (State Appropriation), Series 2011, to finance permanent supportive housing in five additional multifamily housing developments. Both series of bonds were issued under a separate indenture of trust, are not general obligations of the Agency and are not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008.

Disruptions in Mortgage and Financial Markets

Over the last five years, significant dislocations in the housing and mortgage markets have negatively affected general capital markets conditions, including the municipal bond market. During 2008 market dislocations led to the failure of the auction rate securities market, widening of municipal bond spreads and failed remarketings of variable rate demand obligations as a result of credit downgrades among liquidity providers and lack of market liquidity. While conditions have improved, market uncertainty still remains in the current economic environment.

As a state housing finance agency, the Agency has relied on municipal bond markets operating efficiently to fund its Program. Since the last half of 2008, these markets have not performed well, based on historical market relationships. Recent responses by the federal government and the Federal Reserve to address the housing market crisis and to lower long-term interest rates made it very difficult for state housing finance agencies, such as the Agency, to fund their operations profitably through the housing bond market. The Agency was able under the Bond Resolution to issue \$260,490,000 in aggregate principal amount of bonds under the Single Family New Issue Bond Program announced by the United States Department of the Treasury, Fannie Mae and Freddie Mac in late 2009, together with \$289,185,000 in aggregate principal amount of related market bonds. The Agency has exhausted its authority under the Single Family New Issue Bond Program and must again rely on the housing bond market. Unfortunately, the dislocation of historical market relationships has continued and without subsidy of some kind (such as from an economic refunding) generally the Agency cannot effectively issue bonds utilizing traditional bond structures to finance single family mortgage loans at competitive interest rates and may have to turn to other funding sources. It is anticipated that housing finance agencies may be able to compete more effectively in the market when mortgage rates rise and other mortgage market participants become less competitive.

At the same time, both the government and private lending institutions have undertaken programs to assist borrowers in refinancing their outstanding mortgage loans. On March 6, 2012, for example, the Obama Administration announced a new streamlined refinancing plan in which the Federal Housing Administration, effective June 11, 2012, reduced its upfront and annual mortgage insurance premiums for refinancings of FHA-insured loans originated before June 1, 2009 and on which the borrower is current. The upfront premium dropped from 1.00% to 0.01% of the loan amount and the annual premium dropped from 1.15% to 0.55%. The implementation of this plan may cause prepayments of FHA-insured loans in the Agency portfolio to increase.

These measures, and additional measures and legislation that may be considered by the federal government or the Minnesota Legislature, may affect the Program, the Program Securities or the Bonds. While some of these measures may benefit the Program, no assurance can be given that the Program, the Bonds or the Program Securities or the Owners of such Bonds will not be adversely affected by such measures. In addition, because of market conditions, no assurance can be given that the Agency will issue Additional Bonds under the Bond Resolution.

ESTIMATED SOURCES AND USES OF FUNDS

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

Sources

Principal amount of Series Bonds	\$75,000,000
Agency Contribution	<u>1,641,677</u>
Total Sources of Funds	\$76,641,677

Uses

Deposit to 2012B Acquisition Account	\$75,750,000
Deposit to Bond Fund Interest Account	216,250
Deposit to Costs of Issuance Account	175,000
Underwriters' Compensation	<u>500,427</u>
Total Uses of Funds	\$76,641,677

Proceeds of the Series Bonds deposited in the 2012B Acquisition Account will be applied, with related Agency funds, to purchase the 2012B Program Securities on the date of issuance of the Series Bonds.

THE SERIES BONDS

General

The Series Bonds are issuable only as fully registered bonds, upon original issuance in denominations of \$1.00 or any multiple thereof and thereafter in denominations of \$0.01 or any multiple thereof, and will initially be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series Bonds. Wells Fargo Bank, National Association, Minneapolis, Minnesota, serves as Trustee under the Bond Resolution. Interest on the Series Bonds is payable by moneys wired by the Trustee to DTC, or its nominee, as registered owner of such Bonds, which interest is to be redistributed by DTC. Principal of the Series Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. (See “Appendix D — Book-Entry-Only System.”)

For every exchange or transfer of Series Bonds, whether temporary or definitive, the Agency or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Series Bonds mature on the dates and in the amounts set forth on the inside front cover hereof, subject to prior redemption as hereinafter described.

Interest

Interest on the Series Bonds is payable on the first day of each month, commencing January 1, 2013 (each a “Regular Interest Payment Date”), and, in respect of any Series Bonds then to be redeemed, on the redemption date. Interest on the outstanding principal amount of the Series Bonds at the annual rate set forth on the front cover hereof initially shall accrue from the dated date of the Series Bonds to, but excluding, January 1, 2013, and thereafter shall accrue from the first calendar day of each month to, but excluding, the first calendar day of the immediately succeeding month, until payment of the principal or redemption price on the Series Bonds. Interest on the Series Bonds will be computed on the basis of a 360-day year of twelve 30-day months and will be payable to the Owners of record in the bond registration books maintained by the Trustee as of the 15th day of the month preceding the regularly scheduled interest payment date, whether or not a business day (the “Record Date” for such Series Bonds).

Mandatory Redemption

The Series Bonds are subject to mandatory redemption, in whole or in part, on each Regular Interest Payment Date, at a redemption price equal to the principal amount of the Series Bonds to be redeemed plus accrued interest to the redemption date, without premium, in the principal amount equal to all repayments and prepayments of mortgage principal from Program Loans backing 2012B Program Securities received by or on behalf of the Agency in the immediately preceding calendar month, as such amount is reasonably determined by the Trustee.

If the Series Bonds are to be redeemed in part upon any such mandatory redemption, each of the Series Bonds then outstanding shall be redeemed in part, pro rata, in proportion to the outstanding principal amount of such Series Bonds to the aggregate outstanding principal amounts of all outstanding Series Bonds. To effect this pro rata redemption while the Series Bonds are held in the DTC book-entry-only system, such mandatory redemptions will be made as a “Pro-Rata Pass-Through Distribution of Principal” by DTC. This redemption procedure, if effected by DTC, will cause a pro rata redemption of Series Bonds among DTC Participants upon a mandatory redemption, but may not ensure a pro rata redemption of Series Bonds among all Beneficial Owners thereof. (See Appendix D to this Official Statement for a general description of the DTC book-entry-only system.)

No notice of redemption will be given to any Bondowner or Beneficial Owner of the date or amount of the mandatory redemption of any Series Bond.

Optional Redemption

The Series Bonds are also subject to redemption prior to their stated maturity date at the option of the Agency, in whole or in part, in such amounts as the Agency may designate, on January 1, 2022 or any date

thereafter, from any amounts available to the Agency for such purpose, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the date of redemption, without premium. An optional redemption effected when the Series Bonds are held in the DTC book-entry-only system, will be made by lot as DTC determines under DTC's current practice. (See Appendix D to this Official Statement.) The Trustee is required to mail a copy of the notice of optional redemption, by first class mail, to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date; said registered owner to be determined from the bond registration books maintained by the Trustee determined as of the 15th day preceding the date such notice is mailed. (See "Appendix D — Book-Entry-Only System.")

General Provisions

If a payment of interest, principal or the redemption price of a Series Bond is to be made on a day that is not a Business Day, it will be made on the next succeeding Business Day with the same force and effect as if made on the date of payment, and no interest shall accrue thereon for the period after such date.

Except as otherwise provided in the 2012B Series Resolution, any Series Bonds to be optionally redeemed are to be redeemed only upon receipt by the Trustee of a certificate signed by an officer authorized by the Agency and stating the principal amount of the Series Bonds to be redeemed; provided that such optional redemption shall be in such a manner that Revenues and other amounts expected to be on deposit in the applicable Funds and Accounts will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on Outstanding Bonds when due in accordance with a Cash Flow Certificate filed with the Trustee. If less than all Series Bonds are to be redeemed pursuant to optional redemption and the Series Bonds are not held in the DTC book-entry-only system, the Series Bonds to be redeemed are to be selected at random by a method determined by the Trustee.

SECURITY FOR THE BONDS

The Outstanding Bonds (including the Series Bonds) and any additional Bonds hereafter issued and Outstanding are secured as provided in the Bond Resolution by a pledge of (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of Outstanding Bonds or other obligations and proceeds required by a Series Resolution to be deposited in escrow pending the conditions for the release of such proceeds from escrow being satisfied, which proceeds (and Investment Obligations purchased from such proceeds) are pledged solely to the payment of the Series of Bonds specified), (b) all Program Obligations and Investment Obligations made or purchased from such proceeds, (c) all Revenues, (d) any other loans, funds, securities, Cash Equivalents or other property of the Agency otherwise pledged as security for Outstanding Bonds or Other Obligations pursuant to a Series Resolution; (e) all right, title and interest of the Agency in and to all Participation Agreements and all Servicing Agreements entered into pursuant to a Series Resolution (including all extensions and renewals of their terms, if any) (exclusive of the Agency's rights to receive and enforce payment of money directly and for its own purposes under a Participation Agreement or a Servicing Agreement, exclusive of indemnification rights of the Agency, and exclusive of rights of the Agency to give consents and receive notices), including, but without limitation, the present and continuing right to make claim for, collect and receive any income, revenues, receipts, issues, profits, insurance proceeds and other sums of money payable to or receivable by the Agency under the Participation Agreements or Servicing Agreements with respect to Program Obligations made or purchased from proceeds of the Bonds, whether payable pursuant to the Participation Agreements, the Servicing Agreements or otherwise; the right to bring actions and proceedings under the Servicing Agreements or for the enforcement thereof; and the right to do any and all things which the Agency is or may become entitled to do under the Servicing Agreements; and (f) all money, Investment Obligations and other assets and income held in and receivable by Funds and Accounts established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are also general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or bonds, or State or federal laws or restrictions that particular funds be applied for a specified purpose. The pledge granted by the Bond Resolution shall be for the equal benefit, protection and security of Owners of all Outstanding Bonds, except as otherwise expressly provided therein or in the Program Series Resolution.

The Agency has no taxing power. The State of Minnesota is not liable for the payment of the Bonds, and the Bonds are not a debt of the State.

Cash Flow Certificate

The Bond Resolution requires that the Agency file a Cash Flow Certificate with the Trustee (i) at least once within a 12-month period and as otherwise required under the Bond Resolution or a Series Resolution, (ii) upon the proposed application of funds in the Revenue Fund to acquire Program Obligations or to pay Program Expenses, if not contemplated by a prior Cash Flow Certificate, or (iii) to release funds to the Agency from the Revenue Fund or to transfer funds to the Alternative Loan Fund. The Bond Resolution also permits a revised Cash Flow Certificate to be filed at any time directed by the Agency. The Cash Flow Certificate is to give effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established under the Bond Resolution or any Series Resolution (excluding, except to the extent otherwise provided in a Series Resolution, the Single Family Housing Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the balance in the Mortgage Reserve Fund at the Mortgage Reserve Requirement, if any; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than those excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate is to set forth the assumptions upon which the estimates therein are based, which assumptions are to be based upon the Agency's reasonable expectations at the time the Cash Flow Certificate is filed. As set forth more fully in "Appendix C — Summary of Certain Provisions of the Bond Resolution — Revenue Fund," the Agency may withdraw from the Revenue Fund funds to be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or the Alternative Loan Fund, in each case upon the filing with the Trustee a Cash Flow Certificate and a Parity Certificate.

Investment Obligations

Bond proceeds and other funds held in the Acquisition Account, the Mortgage Reserve Fund, the Revenue Fund, the Bond Fund, and the Bond Redemption Fund under the Bond Resolution may be invested in Investment Obligations as defined in the Bond Resolution (see "Appendix C – Certain Defined Terms").

Revenues

When Revenues are greater than the amount necessary to pay maturing principal of and interest on the Bonds, the excess may, to the extent permitted by applicable federal tax law and the applicable Series Resolution, be used to make or purchase additional Program Obligations or to redeem Bonds. If Revenues are less than the amount necessary to pay maturing principal of and interest on the Bonds, then either the Agency at its option may provide the amount necessary for such payment from the General Reserve Account of the Agency or any other lawful source other than funds and accounts pledged pursuant to the Bond Resolution, or the Trustee is to withdraw the necessary amount from the following funds in order of priority: (i) the Bond Redemption Fund, but only to the extent that amounts therein are in excess of amounts required for the redemption of Bonds for which the notice of redemption has been given, (ii) the Revenue Fund, and (iii) the Mortgage Reserve Fund.

The 2012B Series Resolution provides that repayments and prepayments of mortgage principal received from the Program Loans backing the 2012B Program Securities are to be applied to the mandatory redemption of the Series Bonds, as described under "The Series Bonds—Mandatory Redemption." The Agency will not use excess Revenues to redeem the Series Bonds, except upon an optional redemption as described under "The Series Bonds—Optional Redemption."

Program Securities Pledged under the Bond Resolution

As of June 30, 2012, the following Program Securities (comprising GNMA Securities and Fannie Mae Securities) were pledged to secure Outstanding Bonds under the Bond Resolution:

	Principal Amount	
	<u>Outstanding</u>	<u>Percentage</u>
GNMA II	\$343,567,581	91.14%
FNMA	<u>33,404,140</u>	<u>8.86</u>
Total	\$376,971,720	100.00%

Mortgage Reserve Fund

Although a Mortgage Reserve Fund has been established under the Bond Resolution, there is no Mortgage Reserve Requirement in respect of any Outstanding Bonds or the Series Bonds.

Additional Bonds

The Bond Resolution and the Program Series Resolution permit the issuance of additional Bonds, upon the adoption of a Series Resolution, without limitation as to amount, to provide funds for the purpose of financing Program Obligations and, in addition, to refund outstanding Bonds or other obligations of the Agency. No additional Series of Bonds may be issued except upon receipt by the Trustee of (1) an Agency Certificate certifying (a) that an amount equal to the Mortgage Reserve Requirement effective upon issuance of such Bonds will be on deposit in the Mortgage Reserve Fund, and (b) that the estimated Revenues set forth in an Agency Certificate are in excess of required fund transfers and debt service on the Bonds in each Fiscal Year as set forth in the Agency Certificate, (2) a Cash Flow Certificate, giving effect to the issuance of the additional Bonds, and (3) written confirmation that the then existing ratings of the Bonds will not be impaired.

Any additional Bonds issued under the Bond Resolution will be on parity with the Series Bonds and all other Outstanding Bonds and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements in the Bond Resolution, except as otherwise expressly provided in the Resolutions or the Program Series Resolution.

State Pledge Against Impairment of Contracts

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

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION MORTGAGE-BACKED SECURITIES

This summary does not purport to be comprehensive and is qualified in its entirety by reference to the GNMA Mortgage-Backed Securities Guide and to the documents referred to herein for full and complete statements of their provisions. Additional information is available at www.ginniemae.gov.

The Government National Mortgage Association is a wholly owned corporate instrumentality of the United States within the Department of Housing and Urban Development with its principal office in Washington, D.C.

Each GNMA Security is to be issued under either the GNMA I Program or the GNMA II Program. Although there are a number of differences between GNMA I Securities and GNMA II-Custom Pool Securities, those differences do not adversely affect the availability of Revenues with which to pay principal of and interest on Outstanding Bonds. Each GNMA Security is to be backed by a pool of mortgage loans in a minimum aggregate amount of \$25,000 and multiples of \$1 in excess of \$25,000. The Master Servicer is required to pay to the Trustee (in the case of a GNMA I Security) or to the Central Paying and Transfer Agent (in the case of a GNMA II-Custom Pool Security), and such Central Paying and Transfer Agent shall be required to pay to the Trustee, as the owner of the GNMA Security, the regular monthly installments of principal and interest on the mortgage loans backing the GNMA Security (less such Master Servicer's servicing fee, which includes the GNMA guaranty fee), whether or not the Master Servicer receives such installments, plus any mortgage prepayments received by the Master Servicer in the previous month. The Government National Mortgage Association guarantees the timely payment of the principal of and interest on the GNMA Security.

In order to issue GNMA Securities, the Master Servicer must first apply to and receive from the Government National Mortgage Association a commitment to guarantee securities. Such a commitment authorizes the Master Servicer to issue GNMA Securities up to a stated amount during a one-year period following the date of the commitment. The Master Servicer is required to pay the application fee to the Government National Mortgage

Association for such commitments. The amount of commitments to guarantee GNMA Securities that the Government National Mortgage Association can approve in any federal fiscal year is limited by statute and administrative procedures. The total annual amount of available commitments is established in appropriation acts and related administrative procedures.

The issuance of each GNMA Security by the Master Servicer is subject to the following conditions, among others: (i) the purchase by the Master Servicer of mortgage loans in a minimum aggregate principal amount at least equal to the minimum size permitted by the Government National Mortgage Association for each GNMA Security (such origination being subject, among other conditions, to the availability of FHA mortgage insurance and VA guarantees), (ii) the submission by the Master Servicer to the Government National Mortgage Association of certain documents required by the Government National Mortgage Association in form and substance satisfactory to the Government National Mortgage Association, (iii) the Master Servicer's continued compliance, on the date of issuance of the GNMA Security, with all of the Government National Mortgage Association's eligibility requirements, specifically including, but not limited to, certain net worth requirements, (iv) the Master Servicer's continued approval by the Government National Mortgage Association to issue GNMA Securities, and (v) the Master Servicer's continued ability to issue, execute and deliver the GNMA Security, as such ability may be affected by such Master Servicer's bankruptcy, insolvency or reorganization. In addition, the issuance of a GNMA Security by the Master Servicer is subject to the condition that the Government National Mortgage Association must have entered into a guaranty agreement with the Master Servicer. The conditions to the Government National Mortgage Association entering into such an agreement may change from time to time, and there can be no assurance that the Master Servicer will be able to satisfy all such requirements in effect at the time a GNMA Security is to be issued. Moreover, there can be no assurance that all of the above conditions will be satisfied at the time a GNMA Security is to be issued by the Master Servicer for purchase by the Trustee.

GNMA Security

The Government National Mortgage Association is authorized by Section 306(g) of Title III of the National Housing Act of 1934, as amended (the "Housing Act") to guarantee the timely payment of the principal of, and interest on, securities that are based on and backed by a pool composed of, among other things, mortgage loans insured by FHA under the Housing Act or guaranteed by the VA under the Servicemen's Readjustment Act of 1944, as amended. Section 306(g) further provides that "[T]he full faith and credit of the United States is pledged to the payment of all amounts which may be required to be paid under any guaranty under this subsection." An opinion dated December 9, 1969, of an Assistant Attorney General of the United States states that such guarantees under Section 306(g) of mortgage-backed securities of the type to be delivered to the Trustee by the Lenders are authorized to be made by the Government National Mortgage Association and "would constitute general obligations of the United States backed by its full faith and credit."

Government National Mortgage Association Borrowing Authority

In order to meet its obligations under such guaranty, the Government National Mortgage Association, in its corporate capacity under Section 306(d) of Title III of the Housing Act, may issue its general obligations to the United States Treasury (the "Treasury") in an amount outstanding at any one time sufficient to enable the Government National Mortgage Association, with no limitations as to amount, to perform its obligations under its guaranty of the timely payment of the principal of and interest on the GNMA Securities. The Treasury is authorized to purchase any obligations so issued by the Government National Mortgage Association and has indicated in a letter dated February 13, 1970, from the Secretary of the Treasury to the Secretary of Housing and Urban Development ("HUD") that the Treasury will make loans to the Government National Mortgage Association, if needed, to implement the aforementioned guaranty.

The Government National Mortgage Association is to warrant to the Trustee, as the owner of the GNMA Securities, that, in the event it is called upon at any time to honor its guaranty of the payment of principal and interest on any GNMA Security, it shall, if necessary, in accordance with the aforesaid Section 306(d), apply to the Treasury Department of the United States for a loan or loans in amounts sufficient to make such payment.

Servicing of the Mortgage Loans

Under contractual arrangements that will be entered into by and between the Master Servicer and the Government National Mortgage Association, and pursuant to the Program Documents, the Master Servicer is

responsible for servicing and otherwise administering the mortgage loans in accordance with generally accepted practices of the mortgage lending industry and the Government National Mortgage Association Servicer's Guide.

The monthly remuneration of the Master Servicer, for its servicing and administrative functions, and the guaranty fee charged by the Government National Mortgage Association, are based on the unpaid principal amount of the GNMA Securities outstanding. In compliance with the Government National Mortgage Association regulations and policies, the total of these servicing and guaranty fees equals 0.25%, calculated on the principal balance of each GNMA Security outstanding on the last day of the month preceding such calculation. Each GNMA Security carries an interest rate that is fixed at 0.25% below the interest rate on the underlying mortgage loans because the servicing and guaranty fees are deducted from payments on the mortgage loans before such payments are forwarded to the Trustee.

It is expected that interest and principal payments on the mortgage loans received by the Master Servicer will be the source of money for payments on the GNMA Securities. If such payments are less than the amount then due, the Master Servicer is obligated to advance its own funds to ensure timely payment of all scheduled payments of principal and interest due on the GNMA Securities. The Government National Mortgage Association guarantees such timely payment in the event of the failure of the Master Servicer to pass through an amount equal to such scheduled payments (whether or not made by the mortgagors).

The Master Servicer is required to advise the Government National Mortgage Association in advance of any impending default on scheduled payments so that the Government National Mortgage Association, as guarantor, will be able to continue such payments as scheduled on the third business day after the twentieth day of each month. However, if such payments are not received as scheduled, the Trustee has recourse directly to the Government National Mortgage Association.

Guaranty Agreement

The Government National Mortgage Association guaranty agreement to be entered into by the Government National Mortgage Association and the Master Servicer upon issuance of a GNMA Security, pursuant to which the Government National Mortgage Association guarantees the payment of principal of and interest on such GNMA Security (the "GNMA Guaranty Agreement"), provides that, in the event of a default by the Master Servicer, including (i) a failure to make any payment due under the GNMA Security, (ii) a request to the Government National Mortgage Association to make a payment of principal or interest on a GNMA Security and the utilization thereof by the Master Servicer, (iii) insolvency of the Master Servicer, or (iv) default by the Master Servicer under any other terms of the GNMA Guaranty Agreement, the Government National Mortgage Association has the right, by letter to the Master Servicer, to effect and complete the extinguishment of the Master Servicer's interest in the mortgage loans, and the mortgage loans shall thereupon become the absolute property of the Government National Mortgage Association, subject only to the unsatisfied rights of the owner of the GNMA Security. In such event, the GNMA Guaranty Agreement provides that on and after the time the Government National Mortgage Association directs such a letter of extinguishment to the Master Servicer, the Government National Mortgage Association shall be the successor in all respects to the Master Servicer in its capacity under the GNMA Guaranty Agreement and the transaction and arrangements set forth or arranged for therein, and shall be subject to all responsibilities, duties, and liabilities (except the Master Servicer's indemnification of the Government National Mortgage Association), theretofore placed on the Master Servicer by the terms and provisions of the GNMA Guaranty Agreement, provided that at any time the Government National Mortgage Association may enter into an agreement with any other eligible issuer of GNMA Securities under which the latter undertakes and agrees to assume any part or all such responsibilities, duties or liabilities theretofore placed on the Master Servicer, and provided that no such agreement shall detract from or diminish the responsibilities, duties or liabilities of the Government National Mortgage Association in its capacity as guarantor of the GNMA Security, or otherwise adversely affect the rights of the owner thereof.

Payment of Principal of and Interest on the GNMA Securities

Regular monthly installment payments on each GNMA Security are required to begin on the fifteenth day (in the case of a GNMA I Security) and on the nineteenth day, or the twentieth day if the nineteenth day is not a business day (in the case of a GNMA II-Custom Pool Security), of the first month following the date of issuance of such GNMA Security and will be equal to the aggregate amount of the scheduled monthly principal and interest payments on each mortgage loan in the mortgage pool backing the GNMA Security, less the monthly servicing and

guaranty fees of one-twelfth of 0.25% of the outstanding principal balance. In addition, each payment is required to include any mortgage prepayments on mortgage loans underlying the GNMA Security.

FANNIE MAE MORTGAGE-BACKED SECURITIES

General

The following summary of the Fannie Mae MBS Program (as defined below), the Fannie Mae Securities, Fannie Mae's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Fannie Mae's Prospectus, as defined below, the Fannie Mae Single Family Selling and Servicing Guides and the other documents referred to herein.

Fannie Mae is subject to the supervision and regulation of the Federal Housing Finance Agency to the extent provided in the Housing and Economic Recovery Act of 2008. The FHFA has placed Fannie Mae into conservatorship.

Information on Fannie Mae and its financial condition is contained in Fannie Mae's most current annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that are filed with the Securities and Exchange Commission (the "SEC"). Fannie Mae files reports, proxy statements and other information with the SEC. Materials that it files with the SEC are also available from the SEC's website, "www.sec.gov." In addition, these materials may be inspected, without charge, and copies may be obtained at prescribed rates, at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The periodic reports filed by Fannie Mae with the SEC are also available on Fannie Mae's website at <http://www.fanniemae.com/ir/sec> or from Fannie Mae at the Office of Investor Relations at 202-752-7115. The Agency takes no responsibility for information contained in these documents or on these websites.

Fannie Mae

Fannie Mae is a government-sponsored enterprise that was chartered by the U.S. Congress in 1938, organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. 1716 et seq. (the "Charter"). Fannie Mae has a public mission to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. Fannie Mae securitizes mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities ("Fannie Mae MBS"), which can then be bought and sold in the secondary mortgage market. Fannie Mae also participates in the secondary mortgage market by purchasing mortgage loans (often referred to as "whole loans") and mortgage-related securities, including Fannie Mae MBS, for Fannie Mae's mortgage portfolio. In addition, Fannie Mae makes other investments to increase the supply of affordable housing, however, pursuant to the Charter, Fannie Mae may not lend money directly to consumers in the primary mortgage market. *Although Fannie Mae is a corporation chartered by the U.S. Congress, the conservator of Fannie Mae is a U.S. Government agency, and the United States Department of Treasury ("Treasury") owns senior preferred stock and a warrant to purchase common stock of Fannie Mae, the U.S. Government (including Treasury) does not guarantee, directly or indirectly, the securities or other obligations of Fannie Mae.*

On September 6, 2008, the Director of the Federal Housing Finance Agency ("FHFA"), the safety, soundness and mission regulator of Fannie Mae, placed Fannie Mae into conservatorship and appointed FHFA as the conservator. As the conservator, FHFA succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and the assets of Fannie Mae. As such, FHFA has the authority to conduct all business of Fannie Mae. Pursuant to the Housing and Economic Recovery Act of 2008, FHFA, as conservator, may take "such action as may be necessary to put the regulated entity in a sound and solvent condition." Fannie Mae has no control over FHFA's actions or the actions it may direct Fannie Mae to take. The conservatorship has no specified termination date; Fannie Mae does not know when or how the conservatorship will be terminated. In addition, the Board of Directors of Fannie Mae does not have any fiduciary duties to any person or entity except to FHFA, as conservator. Accordingly, the Board of Directors is not obligated to consider the interests of Fannie Mae or the stockholders of Fannie Mae unless specifically directed to do so by FHFA, as conservator. The United States Department of Housing and Urban Development, however, remains Fannie Mae's regulator with respect to fair lending matters.

Mortgage-Backed Security Program

Fannie Mae has implemented a mortgage-backed securities program pursuant to which Fannie Mae issues securities backed by pools of mortgage loans (the “MBS Program”). **The obligations of Fannie Mae, including its obligations under the Fannie Mae Securities, are obligations solely of Fannie Mae and are not guaranteed by the United States Government (including Treasury) and do not constitute a debt or obligation of the United States or any agency or instrumentality thereof, including Treasury and FHFA, other than Fannie Mae.**

The terms of the MBS Program are governed by the Fannie Mae Selling and Servicing Guides (the “Fannie Mae Guides”), as modified by the Pool Purchase Contract, and, in the case of mortgage loans such as the Program Loans exchanged with Fannie Mae, a Trust Indenture dated as of November 1, 1981, as amended (the “Trust Indenture”), and a supplement thereto to be issued by Fannie Mae in connection with each pool. The MBS Program is further described in a prospectus issued by Fannie Mae (the “Fannie Mae Prospectus”). The Fannie Mae Prospectus is updated from time to time.

Copies of the Fannie Mae Prospectus and Fannie Mae’s most recent annual and quarterly reports and proxy statements are available without charge from Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016, Attention: Vice President for Investor Relations, (telephone: (202) 752-6724).

Pool Purchase Contract

It is expected that Fannie Mae and the Master Servicer will enter into a Pool Purchase Contract, pursuant to which the Master Servicer will be permitted to deliver, and Fannie Mae will agree to purchase mortgage loans in exchange for, Fannie Mae Securities. The purpose of the Pool Purchase Contract is to provide for certain additions, deletions and changes to the Fannie Mae Guides relating to the purchase of mortgage loans. In the event of a conflict between the Pool Purchase Contract and the Fannie Mae Guides, the Pool Purchase Contract will control. The description set forth below assumes that the Pool Purchase Contract will be executed substantially in the form presented by Fannie Mae to the Master Servicer as of the date hereof.

Under the Pool Purchase Contract, Fannie Mae will purchase both mortgage loans eligible under the guidelines set forth in the Fannie Mae Guides and mortgage loans insured under the Community Home Buyer’s Program which conform to the conditions set forth in the Pool Purchase Contract.

Pursuant to the requirements of the Fannie Mae Guides, as amended, the original principal balance of each mortgage loan to be sold to Fannie Mae may not exceed the amount established from time to time by Fannie Mae. The mortgage loans must be mortgage loans with loan-to-value ratios not in excess of 100%; mortgage loans with loan-to-value ratios exceeding 80% must have the principal amount of the indebtedness in excess of 75% of the appraised value of the home insured by a policy of primary mortgage insurance. The provider of the mortgage insurance must be acceptable to Fannie Mae.

Under the Pool Purchase Contract, the 100% loan-to-value limitation for mortgage loans will be based upon the lower of (1) the acquisition cost plus rehabilitation cost, if any, of a home, or (2) the appraised value of a home after completion of any rehabilitation. The maximum combined loan-to-value ratio is also 100% where subordinate financing is provided, so long as the mortgage loan does not exceed a 75% loan-to-value ratio. The Pool Purchase Contract also provides that, in underwriting mortgage loans for the Community Home Buyer’s Program, certain exceptions will be made from the Fannie Mae Guides for down payment requirements and for determining whether a household’s income satisfies the requirements for purchase by Fannie Mae.

The Pool Purchase Contract obligates the Master Servicer to service the mortgage loans in accordance with the requirements of the Fannie Mae Guides and the Pool Purchase Contract.

Fannie Mae Securities

Each Fannie Mae Security will represent the entire interest in a specified pool of mortgage loans purchased by Fannie Mae from the Master Servicer and identified in records maintained by Fannie Mae. The Pool Contract requires that each Fannie Mae Security be in a minimum amount of \$250,000 (or, in each case, such lesser amounts as may be approved by Fannie Mae). The mortgage loans backing each Fannie Mae Security are to bear interest at a rate higher than each Fannie Mae Security (the “pass-through rate”). The difference between the interest rate on the

mortgage loans and the pass-through rate on the Fannie Mae Security is to be collected by the Master Servicer and used to pay the Master Servicer's servicing fee and Fannie Mae's guaranty fee.

Fannie Mae will guarantee to the registered holder of the Fannie Mae Securities that it will distribute amounts representing scheduled principal and interest at the applicable pass-through rate on the mortgage loans in the pools represented by such Fannie Mae Securities, whether or not received, and the full principal balance of any foreclosed or other finally liquidated mortgage loan, whether or not such principal balance is actually received. **The obligations of Fannie Mae under such guarantees are obligations solely of Fannie Mae and are not backed by, nor entitled to the faith and credit of the United States. If Fannie Mae were unable to satisfy such obligations, distributions to the Trustee, as the registered holder of the Fannie Mae Securities, would consist solely of payments and other recoveries on the underlying mortgage loans and, accordingly, monthly distributions to the Trustee, as the holder of the Fannie Mae Securities, and payments on Outstanding Bonds would be affected by delinquent payments and defaults on such mortgage loans.**

Payments on the Mortgage Loans; Distributions on the Fannie Mae Securities

Payments on a Fannie Mae Security will be made on the 25th day of each month (beginning with the month following the month such Fannie Mae Security is issued), or, if such 25th day is not a business day, on the first business day next succeeding such 25th day. With respect to each Fannie Mae Security, Fannie Mae will distribute to the Trustee an amount equal to the total of (i) the principal due on the mortgage loans in the related pool underlying such Fannie Mae Security during the period beginning on the second day of the month prior to the month of such distribution and ending on the first day of such month of distribution, (ii) the stated principal balance of any mortgage loan that was prepaid in full during the second month next preceding the month of such distribution (including as prepaid for this purpose at Fannie Mae's election any mortgage loan repurchased by Fannie Mae because of Fannie Mae's election to repurchase the mortgage loan after it is delinquent, in whole or in part, with respect to four consecutive installments of principal and interest; or because of Fannie Mae's election to repurchase such mortgage loan under certain other circumstances), (iii) the amount of any partial prepayment of a mortgage loan received in the second month next preceding the month of distribution, and (iv) one month's interest at the pass-through rate on the principal balance of the Fannie Mae Security as reported to the Trustee (assuming the Trustee is the registered holder) in connection with the previous distribution (or, respecting the first distribution, the principal balance of the Fannie Mae Security on its issue date).

For purposes of distributions, a mortgage loan will be considered to have been prepaid in full if, in Fannie Mae's reasonable judgment, the full amount finally recoverable on account of such mortgage loan has been received, whether or not such full amount is equal to the stated principal balance of the mortgage loan. Fannie Mae may, in its discretion, include with any distribution principal prepayments, both full and partial, received during the month prior to the month of distribution but is under no obligation to do so.

FREDDIE MAC MORTGAGE-BACKED SECURITIES

General

The following summary of the Freddie Mac Guarantor Program, the Freddie Mac Securities, Freddie Mac's mortgage purchase and servicing standards and other documents referred to herein does not purport to be complete and is qualified in its entirety by reference to Freddie Mac's Mortgage Participation Certificates Offering Circular, applicable Offering Circular Supplements, Freddie Mac's Information Statement, any Information Statement Supplements, the Freddie Mac Securities and any other documents made available by Freddie Mac. Copies of the Offering Circular, Information Statement and any supplements to those documents and other information can be obtained by calling Freddie Mac's Investor Inquiry Department (telephone (800) 336-3672) or by accessing Freddie Mac's World Wide Web site. Freddie Mac is a publicly traded company listed on the New York Stock Exchange (symbol: FRE). The Agency takes no responsibility for any such information.

Freddie Mac is subject to the supervision and regulation of the FHFA to the extent provided in the federal Housing and Economic Recovery Act of 2008. The FHFA has placed Freddie Mac into conservatorship.

Information on Freddie Mac and its financial condition is contained in annual, quarterly and current reports, proxy statements and other information that Freddie Mac files with the SEC. You may read and copy any document

Freddie Mac files with the SEC at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's website at <http://www.sec.gov>. The Agency takes no responsibility for information contained in these documents or on these websites.

Freddie Mac

Freddie Mac is a shareholder-owned government-sponsored enterprise created on July 24, 1970 pursuant to the Federal Home Loan Mortgage Corporation Act, Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459 (the "Freddie Mac Act"). Freddie Mac's statutory mission is (i) to provide stability in the secondary market for residential mortgages; (ii) to respond appropriately to the private capital market; (iii) to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities); and (iv) to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage financing. Neither the United States nor any agency or instrumentality of the United States is obligated, either directly or indirectly, to fund the mortgage purchase or financing activities of Freddie Mac or to guarantee Freddie Mac's securities or obligations.

Freddie Mac's principal business consists of the purchase of (i) first-lien, conventional residential mortgages subject to certain maximum loan limits and other underwriting requirements under the Freddie Mac Act and (ii) securities backed by such mortgages. Freddie Mac finances its mortgage purchases and mortgage-backed securities purchases through the issuance of a variety of securities, primarily pass-through mortgage participation certificates and unsecured debt, as well as with cash and equity capital.

On September 7, 2008, the Director of the Federal Housing Finance Agency ("FHFA") appointed FHFA as conservator of Freddie Mac in accordance with the Federal Housing Finance Reform Act of 2008 (the "Reform Act") and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992. On September 7, 2008, in connection with the appointment of FHFA as conservator, Freddie Mac and the U.S. Department of the Treasury ("Treasury") entered into a Senior Preferred Stock Purchase Agreement. Also, pursuant to its authority under the Reform Act, Treasury announced that it has established the Government Sponsored Enterprise Credit Facility (a lending facility to ensure credit availability to Freddie Mac, Fannie Mae, and the Federal Home Loan Banks that will provide secured funding on an as needed basis under terms and conditions established by the Treasury Secretary to protect taxpayers) and a program under which Treasury will purchase Government Sponsored Enterprise (including Freddie Mac) mortgage-backed securities (MBS) in the open market. The announcements by FHFA and Treasury and descriptions of these programs are available at their respective websites: <http://www.OFHEO.gov> and <http://www.Treasury.gov>.

Freddie Mac Guarantor Program

Freddie Mac has established a mortgage purchase program pursuant to which Freddie Mac purchases a group of mortgages from a single seller in exchange for a Freddie Mac certificate representing an undivided interest in a pool consisting of the same mortgages (the "Guarantor Program"). Freddie Mac approves the institutions that may sell and service mortgages under the Guarantor Program on an individual basis after consideration of factors such as financial condition, operational capability and mortgage origination and/or servicing experience. Most sellers and servicers are HUD-approved mortgagees or FDIC-insured financial institutions.

Freddie Mac Securities

Freddie Mac Securities will be mortgage pass-through securities issued and guaranteed by Freddie Mac under its Guarantor Program. Freddie Mac Securities are issued only in book-entry form through the Federal Reserve Banks' book-entry system. Each Freddie Mac Security represents an undivided interest in a pool of mortgage loans. Payments by borrowers on the mortgage loans in the pool are passed through monthly by Freddie Mac to record holders of the Freddie Mac Securities representing interests in that pool.

Payments on Freddie Mac Securities begin on or about the fifteenth day of the first month following issuance. Each month, Freddie Mac passes through to record holders of Freddie Mac Securities their proportionate

share of principal payments on the mortgage loans in the related pool and one month's interest at the applicable pass-through rate. The pass-through rate for a Freddie Mac Security is determined by subtracting from the lowest interest rate on any of the mortgage loans in the pool the applicable servicing fee and Freddie Mac's management and guarantee fee, if any. The interest rates on the mortgages in a pool formed under Freddie Mac's Guarantor Program must fall within a range from the pass-through rate on the Freddie Mac Securities plus the minimum servicing fee through the pass-through rate plus 250 basis points.

Freddie Mac guarantees to each record holder of a Freddie Mac Security the timely payment of interest at the applicable pass-through rate on the principal balance of the holder's Freddie Mac Security. Freddie Mac also guarantees to each holder of a Freddie Mac Security (i) the timely payment of the holder's proportionate share of monthly principal due on the related mortgage loans, as calculated by Freddie Mac, and (ii) the ultimate collection of the holder's proportionate share of all principal of the related mortgage loans, without offset or reduction, no later than the payment date that occurs in the month by which the last monthly payment on the Freddie Mac Security is scheduled to be made.

Freddie Mac may pay the amount due on account of its guarantee of ultimate collection of principal on a mortgage at any time after default, but not later than 30 days following (i) the foreclosure sale of the mortgaged property, (ii) if applicable, the payment of an insurance or guaranty claim by the mortgage insurer or guarantor or (iii) the expiration of any right of redemption that the borrower may have, whichever is the last to occur. In no event, however, will Freddie Mac make payments on account of this guarantee later than one year after an outstanding demand has been made on the borrower for accelerated payment of principal or for payment of the principal due at maturity.

The obligations of Freddie Mac under its guarantees of the Freddie Mac Securities are obligations of Freddie Mac only. The Freddie Mac Securities, including the interest thereon, are not guaranteed by the United States and do not constitute debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac. If Freddie Mac were unable to satisfy its obligations under its guarantees, distributions on the Freddie Mac Securities would consist solely of payments and other recoveries on the related mortgages; accordingly, delinquencies and defaults on the mortgage loans would affect distributions on the Freddie Mac Securities and could adversely affect payments on Outstanding Bonds.

Mortgage Purchase and Servicing Standards

All mortgage loans purchased by Freddie Mac must meet certain standards established by the Freddie Mac Act. In addition, Freddie Mac has established its own set of mortgage purchase standards, including credit, appraisal and underwriting guidelines. These guidelines are designed to determine the value of the real property securing a mortgage loan and the creditworthiness of the borrower. Freddie Mac's administration of its guidelines may vary based on its evaluation of and experience with the seller of the mortgage loans, the loan-to-value ratio and age of the mortgage loans, the type of property securing the mortgage loans and other factors.

Freddie Mac has also established servicing policies and procedures to support the efficient and uniform servicing of the mortgage loans it purchases. Each servicer must perform diligently all services and duties customary to the servicing of mortgage loans in a manner consistent with prudent servicing standards. The duties performed by a servicer include collection and remittance of principal and interest to Freddie Mac; administration of escrow accounts; collection of insurance or guaranty claims; property inspections; and, if necessary, foreclosure. Freddie Mac monitors servicers' performance through periodic and special reports and inspections.

In the event of an existing or impending delinquency or other default on a mortgage loan, Freddie Mac may attempt to resolve the default through a variety of measures. In determining which measures to pursue with respect to a given mortgage loan and when to initiate such measures, Freddie Mac seeks to minimize the costs that may be incurred in servicing the mortgage, as well as Freddie Mac's possible exposure under its guarantees. However, the measures that Freddie Mac may choose to pursue to resolve a default will not affect Freddie Mac's guarantees. In any event, Freddie Mac generally repurchases from a pool any mortgage loan that has remained delinquent for at least 120 consecutive days and makes payment of principal to record holders pursuant to Freddie Mac's guarantee of ultimate collection of principal.

THE MASTER SERVICER

U.S. Bank National Association currently serves as Master Servicer for the Agency's MBS Program, including the Program Securities to be financed with proceeds of the Series Bonds. The Agency entered into a Servicing Agreement, dated as of July 9, 2009 (the "Servicing Agreement"), with the Trustee and U.S. Bank National Association, as master servicer (the "Master Servicer"), for a term originally ending August 31, 2011 (subject to multiple renewal and termination rights). The Agency has recently elected to extend the term of the Servicing Agreement through August 31, 2013.

THE FOLLOWING INFORMATION ABOUT THE MASTER SERVICER RELATES TO AND WAS SUPPLIED BY U.S. BANK NATIONAL ASSOCIATION. SUCH INFORMATION HAS NOT BEEN VERIFIED BY THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL AND IS NOT GUARANTEED AS TO COMPLETENESS OR ACCURACY BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF, THE AGENCY, THE UNDERWRITERS, THEIR COUNSEL OR BOND COUNSEL.

As of June 30, 2012, the Master Servicer serviced 173,737 single-family mortgage revenue bond mortgage loans with an aggregate principal balance of approximately \$13.7 billion. The Master Servicer currently services single-family mortgage loans for state and local housing finance authorities, mutual savings banks, life insurance companies, savings and loan associations, commercial banks, as well as Fannie Mae, GNMA and Freddie Mac.

As of June 30, 2012, according to its unaudited quarterly financial statements, U.S. Bancorp had total assets of approximately \$353.1 billion and a net worth of \$37.8 billion. For the six months ended June 30, 2012, the Master Servicer through its U.S. Bank Home Mortgage Division originated and purchased single-family mortgage revenue bond mortgage loans in the total principal amount of approximately \$780.2 million.

The Master Servicer is (i) an FHA- and VA-approved lender in good standing, (ii) a GNMA-approved seller and servicer of mortgage loans and an issuer of mortgage-backed securities guaranteed by GNMA, (iii) a Fannie Mae approved seller and servicer of Fannie Mae Securities, and (iv) a Freddie Mac approved seller and servicer of Freddie Mac securities.

The Master Servicer is not liable for the payment of the principal of Outstanding Bonds or the interest or redemption premium, if any, thereon.

The holding company for U.S. Bank National Association is U.S. Bancorp, the fifth largest financial services holding company in the United States.

THE HOMEOWNERSHIP FINANCE PROGRAM

General

The following provides a general description of the Agency's Program in respect of the Program Securities backed by Program Loans to be purchased with proceeds of the Series Bonds, which is subject to change from time to time as provided in the Resolutions and is also subject to applicable federal and state law.

Under the Bond Resolution, the Agency may issue Bonds to finance Program Obligations in order to provide financing for single-family, owner-occupied housing. All Series of Bonds issued under the Bond Resolution are secured on a parity, except as otherwise expressly provided in the Bond Resolution and the Program Series Resolution. Proceeds of the Series Bonds will be used to purchase Program Securities backed by Program Loans. The Agency does not currently anticipate that future Series of Bonds issued under the Bond Resolution will finance Program Obligations other than Program Securities, but the Bond Resolution permits Additional Bonds to be issued to finance Program Loans directly if the conditions for issuance of the Additional Bonds are met. (See "Security for the Bonds—Additional Bonds.")

History and Transition to "MBS" Model

Effective for commitments made on or after September 1, 2009, the Agency changed its single-family housing lending program from a "whole loan" model to an "MBS" (mortgage-backed securities) model. The Agency has entered into the Servicing Agreement with the Trustee and the initial Master Servicer for a term ending August

31, 2013 (subject to multiple renewal and termination rights). Pursuant to the Servicing Agreement, the Master Servicer is to acquire single-family mortgage loans meeting Program requirements and pool such Program Loans into Program Securities to be purchased by the Trustee on behalf of the Agency. (See “Procedures for Origination, Purchase and Pooling” below.) For additional information regarding the initial Master Servicer, see “The Master Servicer.”

Procedures for Origination, Purchase and Pooling

Application

The Agency has published, and revises from time to time, its Minnesota Housing Mortgage Loan Program Procedural Manual: MBS (the “Manual”) which sets forth the guidelines and procedures for participation in the Program and certain requirements for origination of mortgage loans, including provisions for compliance with the requirements of applicable federal tax law. The Master Servicer has also published its lending manual for the Program establishing additional origination, documentation and processing requirements. The Agency responds to inquiries by interested lenders by directing them to the Master Servicer and the appropriate page on the Master Servicer’s website delineating information regarding the requirements a lender must satisfy to be eligible to participate in the Program. Lenders must complete an application process with the Master Servicer, including the payment of an application fee. Each Lender that satisfies the requirements of the Master Servicer and participates in the Program must execute a participation agreement with the Agency, which incorporates the Manual, and a participating lender agreement with the Master Servicer, which incorporates the Master Servicer’s lending manual by reference. Generally, Lenders that participate in the Program receive no advance commitment of funds (see exceptions in “Special Assistance Programs” below). Rather, Lenders may request an individual commitment of loan funds via the internet by entering loan information in the Agency’s online loan purchase approval system (HDS SF Web Application). Each commitment request is subject to a review of the Agency’s eligibility rules that are a part of the HDS SF Web Application. If the information entered by the Lender meets the eligibility rules, the loan funds are then committed for each specific loan for a specific period. Should a specific loan ultimately be rejected or cancelled, the funds are available for use by another eligible borrower and Lender. There is no prescribed limit on the amount of funds that may be used by an individual participating Lender, subject to availability of funds.

Lenders are not required to pay a reservation fee upon obtaining a commitment of funds through the HDS SF Web Application. If the Master Servicer has not purchased a loan pursuant to an individual commitment after 75 days where an existing home is to be financed or after 115 days where a newly constructed home is to be financed, the Agency, at its option, may charge and, if so charged, the Lender must agree to pay an extension fee to maintain the individual commitment for a specified, extended period of time. Unrefunded extension fees, if charged, are deposited into the funds from which the loans or the Program Securities are purchased, either the Alternative Loan Fund or the Revenue Fund under the Bond Resolution.

Qualified Borrowers

The Agency has established the maximum gross income for eligible borrowers under the Program based upon applicable federal law and Agency policy objectives. The maximum gross income of an eligible borrower under the Agency’s regular program (the Minnesota Mortgage Program) is currently as follows:

Household Size	11-County Twin Cities Metropolitan Area*	Rochester MSA	Balance of State
1 Person	\$83,900	\$81,300	\$73,900
2 Person	83,900	81,300	73,900
3 Person	83,900	81,300	73,900
4 Person	83,900	81,300	73,900
5 Person	90,600	87,800	79,800
6 Person	96,485	93,495	84,985
7 Person	96,485	93,495	84,985

The maximum gross income of an eligible borrower under the Agency's special assistance program (the Community Activity Set-Aside Program) is currently as follows:

Household Size	11-County Twin Cities Metropolitan Area*	Rochester MSA	Balance of State
1 Persons	\$67,100	\$65,050	\$59,100
2 Person	67,100	65,050	59,100
3 Person	67,100	65,050	59,100
4 Person	67,100	65,050	59,100
5 Person	72,450	70,250	63,850
6 Person	77,850	75,450	68,550
7 Person	83,200	80,650	73,300
8 Person	88,500	85,850	78,000
9 Person	93,950	91,050	82,750
10 Person**	96,485	93,495	84,985

*As used in this section, "Twin Cities Metropolitan Area" comprises the following 11 counties: Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Ramsey, Scott, Sherburne, Washington, and Wright Counties.

**Maximum gross income for households of more than 10 persons may be obtained by contacting the Agency.

The Agency will apply the income limitations set forth in Section 143(f) of the Code to applicants for loans financed with proceeds of the Series Bonds. The Agency may revise the income limits for the loans from time to time to conform to State and federal law and Agency policy objectives.

At the time a loan is made, the borrower must certify his or her intention to occupy the mortgaged property as his or her principal residence.

Credit underwriting must be in compliance with FHA, VA, USDA Rural Development (formerly the Rural Housing and Community Development Service), Fannie Mae, Freddie Mac or the insuring private mortgage insurance company and the Master Servicer's underwriting standards.

Certain borrowers may be eligible for assistance for entry costs, if needed for borrower qualification. See "Homeownership Assistance Fund Loans" and "HOME Homeowner Entry Loan Program Loans" under "Other Programs" below.

In August 2010, the Agency began offering the Fannie Mae Housing Finance Agency Affordable Advantage loan product under the Minnesota Mortgage Program for borrowers with a qualifying credit score and who do not receive entry cost assistance. The Affordable Advantage loan product enabled eligible state housing finance agencies to deliver loans with up to 100% loan-to-value ratios without mortgage insurance, although borrowers were required to contribute at least \$1,000 of their own funds. The loan product carried a higher Fannie Mae guarantee fee and the Agency agreed to repurchase the loan in the first six months if the loan became four months consecutively delinquent or if the loan was delinquent at the sixth month, did not become current and became four months consecutively delinquent thereafter. The Affordable Advantage Program terminated effective March 31, 2011. Before termination, the Agency had purchased with proceeds of Bonds Program Securities backed by Affordable Advantage loans in the approximate principal amount of \$12.97 million. Such Program Securities have the same Fannie Mae guarantee as other Fannie Mae Securities. The Agency no longer has a repurchase obligation in respect of any of these loans.

Recent Program Developments

In May 2012, the Agency began offering the Fannie Mae HFA Preferred Risk Sharing™ loan product under the Minnesota Mortgage Program for borrowers who meet the qualifying guidelines. Initially, downpayment and

closing cost assistance will not be available from the Agency in connection with these loans. The HFA Preferred Risk Sharing™ loan product enables eligible state housing finance agencies to deliver loans with up to 97% loan-to-value ratios without mortgage insurance. The loan product carries a higher Fannie Mae guarantee fee and the Agency must agree to repurchase the loan if it becomes delinquent in the first six months and remains delinquent for four consecutive months thereafter, or if the loan is delinquent at the sixth month, does not become current and remains delinquent for four consecutive months thereafter. The Agency has initial authority to purchase \$75 million in HFA Preferred Risk Sharing loans. If such loans constitute Program Loans and are pooled into Program Securities acquired with proceeds of Bonds, the Program Securities would have the same Fannie Mae guaranty as other Fannie Mae Securities.

The Agency approved changes in April 2012 to its first mortgage and downpayment and closing cost assistance programs. Anticipated to become effective on or about November 15, 2012, the Agency will streamline its single family first mortgage programs by eliminating CASA and modifying the program currently called the Minnesota Mortgage Program. The Agency will retain modified versions of its two downpayment and closing cost assistance programs described below under the caption “Other Programs,” which provide assistance through interest-free and deferred repayment loans to lower-income borrowers, but it will add a third option, an interest-bearing, fully-amortizing downpayment and closing cost assistance loan, which will be available to any borrower eligible for an Agency first mortgage.

Qualified Real Property

Program Loans are eligible for residential property in Minnesota on which is located an owner-occupied one or two-family dwelling, or an owner-occupied residential unit in a condominium, townhouse or planned unit development.

The Agency has established maximum purchase prices under the Program pursuant to the requirements of applicable federal law. For the Series Bonds, the maximum purchase prices for both one and two-family homes currently are as follows:

<u>If the property to be mortgaged is located in:</u>	
Twin Cities Metropolitan Area	\$298,125
Balance of State	\$237,031

The Agency may revise the maximum purchase prices from time to time to conform to applicable State and federal law and Agency policy objectives.

Special Assistance Programs

The Agency may set aside the proceeds of the Series Bonds under the Program for special assistance program components to meet specified housing needs identified by the Agency. Under such program components, the Agency may commit or otherwise provide access to proceeds to such entities as Lenders, units of local government or local housing and redevelopment authorities, nonprofit housing providers, builders/developers, and other entities that, in turn, will provide housing finance opportunities that address a specified housing need to qualified borrowers purchasing qualified real property. The primary program the Agency currently offers for such purposes is the Community Activity Set Aside program (the “CASA Program”).

All loans originated under special assistance program components must be qualified loans as described above.

Both borrowers and properties under special assistance program components are to be in compliance with FHA/VA/USDA Rural Development/Fannie Mae/Freddie Mac and the Master Servicer’s underwriting standards. The Agency may elect to either reduce or increase the income and/or house price limits described herein incident to a specific assistance program component, but in all circumstances, the Agency will assure that the applicable limits meet the requirements of federal tax law.

Target Areas

Pursuant to applicable federal tax law, target areas have been established for the Program. Target areas consist of certain census tracts in the State in which 70 percent of the families have an annual income of 80 percent or less of the statewide median income or areas determined by the State and approved by the Secretary of the Treasury of the United States and the Secretary of the United States Department of Housing and Urban Development to be areas of chronic economic distress (the “Target Areas”). The Agency will make available the required amount of the proceeds of the Series Bonds for the financing of loans for the purchase of residences located in Target Areas and will advertise the availability of such funds for loans in Target Areas. The Agency is also required to exercise reasonable diligence in seeking to finance residences in Target Areas. Absent any determination by the Agency that further availability of the proceeds of the Series Bonds is required by federal law, any moneys remaining unused may be made available to finance the purchase of residences located anywhere within the State, or may be used to redeem Bonds.

Servicing of Program Securities

A servicer of mortgage loans backing a Program Security must be a GNMA, Fannie Mae and Freddie Mac approved servicer experienced in servicing pools of mortgage loans for GNMA, Fannie Mae and Freddie Mac under their respective guaranteed mortgage-backed securities programs and be subject to the standards set forth in the GNMA Servicer’s Guide, the Fannie Mae Single Family Selling and Servicing Guide and the Freddie Mac guidelines.

The Agency has entered into the Servicing Agreement with the Master Servicer to service mortgage loans backing Program Securities. For additional information regarding the initial Master Servicer, see “The Master Servicer” in this Official Statement. The 2012B Series Resolution provides that in the event the Servicing Agreement is cancelled or terminated for any reason, the Agency shall proceed with due diligence to engage a successor Master Servicer, subject to the provisions of the Servicing Agreement and the requirements of each applicable Federal Mortgage Agency. During the period necessary to engage such successor, the Trustee shall, subject to the approval of the applicable Federal Mortgage Agency, cause to be performed the duties and responsibilities of the Master Servicer, under the Servicing Agreement and is to be compensated therefor, in addition to the compensation payable to it under the Resolutions or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

Applicable Federal Law Mortgage Eligibility Requirements

Applicable federal tax law imposes significant limitations on the financing of mortgage loans on owner occupied one- to four-family residences with the proceeds of a qualified mortgage bond issue, such as the Series Bonds. (See “Tax Exemption and Related Considerations.”)

OTHER PROGRAMS

In addition to the Program funded from the proceeds of the Bonds, the Agency finances other housing programs that provide loans for the purchase or improvement of single family housing and the acquisition, construction or rehabilitation of multifamily rental housing in the State of Minnesota. The assets devoted to these programs are briefly described in the Notes to the Financial Statements in Appendix A to this Official Statement.

For example, as of June 30, 2012, the Residential Housing Finance Bond Fund (excluding Pool 2 and Pool 3) had outstanding loans receivable of \$1,329,261,000 gross and \$88,615,000 in outstanding principal amount of mortgage-backed securities, which were financed from the proceeds of the Agency’s residential housing finance bonds. As of June 30, 2012, the Agency had outstanding home improvement loans receivable of \$101,372,000 gross. *None of such loans secure or are available for the payment of principal of or interest on the Bonds.*

The Agency in April 2012 defeased its Single Family Mortgage Bond Resolution and transferred substantially all of the excess assets thereunder to the Residential Housing Finance Bond Resolution.

Homeownership Assistance Fund Loans

The Agency has established a Homeownership Assistance Fund created with appropriations by the State Legislature from which Homeownership Assistance Fund loans are made. In addition, the Agency has established the Alternative Loan Fund within the Bond Resolution which is also a source of funding for these loans. A Homeownership Assistance Fund loan is a junior lien loan made by the Agency to the mortgagor to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home.

Mortgagors who meet program income requirements, program targeting criteria and who do not have sufficient cash for down payment and closing costs are eligible for entry cost assistance of up to \$4,500.

The entry cost assistance is an interest-free, deferred loan which is due on sale, transfer or refinancing or when the property is no longer occupied by the mortgagor.

Program Loans backing Program Securities made or purchased from the proceeds of a Series of Bonds may or may not be accompanied by Homeownership Assistance Fund loans. The Homeownership Assistance Fund has not been pledged to and is not available for the payment of principal or interest on Outstanding Bonds. Amounts on deposit in the Alternative Loan Fund are available for the payment of principal of or interest on the Bonds and other debt of the Agency, but are not pledged to payment of Outstanding Bonds or other debt.

HOME Homeowner Entry Loan Program Loans (HOME HELP)

The Agency has established a HOME HELP program created with federal HOME funds received by the Agency. A HOME HELP loan is a junior lien loan made by the Agency to the mortgagor to assist in the payment of entry costs (i.e., required down payment and closing costs) on the home. HOME HELP loans are available only to mortgagors participating in the Agency's CASA Program. CASA Program participants choose between the use of Homeownership Assistance Funds described above or HOME HELP funds.

CASA borrowers who meet Federal HOME and program requirements, including but not limited to income, house price, Housing Quality Standards, Uniform Relocation Act compliance, and environmental review, are eligible for an amount of \$10,000. Mortgagors must have a housing ratio above 25% before the assistance is applied.

The HOME HELP loan is an interest free, deferred loan with a repayment agreement that recaptures 100% of the loan amount for the first six years and 30% of the loan amount after year six. Recapture occurs upon maturity of the CASA program first mortgage, upon voluntary or involuntary sale of the property, or when the property is no longer owner occupied. HOME HELP loans are not pledged to the payment of the Bonds.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The Code establishes certain requirements that must be met subsequent to the issuance of the Series Bonds in order that interest thereon be and remain excludable from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Series Bonds to be includable in gross income retroactive to their date of original issuance. The requirements of the Code include provisions that restrict the yield and set forth other limitations within which the proceeds made available upon the issuance of the Series Bonds are to be invested, including mortgage eligibility requirements, and require that certain investment earnings be rebated on a periodic basis to the United States Treasury.

Section 143 of the Code imposes significant limitations on the financing of single-family mortgage loans that are applicable to the Series Bonds. The Agency will covenant, as described below, that the Program Loans financed by the proceeds made available upon the issuance of the Series Bonds will satisfy these requirements, including, but not limited to, the borrower income and purchase price limitations of Section 143 of the Code.

Under the Code, the following requirements must be met with respect to each Program Loan backing Program Securities financed, in whole or in part, with proceeds of the Series Bonds: (a) the residence being financed must reasonably be expected by the Agency to become the principal residence of the mortgagor within a reasonable

time after the financing is provided, must not be intended primarily or expected to be used in a trade or business and may not be used as an investment property or as a recreational home; (b) subject to certain exceptions, at least 95% of the lendable proceeds of an issue must be used to finance residences of borrowers who have not had a present ownership interest in a principal residence during the three-year period prior to the date on which the mortgage is executed; (c) the acquisition cost of the residence must not exceed certain limitations; (d) all mortgages must be made to borrowers whose income does not exceed certain limitations; (e) except in certain limited circumstances, proceeds may not be applied to acquire or replace an existing mortgage; and (f) if assumable in accordance with its terms, a mortgage may not be assumed unless requirements (a) through (d) above are met.

An issue of bonds is treated as meeting the mortgage eligibility requirements of the Code only if the issuer in good faith attempts to meet all of the mortgage eligibility requirements before the mortgages are executed and any failure to comply with the mortgage eligibility requirements is corrected within a reasonable period after such failure is first discovered. In addition, 95% or more of the proceeds of the issue used to make loans must be used to finance residences which met all such requirements at the time the loans were executed. In determining whether 95% of the proceeds have been so used, the issuer is entitled to rely on an affidavit of the mortgagor and of the seller and on the mortgagor's income tax returns filed with the Internal Revenue Service for the three years preceding the date the mortgage is executed even though the relevant information in such affidavits and returns should ultimately prove to be untrue, unless the issuer or its agent knows or has reason to believe that such information is false. If the relevant information in the affidavits obtained in connection with any loan is discovered to be untrue, however, the correction still must be made within a reasonable period.

The Agency has included provisions in the Resolutions, its procedural manuals (including the Manual) (collectively, the "Manuals") and other relevant documents, and has established procedures (including receipt of certain affidavits and representations from Lenders, mortgagors and others respecting the mortgage eligibility requirements) in order to ensure compliance with the mortgage eligibility requirements and other requirements of the Code relating to nonmortgage investments which must be met subsequent to the date of issuance of the Series Bonds. The Agency has covenanted in the Resolutions to do all things necessary to assure that interest paid on the Series Bonds shall be excludable from gross income for federal tax purposes under current law. Under the Code, certain requirements must be met subsequent to the delivery of the Series Bonds to ensure that interest on such Bonds is not included in gross income. The Agency believes that the procedures and documentation requirements established for the purpose of fulfilling its covenant are sufficient to ensure that the proceeds of the Series Bonds will be applied in accordance with the Code.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information, including an accurate taxpayer identification number, to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not, in and of itself, affect or alter the excludability of interest on the Series Bonds from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency with certain covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is not includable in gross income of the owners thereof for federal income tax purposes, except as hereafter described. Bond Counsel is of the opinion that (i) interest on the Series Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and (ii) interest on the Series Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations.

In addition, in the opinion of Bond Counsel, interest on the Series Bonds is not includable in the taxable net income of individuals, trusts and estates for Minnesota income tax purposes. Interest on the Series Bonds is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the Series Bonds is not includable in the Minnesota alternative minimum taxable income of individuals, estates and trusts.

A form of the Bond Counsel opinion with respect to the Series Bonds is attached hereto as Appendix E.

Although Bond Counsel is rendering an opinion that the interest on the Series Bonds, as described above, is not included in gross income for federal, and in some cases, Minnesota, income tax purposes, the accrual or receipt of interest on the Series Bonds may otherwise affect the federal and state income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks thrifts or other financial institutions or recipients of Social Security or railroad retirement benefits, taxpayers otherwise entitled to claim earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing, holding or selling the Series Bonds.

Certain State Tax Legislation

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

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

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

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series Bonds. An example is the American Jobs Act of 2011 (S. 1549), proposed by the President and introduced in the Senate on September 13, 2011. If enacted as introduced, a provision of S. 1549 would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could affect the market price or marketability of the Series Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued

prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series Bonds or the market value thereof would be impacted thereby. Purchasers of the Series Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

LITIGATION

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

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

LEGAL MATTERS

The validity of, and the tax exemption of interest on, the Series Bonds are subject to the opinions of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel. The opinions of Bond Counsel will be provided in substantially the form set forth in Appendix E attached hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Dorsey & Whitney LLP, Minneapolis, Minnesota.

RATING

The Series Bonds are rated “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) but Moody’s has assigned that rating a negative outlook. On August 2, 2011 Moody’s confirmed the “Aaa” bond rating of the government of the United States with a negative outlook. Moody’s also announced on that date that as a result of its bond rating of the United States government, the rating outlook of certain housing bonds supported or guaranteed by the United States government (which includes bonds secured by mortgage backed securities guaranteed by GNMA, Fannie Mae and Freddie Mac, such as all Bonds issued under the Bond Resolution) had also been revised to negative.

The rating and outlook described above reflect only the views of Moody’s, and an explanation of the significance of such rating and outlook may be obtained only from Moody’s and its published materials. The rating described above is not a recommendation to buy, sell or hold the Series Bonds. There can be no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of Moody’s, circumstances so warrant. Therefore, after the date hereof, investors should not assume that such rating is still in effect. A downward revision or withdrawal of such rating is likely to have an adverse effect on the market price and marketability of the Series Bonds. The Agency has not assumed any responsibility either to notify the owners of the Series Bonds of any proposed change in or withdrawal of such rating subsequent to the date of this Official Statement, except in connection with the reporting of events as provided in the Continuing Disclosure Undertaking (see Appendix B to this Official Statement), or to contest any such revision or withdrawal.

FINANCIAL ADVISOR

CSG Advisors Incorporated (the “Financial Advisor”) is serving as financial advisor to the Agency with respect to the planning, structuring and sale of the Series Bonds. The Financial Advisor assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series Bonds and provided other advice to the Agency. The Financial Advisor does not underwrite or trade bonds and will not engage

in any underwriting activities with regard to the issuance and sale of the Series Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification, or to assume responsibility for the accuracy, completeness or fairness, of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

UNDERWRITING

RBC Capital Markets, LLC, Morgan Stanley & Co. LLC and Piper Jaffray & Co. (collectively, the “Underwriters”) will purchase the Series Bonds. The Underwriters are to be paid a fee of \$500,427.33 with respect to their purchase of the Series Bonds. The Underwriters may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the front cover hereof.

Morgan Stanley, the parent company of Morgan Stanley & Co. LLC, an underwriter of the Series Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture each of Morgan Stanley & Co. LLC and Citigroup Global Markets. Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC. for its selling efforts in connection with its allocation of Series Bonds.

Piper Jaffray & Co. (“Piper”) and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, have entered into an agreement (the “Agreement”) which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the Series Bonds. Under the Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ Mary Tingerthal
Commissioner

Dated: October 3, 2012.

APPENDIX A

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

MINNESOTA HOUSING FINANCE AGENCY

Annual Financial Report as of and for the year ended June 30, 2012

TABLE OF CONTENTS

	Page #
I. INTRODUCTORY SECTION	
Commissioner's Report	3-4
II. FINANCIAL SECTION	
Independent Auditors' Report	5
Required Supplementary Information:	
Management's Discussion and Analysis of Financial Condition and Results of Operations	6-19
Basic Financial Statements:	
Agency-wide Financial Statements:	
Statement of Net Assets	20
Statement of Activities	21
Fund Financial Statements:	
Statement of Net Assets — Proprietary Funds	22-23
Statement of Revenues, Expenses and Changes in Net Assets — Proprietary Funds	24-25
Statement of Cash Flows — Proprietary Funds	26-29
Notes to Financial Statements	30-60
III. SUPPLEMENTARY INFORMATION (UNAUDITED)	
General Reserve and Bond Funds, Five Year Financial Summary	63
Fund Financial Statements:	
Statement of Net Assets — General Reserve and Bond Funds	64-65
Statement of Revenues, Expenses and Changes in Net Assets — General Reserve and Bond Funds	66-67
Statement of Cash Flows — General Reserve and Bond Funds	68-71
Other Information	72

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

At Minnesota Housing, we are pleased to have completed another year with strong financial and programmatic results.

As housing and financial markets begin a slow recovery nationally, conditions in Minnesota are slightly ahead of the national average with unemployment at 5.6% (compared to 8.2% nationally) and with average home prices increasing 14.3% since February of 2012. The median home sales price increased 14 percent from \$157,500 in July 2011 to \$179,950 in July 2012. Foreclosure sales are down 19% in Minnesota from an annual peak of 26,251 in 2008 to 21,298 this year. In this marketplace environment, Minnesota Housing has capitalized on improving conditions to improve both its product offerings and its financial condition:

- With the conclusion of the U.S. Treasury Department's New Issue Bond Program at the end of 2011, Minnesota Housing has taken numerous steps to continue its single family mortgage lending programs. The Agency continues to use several mortgage-backed securities executions to access capital at rates that are attractive for borrowers. The Agency completed a highly successful tax-exempt bond refunding transaction early in the year. This was followed by a tax-exempt bond offering that featured an innovative monthly GNMA pass-through structure that was extremely well received in the marketplace. The Agency is also participating in a new risk-share program with Fannie Mae that is available in only a few states. By the end of 2012, the Minnesota Housing will also be positioned to sell securities directly in the GMNA TBA market.
- By increasing its options for accessing capital markets, Minnesota Housing has both simplified and improved its single family mortgage lending products. Beginning in the fourth quarter of 2012, Minnesota Housing will offer loans not only for its traditional first-time homebuyer customers, but will also offer loans for low and moderate income homeowners who need to refinance or purchase homes. Minnesota Housing will also expand its closing cost assistance programs by offering an amortizing closing cost loan for the first time. The Agency has also simplified its home improvement loan products, introducing them to the market in June of this year.
- Mortgage loan delinquency and foreclosure rates have continued to improve for the Minnesota Housing portfolio. The Agency saw improving delinquency rates during the fiscal year, declining from 5.70% for 60+ days in June of 2011 to 5.63% in June of this year. Real Estate Owned (REO) also declined from 186 properties to 135 properties during that same period. As a result of these trends, the Agency's allowance for loan loss has decreased by more than \$2 million since last year.
- With economic conditions improving in Minnesota, the state legislature passed a \$500 million capital investment bill in early 2012, which included two allocations of funding for Minnesota Housing. Minnesota Housing received authorization for an additional \$30 million to be used primarily for multifamily rental developments that are focused on preservation of existing federally-subsidized properties, supportive housing for households that have experienced homelessness or redevelopment of foreclosed properties. The Agency will also administer a \$5.5 million program for the renovation of existing public housing properties that will be funded with the proceeds of state general obligation bonds. With these resources, Minnesota Housing projects that it will help with development or rehabilitation of nearly 1,000 units of housing that would not otherwise have received complete funding packages this year.

During the fiscal year, Minnesota Housing achieved the following programmatic results:

- Purchased 2,263 new home mortgages for first time homebuyers, of which 23.4% were to emerging market households.

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

- Closed 58 loans and grants on 44 multifamily properties totaling nearly \$50 million and providing affordable housing to 1,525 households (units), 157 of which were designated to serve long-term homeless households.
- Continued a strong commitment to foreclosure prevention, winning an allocation of nearly \$1.2 million in counseling resources under the National Foreclosure Mitigation Counseling program that will serve an estimated 3,600 households. Historically, 60% of families receiving foreclosure counseling in Minnesota have avoided foreclosure, with 89% of those households able to remain in their home.
- Opened the doors to nearly 300 units of supportive housing for families and individuals who experienced long term homelessness.

Minnesota Housing took other important steps during the year to set our course for the future:

- Adopted a new Strategic Plan for 2013 – 2015 that articulates the Agency's strategic priorities and strategies to address those priorities. The strategic priorities are:
 - To promote and support successful homeownership
 - To preserve federally subsidized rental housing
 - To address specific and critical needs in rental housing
 - To prevent and end homelessness
 - To prevent foreclosures and support community recovery
- Adopted a set of work force recruitment, development and retention practices to attract and retain an outstanding workforce.
- Adopted a roadmap for technology development that will guide significant investment in the Agency's business processes and the technology to support them over the next 2 to 3 years.

We are proud that Minnesota Housing is an organization that is driven by both our mission and our strategies. We are committed to building and maintaining the elements that have sustained our work for more than 40 years – our people, our partners, our community support and our financial strength.



Mary Tingerthal, Commissioner
Minnesota Housing
August 29, 2012

Independent Auditors' Report

Members of the Board of Directors
Minnesota Housing Finance Agency
St. Paul, Minnesota

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Agency's 2011 financial statements and, in our report dated August 24, 2011, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section and supplemental information is presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and supplemental information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 29, 2012

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is not audited. However, it is supplementary information required by accounting principles generally accepted in the United States of America. This discussion should be read in conjunction with the financial statements and notes thereto.

Introduction

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified state-defined programs and to pay debt service and related expenses on state appropriation-backed nonprofit housing bonds. Minnesota Housing also receives funds appropriated by the federal government for similar program purposes. The Agency's mission is to finance and advance affordable housing opportunities for low- and moderate-income Minnesotans to enhance quality of life and foster strong communities.

Minnesota Housing is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates three program divisions — Multifamily, Single Family and Community Development — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, the Housing Trust Fund and the Alternative Loan Fund. The federal Low Income Housing Tax Credit is another resource the Agency allocates. The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and the State Auditor as an ex-officio member.

Discussion of Financial Statements

The Financial Section of this report consists of three parts: the independent auditors' report, management's discussion and analysis (this section), and the basic financial statements. The basic financial statements are prepared on an accrual basis and presented on an Agency-wide basis and by fund.

- Agency-wide financial statements provide information about Minnesota Housing's overall financial position and results of operations. These statements consist of the Statement of Net Assets and the Statement of Activities. Significant interfund transactions have been eliminated within the Agency-wide statements. Assets and revenues of the separate funds that comprise the Agency-wide financial statements are generally restricted as to use and the reader should not assume they may be used for every corporate purpose.
- The fund financial statements provide information about the financial position and results of operations for Minnesota Housing's eight proprietary funds.
- The financial statements also include "Notes to Financial Statements" which provide more detailed explanations of certain information contained in the Agency-wide and fund financial statements.

Supplementary Information is presented following the Notes to Financial Statements for certain funds of Minnesota Housing, which have been established under the bond resolutions under which Minnesota Housing issues bonds and other debt for its programs. These funds consist of General Reserve and the bond funds, which are Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing.

The basic financial statements also include comparative totals as of and for the year ended June 30, 2011. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2012 in comparison to the prior fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Discussion of Individual Funds

General Reserve

The purposes of General Reserve are to maintain sufficient liquidity for Minnesota Housing operations, to hold escrowed funds and to maintain the Housing Endowment Fund (also referred to as Pool 1). The costs of administering Minnesota Housing programs are captured on the Statement of Revenues and Expenses for General Reserve. The fees earned are generally related to the administration of the federal Low Income Housing Tax Credit program, administration of the federal Housing Assistance Payment program, and contract administration of the Section 8 program for developments not financed by Minnesota Housing.

Rental Housing

The majority of the developments with a first mortgage loan presently held in Rental Housing receive Section 8 payments under contracts that are for substantially the same length of time as the mortgage loans.

Inherent risks remain in these portfolios, especially for multifamily developments without project-based tenant subsidies. Maintaining asset quality is a high priority for Minnesota Housing; therefore, this portfolio receives a significant amount of oversight.

All of Minnesota Housing's bond-financed multifamily loans, except one loan financed under Multifamily Housing, are financed in Rental Housing as of June 30, 2012. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the limited obligation notes issued under separate resolutions, and the restricted by covenant Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), the Housing Affordability Fund (Pool 3) and limited obligation note accounts.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and subordinated home improvement mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). While mortgage insurance and guarantees help mitigate the risk of loss to the Agency, inherent risks remain including the impact of declining home values on default recoveries and the risk of deterioration to the credit worthiness of insurers. The Agency's collection experience among mortgage insurers has been generally favorable.

This bond resolution was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2010 (see Homeownership Finance, below). Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2012.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2012 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program, for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans, for tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, contributions for limited obligation note expenses and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Discussion of Individual Funds (continued)

interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2012 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, and deferred, subordinated multifamily loans.

Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Single Family

This fund was the principal source of financing for Minnesota Housing's bond-financed homeownership programs until fiscal year 2002 when Minnesota Housing began using the more flexible Residential Housing Finance fund as its principal source of financing for these programs. To take advantage of favorable refunding opportunities, all outstanding bonds in the Single Family resolution were defeased on April 26, 2012. By June 30, 2012 all remaining Single Family assets and liabilities were transferred to the Residential Housing Finance fund.

Homeownership Finance

This bond resolution was adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP), although non-NIBP mortgage revenue bonds may be issued under this resolution if they meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association. Mortgage-backed securities were funded for the first time by bonds issued under this resolution during fiscal year 2011. The Agency used its remaining NIBP authority to issue bonds during fiscal year 2012. Further issuance by the Agency under the NIBP cannot take place unless the United States Treasury extends the program.

Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued for a rental housing project. The mortgage loan closed during fiscal 2011 and was funded during fiscal year 2012.

State and Federal Appropriated Funds

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies appropriated by the state and federal government for housing. All of the appropriated funds' net assets are restricted by law for specified uses set forth in the state appropriations or federal contracts and are not pledged or available to secure the bondholders or creditors of Minnesota Housing.

The State Appropriated fund was established to account for funds received from the state legislature, which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of low-interest loans, no-interest deferred loans, low-interest amortizing loans, debt service and other costs associated with appropriation-backed bonds, and other housing-related program costs.

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families and multifamily housing developments in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Overview

Minnesota Housing financial statements are presented in two formats: agency-wide and by fund. Funds include Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multi-family Housing (collectively the bond funds); State and Federal Appropriated (collectively the appropriated funds) and General Reserve. Agency-wide financial statements are provided to display a comprehensive view of all Minnesota Housing funds as required by accounting principles generally accepted in the United States of America applicable to governmental entities under accounting standards promulgated from time to time by the Governmental Accounting Standards Board. Agency-wide financial statements reflect totals of similar accounts for various funds. However, substantially all of the funds in these accounts are restricted as to use by Agency covenants or legislation as further described below.

Assets and revenues of the bond funds are restricted to uses specifically set forth in the respective bond resolutions and are pledged for the primary benefit of the respective bondholders and swap counterparties. General Reserve is created under the Minnesota Housing bond resolutions as part of the pledge of the general obligation of Minnesota Housing. Minnesota Housing covenants in the bond resolutions that it will use the assets in General Reserve only for administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose.

Minnesota Housing has no taxing power and neither the State of Minnesota nor any political subdivision thereof is legally obligated to pay the principal of or interest on bonds or other obligations issued by Minnesota Housing. The state has pledged to and agreed with bondholders that it will not limit or alter the rights vested in Minnesota Housing to fulfill the terms of any agreements made with bondholders or in any way impair the rights and remedies of the bondholders.

Public funds directly appropriated to Minnesota Housing by the State of Minnesota or made available to Minnesota Housing from the federal government are restricted by law to specified uses set forth in the state appropriations or federal contracts. Assets and revenues of State Appropriated and Federal Appropriated funds are not pledged or available to secure bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof.

In addition to its audited annual financial statements, Minnesota Housing has published unaudited quarterly disclosure reports for Single Family, Residential Housing Finance, and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. The Single Family disclosure report of March 31, 2012 is the final report since those bonds were defeased in April, 2012. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at www.mnhousing.gov.

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and
Results of Operations (continued)
Condensed Financial Information

Selected Elements from Statement of Net Assets (in \$000s)

		Agency-wide Total		
		As of June 30, 2012	As of June 30, 2011	Change
Assets	Cash and Investments	\$1,317,483	\$1,449,604	\$(132,121)
	Loans receivable, Net	1,845,098	2,065,339	(220,241)
	Interest Receivable	16,296	17,601	(1,305)
	Total Assets	3,260,458	3,614,326	(353,868)
Liabilities	Bonds Payable	2,170,089	2,555,414	(385,325)
	Interest Payable	42,987	46,799	(3,812)
	Accounts Payable and Other Liabilities	12,503	17,062	(4,559)
	Funds Held for Others	76,887	96,996	(20,109)
	Total Liabilities	2,347,578	2,750,720	(403,142)
Net Assets	Restricted by Bond Resolution	331,630	281,199	50,431
	Restricted by Covenant	468,735	469,496	(761)
	Restricted by Law	110,578	111,466	(888)
	Total Net Assets	912,880	863,606	49,274

Selected Elements From Statement of Revenues, Expenses, and Changes in Net Assets (in \$000s)

		Agency-wide Total		
		Fiscal 2012	Fiscal 2011	Change
Revenues	Interest Earned	\$151,289	\$151,328	\$ (39)
	Appropriations Received	243,882	303,615	(59,733)
	Fees and Reimbursements	13,712	18,855	(5,143)
	Total Revenues (1)	470,311	491,613	(21,302)
Expenses	Interest Expense	99,320	97,189	2,131
	Appropriations Disbursed	230,921	286,572	(55,651)
	Fees and Reimbursements	5,855	6,203	(348)
	Payroll, General & Admin.	26,621	32,753	(6,132)
	Loan Loss/Value Adjustments	38,535	71,089	(32,554)
	Total Expenses (1)	421,037	513,055	(92,018)
	Revenues over (under) Expenses	49,274	(21,442)	70,716
	Beginning Net Assets	863,606	885,048	(21,442)
	Ending Net Assets	912,880	863,606	49,274

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
As of June 30, 2012							
Excluding Pool 3	Pool 3	Total	As of June 30, 2011	Change	As of June 30, 2012	As of June 30, 2011	Change
\$1,203,559	\$31,561	\$1,235,120	\$1,353,655	\$(118,535)	\$ 82,363	\$ 95,949	\$(13,586)
1,782,556	28,572	1,811,128	2,030,451	(219,323)	33,970	34,888	(918)
15,851	212	16,063	17,365	(1,302)	233	236	(3)
3,082,933	60,346	3,143,279	3,481,623	(338,344)	117,179	132,703	(15,524)
2,170,089	-	2,170,089	2,555,414	(385,325)	-	-	-
42,987	-	42,987	46,799	(3,812)	-	-	-
9,759	74	9,833	15,019	(5,186)	2,670	2,043	627
73,562	-	73,562	78,206	(4,644)	3,325	18,790	(15,465)
2,358,835	(17,858)	2,340,977	2,729,483	(388,233)	6,601	21,237	(14,636)
331,630	-	331,630	281,199	50,431	-	-	-
390,531	78,204	468,735	469,496	(761)	-	-	-
-	-	-	-	-	110,578	111,466	(888)
724,098	78,204	802,302	752,140	50,162	110,578	111,466	(888)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2012							
Excluding Pool 3	Pool 3	Total	Fiscal 2011	Change	Fiscal 2012	Fiscal 2011	Change
\$148,861	\$ 1,146	\$150,007	\$149,462	\$ 545	\$ 1,282	\$ 1,866	\$ (584)
-	-	-	-	-	243,882	303,615	(59,733)
13,916	(936)	12,980	14,209	(1,229)	732	4,646	(3,914)
220,650	2,195	222,845	180,821	42,024	247,466	310,792	(63,326)
99,320	-	99,320	97,189	2,131	-	-	-
-	-	-	-	-	230,921	286,572	(55,651)
23,701	1,069	24,770	24,192	578	68	64	4
22,777	2,217	24,994	27,214	(2,220)	1,627	5,539	(3,912)
17,392	6,207	23,599	36,814	(13,215)	14,936	34,275	(19,339)
163,190	9,493	172,683	185,409	(12,726)	248,354	327,646	(79,292)
57,460	(7,298)	50,162	(4,588)	54,750	(888)	(16,854)	15,966
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)
724,098	78,204	802,302	752,140	50,162	110,578	111,466	(888)

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

FINANCIAL HIGHLIGHTS

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements included as supplementary information in this 2012 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

Loans receivable, investments, cash and cash equivalents, deferred loss on interest rate swap agreements, real estate owned, and interest receivable comprise the majority of assets in the General Reserve and bond funds. Equipment, fixtures, furniture, capitalized software costs, and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets.

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments. Loans receivable, net decreased 11% to \$1,811.1 million at June 30, 2012 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans. The reduction in loans receivable during fiscal year 2012 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased due to an increase in the estimated loss per delinquent loan. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to runoff in the portfolio (as displayed in the following Home Improvement Loan Portfolio Delinquency table). Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. The reserve for loan loss methodology for the multifamily portfolio was changed during fiscal year 2012. The new methodology more accurately reflects financial risk and responds to economic and market changes that alter the Agency's risk from these loans. This replaced the establishment of reserves at a certain predetermined fixed rate by multifamily loan type. The effect of implementing this change as of June 30, 2012 was to reduce the reserve by \$12.756 million from the amount it would have been if the reserve had been calculated under the old methodology. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

Homeownership Loan Portfolio Delinquency Actual Loan Count

	June 30, 2012		June 30, 2011	
Current and less than 60 days past due	13,455	91.93%	15,299	92.00%
60-89 days past due	280	1.91%	310	1.90%
90-119 days past due	140	0.96%	149	0.90%
120+ days past due and foreclosures ⁽¹⁾	761	5.20%	862	5.20%
Total count	14,636		16,620	
Total past due ⁽¹⁾	1,181	8.07%	1,321	7.95%

(1) In addition to loans customarily included in foreclosure statistics, "foreclosures" include homeownership loans for which the sheriff's sale has been held and the redemption period (generally six months) has not yet elapsed. This causes the delinquency rates in the table not to be directly comparable to delinquency rates reported by the Mortgage Bankers Association of America.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

**General Reserve
and Bond Funds
— Statement of
Net Assets
(continued)**

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2012		June 30, 2011	
Current and less than 60 days past due	7,701	96.96%	8,798	97.14%
60-89 days past due	83	1.05%	57	0.63%
90-119 days past due	45	0.57%	38	0.42%
120+ days past due	113	1.42%	164	1.81%
Total count	7,942		9,057	
Total past due	241	3.03%	259	2.86%

The 60+ day delinquency rate as of June 30, 2012 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately four percentage points the delinquency rates of similar loan data available as of March 31, 2012 from the Mortgage Bankers Association of America for loans in Minnesota (as adjusted to reflect the proportions of insurance types in the Agency's loan portfolio).

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, the Agency has determined that comparable delinquency data from other available sources is not directly comparable. The table above excludes inactive home improvement loans defined as delinquent loans for which the Agency has a valid lien but active collection efforts have been curtailed.

FHA/VA insurance claims, net consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. FHA/VA insurance claims, net increased 20% to \$9.321 million at June 30, 2012 as a result of an increase in the amount of loans with outstanding claims.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned decreased 37% to \$15.566 million at June 30, 2012 as a result of a decreased amount of foreclosure properties held within the homeownership portfolio on June 30, 2012.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2012, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2012, being less than 1.35% of total net loans receivable. Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

There are no loans in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents decreased 9% to \$1,235.1 million at June 30, 2012. The decrease is principally a result of two items. First, loans receivable decreased \$219.3 million during fiscal year 2012 which resulted in an increase in cash and investments. Second, that increase was reduced by the cash and investments required to pay down bonds payable by a net \$385.3 million. Certain mortgage-backed securities are pledged as security for the payment of certain Agency bonds and are held in an acquisition account. Mortgage-backed securities with these two characteristics are classified on the statement of net assets as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds (warehoused mortgage-backed securities), are classified as "Investment securities- other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable decreased 7% to \$16.063

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds — Statement of Net Assets (continued)

million at June 30, 2012. The decrease is mainly a result of a decrease in interest receivable on loans due to a decrease in bonds payable, net during fiscal year 2012.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain capital expenditures. Funds held for others in General Reserve decreased 6% to \$73.562 million at June 30, 2012 as multifamily escrows decreased.

Accounts payable and other liabilities decreased to \$9.834 million at June 30, 2012. The two largest components of accounts payable continue to be: arbitrage rebate liability on tax-exempt bonds calculated pursuant to federal law and payable to the United States Treasury, which decreased \$1.721 million; and yield compliance liability, which decreased \$2.550 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items decreased a net \$0.915 million.

Interfund payable/receivable exists primarily as a result of interfund borrowing and pending administrative and program reimbursements between funds. Most administrative expenses are paid from General Reserve, with the bond funds and appropriated funds owing an administrative reimbursement to General Reserve for the respective fund's contribution to those administrative expenses.

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency will use the money in General Reserve and money that would otherwise have been released to General Reserve only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant. Net assets increased 7% to \$802.302 million at June 30, 2012.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds increased 1,193% from fiscal year 2011 when considering Pool 3 net expenses and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues were essentially unchanged. Total expenses, excluding Pool 3, decreased 2% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2012. Loan interest revenue decreased 7% in fiscal year 2012 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal 2010. Investment interest revenue increased 34% in fiscal year 2012 because of the continued purchase of program mortgage-backed securities.

Administrative reimbursements to General Reserve from bond funds were \$18.983 million in fiscal year 2012 compared to \$18.053 million during the prior fiscal year. The increase is a result of an increase in the average balance of total assets of the bond funds upon which the administrative reimbursement is calculated, mainly within Homeownership Finance Bonds resolution. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$2.638 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2012 compared to \$2.680 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal year 2012 which more than offset an increase from Federal Appropriated. Investment earnings within the State Appropriated fund were insufficient to reimburse \$9.008 million of cumulative overhead expense.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds — Revenues Over Expenses (continued)

Other fee income to General Reserve and bond funds of \$10.341 million decreased by \$1.188 million compared to the prior fiscal year. The primary components are fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs. The decrease is due mainly to a \$0.521 million reduction in revenue received as a result of penalties that were imposed on former guaranteed investment contract bidders by the United States Department of Justice and a \$0.656 million reduction in Section 8 contract administration fees as a result of the new contract with HUD.

Minnesota Housing recorded \$40.875 million of unrealized gains on investment securities during fiscal year 2012, compared to \$0.903 million of unrealized losses during the prior year, an increase of \$41.778 million.

Interest expense of the bond funds increased 2% to \$99.320 million compared to the prior year as a result of a larger amount of long-term outstanding debt during fiscal year 2012.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds increased by 2% to \$24.770 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$18.983 million, an interfund charge to the bond funds was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of \$17.541 million decreased 1% from the prior year. Other general operating expense in General Reserve and bond funds decreased 22% to \$7.453 million compared to the prior fiscal year, mostly as a result of a decrease in foreclosure-related technical assistance provided to the Agency's nonprofit housing partners. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 68% to \$4.640 million. The decrease related to decreased disbursements of deferred subordinated multifamily loans.

Provision for loan loss expense in the bond funds decreased \$3.468 million or 15% to \$18.959 million. The provision for loan loss expense for the homeownership loan portfolio increased \$6.993 million because the average loss per delinquent loan and per foreclosed loan increased. The provision for loan loss expense for the home improvement loan portfolio increased \$0.648 million as a result of increased loan delinquencies during the year, a portion of which became inactive loans. The provision for loan loss expense for the homeownership down payment assistance loan portfolio decreased \$0.341 million. The provision for loan loss expense for the multifamily loan portfolio decreased \$10.863 million mainly due to the implementation of a new loan loss reserve methodology during fiscal 2012. The Agency's previous practice was to assign a general loss provision for newly originated multifamily loans. The new methodology more accurately reflects financial risk on a loan-by-loan basis and responds to economic and market changes that alter the Agency's risk from each loan. Please refer to the loans receivable comments in the Financial Highlights section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. All bonds in the Single Family fund were defeased in April, 2012. The remaining Single Family assets and liabilities, a net amount of \$58.510 million, were transferred to the Residential Housing Finance bond fund and the Housing Investment Fund (Pool 2). During fiscal year 2012, \$9.659 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a \$17.000 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$9.085 million in bond sale contributions, as follows: Homeownership Finance bond fund \$8.642

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

General Reserve and Bond Funds — Revenues Over Expenses (continued)

million and Rental Housing bond resolution \$0.443 million. Single Family made a \$13.960 million bond sale contribution to the Residential Housing Finance bond fund.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, increased \$54.750 million to \$50.162 million compared to the prior fiscal year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses increased 25% to \$17.513 million.

Total combined net assets of General Reserve and bond funds increased 7% to \$802.302 million as of June 30, 2012 as a result of revenues exceeding expenses for fiscal year 2012. The net assets of each individual bond fund increased, except for Single Family which was extinguished, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. After the \$9.659 million transfer of Pool 1 excesses to Pool 2, the net assets of General Reserve decreased \$1.816 million mainly as a result of a \$2.308 million decrease in the Pool 1 requirement (which resides in General Reserve) caused by a decrease in the balance of outstanding loans on which its requirement is based, netted against a \$0.492 million increase in net assets invested in capital assets.

State and Federal Appropriated Funds — Statement of Net Assets

Assets of the appropriated funds are derived from the appropriation of funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. Housing preservation and development ordinarily requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net assets restricted by law.

Investments, cash, and cash equivalents are the largest categories of assets in the appropriated funds. The June 30, 2012 combined balance decreased 14% to \$82.363 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the fiscal year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2012 State Appropriated fund net loans receivable decreased 3% to \$33.970 million, reflecting lower net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2012 decreased 1% to \$0.233 million.

Accounts payable and other liabilities represent amounts payable for HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2012 was \$2.670 million compared to \$2.043 million at June 30, 2011. The increase in accounts payable and other liabilities is largely attributable to a \$1.607 increase in State Appropriated housing trust fund accrued year-end expenses partially offset by a \$0.870 million decrease in year-end accrued expenses for the federal HOME program.

Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. Interfund payable occurs in the State Appropriated fund because of accrued overhead expense payable to General Reserve. At June 30, 2012 the combined net interfund payable was \$0.606 million.

At June 30, 2012 the balance of funds held for others was \$3.325 million. In February 2011 the Agency issued nonprofit housing bonds under an indenture of trust. The indenture permits capital funding for long-term homeless households and other purposes through the issuance of Agency bonds secured solely by state appropriations. The proceeds of these bonds provide capital funding for permanent supportive housing in five multifamily housing developments. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. The bonds are not

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

State and Federal Appropriated Funds — Statement of Net Assets

recorded as a liability by the Agency since they are not an obligation of the Agency (see Appropriation Debt Obligation in notes to financial statements). The balance of the undisbursed proceeds of the issued bonds in the amount of \$2.954 million is recorded as funds held for others. Excess federal housing assistance payments received for administration of the Section 8 program and the interest income earned on those unexpended funds in the amount of \$0.299 million is also recorded as funds held for others.

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to secure the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds decreased to \$110.578 million as of June 30, 2012, reflecting combined revenues less than disbursements and expenses during fiscal year 2012.

State and Federal Appropriated Funds — Revenues Over Expenses

State and Federal Appropriated funds are recorded as revenue in the period in which such appropriations are earned. Funds are spent for eligible program activities as defined by Minnesota Housing, the State of Minnesota or agencies of the federal government. Unexpended appropriations are invested and the interest income on the investments is recorded as it is earned, except for interest earned on certain unexpended federal appropriations, which is recorded as funds held for others. Similarly, interest income on certain State Appropriated fund loan receivables is recorded as it is earned.

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received decreased from \$303.615 million in fiscal year 2011 to \$243.882 million in fiscal year 2012. Federal appropriations received decreased by \$52.771 million, mostly due to a \$56.047 million decrease in funding for the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/ Exchange Program. These decreases were partially offset by a \$3.958 million increase in National Foreclosure Mitigation Counseling program and Housing Assistance Payments program funds. State appropriations received decreased by \$6.962 million, due to decreased appropriations received for almost all state-funded programs.

Interest income from investments decreased as investment yields in general were below previous levels and the average balance of investment assets was less than the prior fiscal year. The combined interest income from investments decreased 30% to \$1.111 million for fiscal year 2012.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.171 million as relatively few loans bear interest.

Fees earned and other income in the amount of \$1.521 million were recorded in the State Appropriated fund during fiscal year 2012. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of \$0.013 million were recorded in the Federal Appropriation fund in fiscal year 2012. These were Energy Saver Rebate Program funds received from a Minnesota state agency to reimburse homeowners for qualifying energy improvements.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized gains of \$0.768 million were recorded at June 30, 2012 compared to \$0.531 million unrealized losses at June 30, 2011.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 33% to \$0.802 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended state appropriations. During fiscal year 2012 investment earnings in the State Appropriated fund were insufficient to reimburse \$9.008 million of overhead expenses incurred in General Reserve during this fiscal year and unreimbursed expenses for prior fiscal years. Combined appropriations disbursed decreased 19% to \$230.921 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$26.111 million and federal appropriations disbursed of \$204.810 million.

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

State and Federal Appropriated Funds — Revenues Over Expenses (continued)

Decreased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in higher expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 59% to \$13.498 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund decreased 14% to \$1.614 million at June 30, 2012. Other general operating expenses in the Federal Appropriation fund of \$0.013 million are homeowner reimbursement for qualifying energy improvements from the Energy Saver Rebate Program.

Combined revenues were less than combined expenditures of the appropriated funds by \$0.888 million at June 30, 2012. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2012 long-term bonds totaling \$2,164.4 million. Bond proceeds and related revenues are held by trustees, who are responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2012, amounts held by the respective trustees in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During fiscal year 2012, Minnesota Housing issued eleven series of bonds and notes aggregating \$309.4 million, compared to the issuance of eleven series totaling \$1,391.1 million the previous fiscal year. Long-term debt issuance to finance mortgage lending was again aided this year by the United States Treasury's New Issue Bond Program. Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes and other indebtedness are issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing.

A total of \$698.0 million in principal payments and \$99.3 million of interest payments were made during fiscal year 2012. Of the total principal payments, \$265.9 million retired short-term debt and \$380.8 million were payments made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code and Treasury regulations governing either qualified mortgage bonds or bonds issued to provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the Internal Revenue Code (commonly known as the 10-year rule) that prohibits refunding of mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed such mortgage loans.

While most of the Agency's bonds are tax-exempt, taxable bonds have also been issued to supplement limited tax-exempt authority in order to meet demand for mortgage loans. Taxable bonds may also be issued to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.)

MINNESOTA HOUSING FINANCE AGENCY

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Significant Long-Term Debt Activity (continued)

The Agency also had outstanding at June 30, 2012 certain conduit bonds and appropriation-backed bonds which are not obligations of the Agency and which are discussed in notes to the financial statements. Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding bonds and notes of Minnesota Housing to \$5.0 billion.

At June 30, 2012 Minnesota Housing's issuer credit ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency.

Significant Factors that May Affect Financial Condition and/or Operations

Legislative Actions

Traditionally the primary focus of even-numbered year state legislative sessions is authorization of a package of capital investments; this held true for the 2012 session. The 2012 Minnesota Legislature authorized the agency to issue \$30 million in appropriation bonds for capital projects for 3 specific purposes: acquisition, rehabilitation and replacement of housing in communities impacted by the foreclosure crisis, preservation of federally assisted rental housing and development of permanent supportive housing. The bonds are known as housing infrastructure bonds. A standing annual appropriation of up to \$2.2 million for the debt service on the \$30 million in bonds was provided for state fiscal years 2013 through 2035. The bonds are not a debt of the state and the full faith and credit and taxing authority of the state may not be pledged to the bonds but the appropriations may be pledged to the payment of the bonds. In addition, the legislature appropriated \$5.5 million in general obligation bond proceeds for the rehabilitation of public housing properties.

This is the first non-biennial budget setting session since 2008 that no further reductions were made to the Agency's base budget.

Nationwide Foreclosure Crisis

The nationwide housing foreclosure crisis continued to impact borrowers in Minnesota Housing's loan portfolio despite the Agency's practice of providing mortgage products designed to promote sustainable homeownership. In fiscal year 2012 loan delinquencies and foreclosures were slightly higher for the homeownership portfolio and loan delinquencies were also slightly higher for the home improvement portfolio, as described in Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Highlights. Economic conditions and their future impact on the Agency's loan portfolios are unpredictable. The Agency regularly reviews loan portfolio performance and records additional loss reserves when justified by actual delinquency, foreclosure and property loss experience. The Agency additionally utilizes several loss mitigation techniques to assist homeowners with avoiding foreclosure and to minimize Agency losses on foreclosed loans.

Liquidity Facilities for Variable Rate Bonds

Standby liquidity facilities for certain variable rate bonds are scheduled to expire in July and August of 2012. Those facilities were successfully replaced in July 2012.

Additional Information

Questions and inquiries may be directed to Mr. Bill Kapphahn at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-2967608 or 800-6573769 or if T.T.Y. 651-2972361)

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Net Assets (in thousands)****As of June 30, 2012 (with comparative totals as of June 30, 2011)**

		Agency-wide Total as of June 30, 2012	Agency-wide Total as of June 30, 2011
Assets	Cash and cash equivalents	\$ 432,682	\$ 527,605
	Investments- program mortgage-backed securities	667,282	356,227
	Investment securities- other	217,519	565,772
	Loans receivable, net	1,845,098	2,065,339
	Interest receivable on loans	14,816	14,142
	Interest receivable on investments	1,480	3,459
	Deferred loss on interest rate swap agreements	39,634	30,815
	FHA/VA insurance claims, net	9,321	7,761
	Real estate owned, net	15,566	24,604
	Unamortized bond issuance costs	13,354	13,307
	Capital assets, net	1,937	1,445
	Other assets	1,769	3,850
	Total assets	<u>\$3,260,458</u>	<u>\$3,614,326</u>
Liabilities	Bonds payable, net	\$2,170,089	\$2,555,414
	Interest payable	42,987	46,799
	Interest rate swap agreements	39,634	30,815
	Deferred revenue- service release fees	5,477	3,634
	Accounts payable and other liabilities	12,504	17,062
	Funds held for others	76,887	96,996
	Total liabilities	<u>2,347,578</u>	<u>2,750,720</u>
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	331,630	281,199
	Restricted by covenant	468,735	469,496
	Restricted by law	110,578	111,466
	Invested in capital assets	1,937	1,445
	Total net assets	<u>912,880</u>	<u>863,606</u>
	Total liabilities and net assets	<u>\$3,260,458</u>	<u>\$3,614,326</u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2012 (with comparative totals for year ended of June 30, 2011)**

		Agency-wide Total for the Year Ended June 30, 2012	Agency-wide Total for the Year Ended June 30, 2011
Revenues	Interest earned on loans	\$115,394	\$123,823
	Interest earned on investments- program mortgage-backed securities	20,827	7,814
	Interest earned on investments- other	15,068	19,691
	Appropriations received	243,882	303,615
	Administrative reimbursement	1,837	1,484
	Fees earned and other income	11,875	17,371
	Unrealized gains on investments	41,643	(1,434)
	Total revenues	<u>450,526</u>	<u>472,364</u>
Expenses	Interest	99,320	97,189
	Loan administration and trustee fees	5,855	6,203
	Salaries and benefits	17,541	17,716
	Other general operating	9,080	15,037
	Appropriations disbursed	230,921	286,572
	Reduction in carrying value of certain low interest rate deferred loans	18,138	46,931
	Provision for loan losses	20,397	24,158
	Total expenses	<u>401,252</u>	<u>493,806</u>
	Change in net assets	49,274	(21,442)
	Total net assets, beginning of year	<u>863,606</u>	<u>885,048</u>
Net Assets	Total net assets, end of year	<u>\$912,880</u>	<u>\$863,606</u>

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Net Assets (in thousands)

Proprietary Funds

As of June 30, 2012 (with comparative totals as of June 30, 2011)

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	\$90,544	\$ 28,907	\$ 214,155	\$ -
	Investments- program mortgage-backed securities	-	-	94,951	-
	Investment securities- other	5,204	14,186	177,154	-
	Loans receivable, net	-	167,823	1,628,762	-
	Interest receivable on loans and program mortgage-backed securities	-	878	11,987	-
	Interest receivable on investments	44	362	853	-
	Deferred loss on interest rate swap agreements	-	-	39,634	-
	FHA/VA insurance claims, net	-	-	9,321	-
	Real estate owned, net	-	-	15,566	-
	Unamortized bond issuance costs	-	1,274	8,385	-
	Capital assets, net	1,937	-	-	-
	Other assets	1,084	4	53	-
	Total assets	<u>\$98,813</u>	<u>\$213,434</u>	<u>\$2,200,821</u>	<u>\$ -</u>
Liabilities	Bonds payable, net	\$ -	\$104,667	\$1,503,509	\$ -
	Interest payable	-	1,745	32,062	-
	Interest rate swap agreements	-	-	39,634	-
	Deferred revenue- service release fees	-	-	5,477	-
	Accounts payable and other liabilities	4,573	3,215	1,933	-
	Interfund payable (receivable)	565	(1,182)	1	-
	Funds held for others	73,562	-	-	-
	Total liabilities	<u>78,700</u>	<u>108,445</u>	<u>1,582,616</u>	<u>-</u>
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	104,989	167,646	-
	Restricted by covenant	18,176	-	450,559	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,937	-	-	-
	Total net assets	<u>20,113</u>	<u>104,989</u>	<u>618,205</u>	<u>-</u>
	Total liabilities and net assets	<u>\$98,813</u>	<u>\$213,434</u>	<u>\$2,200,821</u>	<u>\$ -</u>

See accompanying notes to financial statements

Bond Funds		Appropriated Funds			
Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2012	Total as of June 30, 2011
\$ 36,355	\$ 1,198	\$ 59,399	\$ 2,124	\$ 432,682	\$ 527,605
572,331	-	-	-	667,282	356,227
135	-	13,632	7,208	217,519	565,772
-	14,543	33,970	-	1,845,098	2,065,339
1883	55	13	-	14,816	15,388
1	-	154	66	1,480	2,213
-	-	-	-	39,634	30,815
-	-	-	-	9,321	7,761
-	-	-	-	15,566	24,604
3,534	161	-	-	13,354	13,307
-	-	-	-	1,937	1,445
15	-	-	613	1,769	3,850
<u>\$614,254</u>	<u>\$15,957</u>	<u>\$107,168</u>	<u>\$10,011</u>	<u>\$3,260,458</u>	<u>\$3,614,326</u>
\$546,913	\$15,000	\$-	\$-	\$2,170,089	\$2,555,414
9,142	38	-	-	42,987	46,799
-	-	-	-	39,634	30,815
-	-	-	-	5,477	3,634
38	75	2,170	500	12,504	17,062
10	-	193	413	-	-
-	-	3,026	299	76,887	96,996
<u>556,103</u>	<u>15,113</u>	<u>5,389</u>	<u>1,212</u>	<u>2,347,578</u>	<u>2,750,720</u>
58,151	844	-	-	331,630	281,199
-	-	-	-	468,735	469,496
-	-	101,779	8,799	110,578	111,466
-	-	-	-	1,937	1,445
<u>58,151</u>	<u>844</u>	<u>101,779</u>	<u>8,799</u>	<u>912,880</u>	<u>863,606</u>
<u>\$614,254</u>	<u>\$15,957</u>	<u>\$107,168</u>	<u>\$10,011</u>	<u>\$3,260,458</u>	<u>\$3,614,326</u>

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

Proprietary Funds

Year ended June 30, 2012 (with comparative totals for year ended of June 30, 2011)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Revenues	Interest earned on loans	\$ -	\$ 13,152	\$ 95,204
	Interest earned on investments- program mortgage-backed securities	-	-	791
	Interest earned on investments- other	63	2,274	10,302
	Appropriations received	-	-	-
	Administrative reimbursement	21,622	-	-
	Fees earned and other income	8,865	505	971
	Unrealized gains (losses) on investments	70	299	7,744
	Total revenues	30,620	16,230	115,012
Expenses	Interest	-	7,345	71,036
	Loan administration and trustee fees	-	171	5,154
	Administrative reimbursement	-	1,584	13,547
	Salaries and benefits	17,541	-	-
	Other general operating	5,236	-	2,217
	Appropriations disbursed	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(56)	4,696
	Provision for loan losses	-	(2,203)	20,860
	Total expenses	22,777	6,841	117,510
	Revenues over (under) expenses	7,843	9,389	(2,498)
Other changes	Non-operating transfer of assets between funds	(9,659)	443	73,044
	Change in net assets	(1,816)	9,832	70,546
Net Assets	Total net assets, beginning of year	21,929	95,157	547,659
	Total net assets, end of year	\$20,113	\$104,989	\$618,205

See accompanying notes to financial statements.

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 6,212	\$ -	\$655	\$ 171	\$ -	\$115,394	\$123,823
-	20,036	-	-	-	20,827	7,814
1,241	59	18	731	380	15,068	19,691
-	-	-	40,839	203,043	243,882	303,615
-	-	-	-	-	21,622	20,733
-	-	-	1,521	13	11,875	17,371
(26)	32,791	(3)	747	21	41,643	(1,434)
7,427	52,886	670	44,009	203,457	470,311	491,613
4,534	15,949	456	-	-	99,320	97,189
292	168	2	68	-	5,855	6,203
979	2,776	97	802	-	19,785	19,249
-	-	-	-	-	17,541	17,716
-	-	-	1,614	13	9,080	15,037
-	-	-	26,111	204,810	230,921	286,572
-	-	-	13,498	-	18,138	46,931
227	-	75	1,438	-	20,397	24,158
6,032	18,893	630	43,531	204,823	421,037	513,055
1,395	33,993	40	478	(1,366)	49,274	(21,442)
(72,470)	8,642	-	-	-	-	-
(71,075)	42,635	40	478	(1,366)	49,274	(21,442)
71,075	15516	804	101,301	10,165	863,606	885,048
\$ -	\$58,151	\$844	\$101,779	\$ 8,799	\$912,880	\$863,606

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 30,110	\$ 169,203
	Investment in loans/loan modifications and program mortgage-backed securities	-	(11,536)	(109,740)
	Interest received on loans and program mortgage-backed securities	-	10,565	91,734
	Other operating	-	-	(2,144)
	Fees and other income received	9,104	505	6,329
	Salaries, benefits and vendor payments	(22,577)	(139)	(9,085)
	Appropriations received	-	-	-
	Appropriations disbursed	-	-	-
	Administrative reimbursement from/to funds	21,547	(1,584)	(13,547)
	Deposits into funds held for others	31,297	-	-
	Disbursements made from funds held for others	(36,087)	-	-
	Interfund transfers and other assets	(1,593)	(1,182)	1,479
	Net cash provided (used) by operating activities	1,691	26,739	134,229
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	8,965	178,538
	Principal repayment on bonds and notes	-	(62,295)	(556,940)
	Interest paid on bonds and notes	-	(7,719)	(75,124)
	Financing costs paid related to bonds issued	-	(134)	(2,170)
	Agency contribution to program funds	-	443	610
	Transfer of cash between funds	(9,631)	-	(26,654)
	Net cash provided (used) by noncapital financing activities	(9,631)	(60,740)	(481,740)
Cash flows from investing activities	Investment in real estate owned	-	-	(6,641)
	Interest received on investments	925	1,759	5,012
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	78,889
	Proceeds from maturity, sale or transfer of investment securities	40,020	90,997	692,442
	Purchase of investment securities	-	(63,374)	(445,307)
	Purchase of loans between funds	-	(12,195)	14,190
	Net cash provided by investing activities	40,945	17,187	338,585
	Net increase (decrease) in cash and cash equivalents	33,005	(16,814)	(8,926)
Cash and cash equivalents	Beginning of year	57,539	45,721	223,081
	End of year	\$ 90,544	\$ 28,907	\$ 214,155

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 10,884	\$ 24,801	\$ -	\$ 2,872	\$ -	\$ 237,870	\$ 197,409
(23)	(234,640)	(15,000)	(14,466)	-	(385,405)	(439,265)
5,285	18,640	654	171	-	127,049	126,454
-	-	-	(1,615)	(13)	(3,772)	(9,227)
-	-	-	1,521	13	17,472	20,948
(316)	(188)	73	(68)	-	(32,300)	(29,839)
-	-	-	40,839	204,059	244,898	307,142
-	-	-	(24,637)	(206,036)	(230,673)	(291,205)
(979)	(2,776)	(97)	(786)	-	1,778	1,543
-	-	-	-	127	31,424	53,821
-	-	-	(15,467)	(127)	(51,681)	(45,350)
482	(2)	-	138	-	(678)	(997)
15,333	(194,165)	(14,370)	(11,498)	(1,977)	(44,018)	(108,566)
-	152,127	-	-	-	339,630	2,104,183
(97,505)	(6,230)	-	-	-	(722,970)	(2,251,945)
(6,957)	(10,438)	(452)	-	-	(100,690)	(96,654)
1,164	(1,959)	-	-	-	(3,099)	(3,382)
(2,742)	1,689	-	-	-	-	-
36,285	-	-	-	-	-	-
(69,755)	135,189	(452)	-	-	(487,129)	(247,798)
(611)	-	-	-	-	(7,252)	(5,064)
753	1,232	23	882	174	10,760	19,526
4,347	-	-	-	-	83,236	76,729
30,450	10,304	13,924	54,098	14,951	947,186	1,902,689
(18,605)	(9,940)	(13,450)	(34,130)	(12,900)	(597,706)	(1,756,617)
-	-	-	(1,995)	-	-	-
16,334	1,596	497	18,855	2,225	436,224	237,263
(38,088)	(57,380)	14,325	7,357	248	(94,923)	(119,101)
38,088	93,735	15,523	52,042	1,876	527,605	646,706
\$ -	\$ 36,355	\$ 1,198	\$ 59,399	\$ 2,124	\$ 432,682	\$ 527,605

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$ 7,843	\$ 9,389	\$ (2,498)
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operation activities:			
	Amortization of premiums (discounts) and fees on loans and program mortgage-backed securities	-	(104)	896
	Depreciation	1,286	-	-
	Realized losses (gains) on sale of securities, net	175	(737)	(3,076)
	Unrealized losses (gains) on securities, net	(70)	(299)	(7,744)
	Provision for loan losses	-	(2,203)	20,860
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	(56)	4,696
	Capitalized interest on loans and real estate owned	-	-	(6,139)
	Interest earned on investments	(238)	(2,038)	(7,027)
	Interest expense on bonds and notes	-	7,345	71,036
	Changes in assets and liabilities:			
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	18,574	59,463
	Decrease (increase) in interest receivable on loans	-	66	982
	Increase (decrease) in arbitrage rebate liability	-	(2,048)	(199)
	Increase (decrease) in accounts payable	(933)	30	1,494
	Increase (decrease) in interfund payable, affecting operating activities only	(64)	(1,181)	1,376
	Increase (decrease) in funds held for others	(4,790)	-	-
	Other	(1,518)	1	109
	Total	(6,152)	17,350	136,727
	Net cash provided (used) by operating activities	\$ 1,691	\$26,739	\$134,229

See accompanying notes to financial statements

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2012	Total for the Year Ended June 30, 2011
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 1,395	\$ 33,993	\$ 40	\$ 478	\$(1,366)	\$ 49,274	\$ (21,442)
(753)	487	-	-	-	526	1,414
-	-	-	-	-	1,286	1,540
(345)	(23)	1	75	(179)	(4,109)	(199)
26	(32,791)	3	(747)	(21)	(41,643)	1,434
227	-	75	1,438	-	20,397	24,158
-	-	-	13,498	-	18,138	46,931
(336)	-	-	-	-	(6,475)	(8,576)
(634)	(36)	(19)	(806)	(201)	(10,999)	(18,800)
4,534	15,949	456	-	-	99,320	97,189
10,861	(209,839)	(15,000)	(11,594)	-	(147,535)	(241,856)
162	(1,883)	(1)	-	-	(674)	899
(262)	-	75	-	-	(2,509)	387
(28)	(27)	-	1,902	(1,275)	1,238	(2,540)
(63)	(2)	-	(275)	48	(161)	(9)
-	-	-	(15,467)	-	(20,257)	8,471
549	7	-	-	1,017	165	2,433
13,938	(228,158)	(14,410)	(11,976)	(611)	(93,292)	(87,124)
\$15,333	\$(194,165)	\$(14,370)	\$(11,498)	\$(1,977)	\$ (44,018)	\$(108,566)

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012

Nature of Business and Fund Structure

The Minnesota Housing Finance Agency (the Agency or Minnesota Housing) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. The Agency, as a special purpose agency engaged in business-type activities, is a component unit of the State of Minnesota, and is reflected as a proprietary fund in the state's comprehensive annual financial report. The Agency receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified programs. The Agency also receives funds from the federal government or other entities for similar program purposes.

The Agency is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

The following describes the funds maintained by the Agency, which are included in this report, all of which conform to the authorizing legislation and bond resolutions:

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit to the payment of its general obligation bonds in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net assets of General Reserve are available to support the following funds which are further described below: Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance and Multifamily Housing.

Rental Housing

Activities relating to bond-financed multifamily housing programs are maintained under the Rental Housing bond resolution. Loans are generally secured by first mortgages on real property. The Rental Housing bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

Residential Housing Finance

Included within Residential Housing Finance are the bond funds, which include bonds issued and outstanding under the Residential Housing Finance bond resolution; limited obligation notes issued under separate resolutions; the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), the Housing Affordability Fund (Pool 3); and limited obligation note accounts. All of these funds are restricted by a covenant with bondholders as to their use.

The bond resolution within Residential Housing Finance was the principal source of financing for bond-financed homeownership programs from fiscal year 2002 until fiscal year 2010 (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets of the bonds issued and outstanding under the resolution are pledged to the repayment of Residential Housing Finance bonds, except that the limited obligation debt is issued under separate resolutions and is secured by the proceeds thereof.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are three subfunds: Housing Investment Fund (Pool 2), Housing Affordability Fund (Pool 3) and limited obligation note accounts. Except for funds in limited obligation note accounts, funds deposited in the Alternative Loan Fund would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency and, to the extent that funds are available therein, is available to honor the general obligation pledge

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Nature of Business and Fund Structure (continued)

of the Agency.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2012 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, warehousing purchases of mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, loans to facilitate transfers of ownership of manufactured home parks to resident owners, contributions for limited obligation note expenses, and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire Agency high interest-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2012 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, and deferred, subordinated multifamily loans.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds.

The limited obligation debt resolutions prescribe the application of debt proceeds and permitted investments.

Single Family

Bonds issued for homeownership programs were issued under Single Family until 2002 when the Agency began using Residential Housing Finance. All outstanding bonds were defeased in April, 2012. All remaining assets and liabilities were transferred to Residential Housing Finance as of June 30, 2012.

Homeownership Finance

This bond resolution was adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP), although non-NIBP mortgage revenue bonds may also be issued if they meet resolution requirements. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued for a rental housing project.

State Appropriated

The State Appropriated fund was established to account for funds received from the Minnesota legislature which are to be used for programs for low- and moderate-income persons and families in the form of low-interest loans, no-interest deferred loans, debt service and other costs associated with appropriation-backed bonds, and other housing-related program costs. The net assets of the State Appropriated fund are not pledged or available to secure bondholders or creditors of the Agency.

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs. The net assets of the Federal Appropri-

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies

ated fund are not pledged or available to secure bondholders or creditors of the Agency.

The following is a summary of the more significant accounting policies.

Basis of Accounting

The Agency's financial statements have been prepared on the basis of the proprietary fund concept which pertains to financial activities that operate in a manner similar to private business enterprises and are financed through fees and charges assessed primarily to the users of the services.

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Although the Agency has the option to apply the aforementioned private sector guidance issued after November 30, 1989, subject to the same limitations, the Agency has elected not to do so.

Since the business of the Agency is essentially that of a financial institution having a business cycle greater than one year, the statement of net assets is not presented in a classified format.

New Accounting Pronouncements

In November 2010 the GASB issued Statement No 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB Statement No. 61 are effective for the Agency's fiscal year ended June 30, 2012. The adoption of this statement did not affect the Agency's financial statements.

In June 2011 the GASB issued Statement No 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2013. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In June 2011 the GASB issued Statement No 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies (continued)

or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this statement were implemented for the Agency's fiscal year ended June 30, 2012. The adoption of this statement did not affect the Agency's financial statements.

In March 2012 the GASB issued Statement No 65 Items Previously Reported as Assets and Liabilities. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for the Agency's fiscal year ending June 30, 2014. The Agency has not yet determined the effect that the adoption of this Statement will have on its financial statements.

Cash and Cash Equivalents

Cash equivalents may include commercial paper, money market funds, repurchase agreements, State investment pool holdings and any other investments, primarily U.S. treasury and agency securities that have 90 or less days remaining to maturity at the time of purchase. Investment agreements are also classified as cash and cash equivalents.

Investments- Program Mortgage-backed Securities and Investment Securities- Other

The Agency carries all investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are recorded as revenue. However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others. Investments- program mortgage-backed securities, as previously described, are shown separately on the statement of net assets.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses, unamortized premiums, and discounts.

The allowances for loan losses are established based on management's evaluation of the loan portfolio.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies (continued)

Generally, the Agency provides an allowance for loan losses for multifamily loans after considering the specific known risks: adequacy of collateral and projected cash flows; past experience; amount of federal or state rent subsidies, if any; the status and amount of past due payments, if any; the amount of deferred maintenance, if any; and current economic conditions.

For homeownership and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance.

Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2012.

Premiums, discounts or fees resulting from the purchase of homeownership mortgage loans at other than face value are amortized over the life of the loans using the effective interest method. Estimated loan prepayments are taken into account in determining the life of homeownership mortgage loans for purposes of such amortization. Premiums or discounts resulting from the purchase of home improvement loans are amortized on a straight-line basis over the average loan life. Premiums, discounts or fees resulting from the origination of multifamily development loans are amortized using the effective interest method over the term of the loan. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans and Program Mortgage-backed Securities

The Agency accrues interest on its amortizing loans until they become 90 days or more delinquent in the case of multifamily loans, until they become “real estate owned” (described below) for homeownership loans, or until they are classified by the Agency as inactive for home improvement loans.

Deferred Loss on Interest Rate Swaps Agreements

The Agency’s interest rate swap agreements have a negative fair value as of the end of fiscal year 2012. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

FHA/VA Insurance Claims Receivable, Net

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category. FHA/VA insurance claims receivable, net is carried at its estimated realizable value.

Real Estate Owned, Net

Real estate acquired through foreclosure is recorded at the lower of the investment in the loan or estimated fair market value less estimated selling costs. These properties may be RD guaranteed, uninsured or have private mortgage insurance. Real estate owned, net is carried at its estimated realizable value.

Unamortized Bond Issuance Costs

Bond issuance costs are amortized using the effective interest method in the Single Family, Residential Housing Finance, Homeownership Finance, and Multifamily Housing funds. In the Rental Housing fund, bond issuance costs are amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

Bonds Payable, Net

Bonds payable are carried at their unpaid principal balances, net of unamortized premiums, discounts and deferred gain or loss on refunding. Premiums and discounts are amortized using the effective interest method in the Residential Housing Finance fund and the Single Family fund. In the Rental Housing fund, deferred gain or loss on refunding is amortized using the bonds outstanding method due to the unpredictable nature of prepayments of multifamily loans.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies (continued)

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2012 and they have been determined to be effective hedges under the applicable accounting guidance, they are recorded here as a liability.

Deferred Revenue- Service Release Fees

The Agency's master servicer pays the Agency a fee for the right to service the loans backing mortgage-backed securities that are purchased by the Agency. These fees are initially recorded as Deferred Revenue-Service Release Fees then amortized to Fees Earned and Other Income using the effective interest method over the expected life of the loans.

Interfund Payable (Receivable)

Interfund payable (receivable) primarily reflects pending transfers of cash and assets between funds. The more significant activities that flow through this fund may include funds advanced for purposes of optionally redeeming bonds when economically advantageous; funds advanced for loan warehousing; administrative fees receivable and payable between funds; non-operating transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); and certain mortgage payments received but not yet transferred to their respective funds.

Funds Held for Others

Funds the Agency held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds and is not included in the investment income of General Reserve.

Undisbursed proceeds of nonprofit housing state appropriation bonds are recorded in Funds Held for Others until disbursed for their intended purpose.

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those assets restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

Restricted by Covenant Net Assets represents those assets in General Reserve and those assets that would otherwise be available to be transferred to General Reserve under the applicable bond resolutions. Under the Agency's bond resolutions, the Agency covenants that it will use the assets in General Reserve only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including reserves for the payment of bonds and notes and of loans made from the proceeds thereof, and will accumulate and maintain therein such balance of funds and investments as will be sufficient for the purpose. The Agency's Board establishes investment guidelines for these funds.

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as restricted by law.

Invested in Capital Assets

This represents the balance of capital assets, net of depreciation. No related debt exists.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies (continued)

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2011 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets excluding the reserve for loan loss, unearned discounts on loans, proceeds of debt issued to preserve bonding authority, proceeds of escrowed bonds issued under the federal New Issue Bond Program, premiums on loans, deferred bond issuance costs, unrealized appreciation and depreciation on investments including all mortgage-backed securities, and deferred loss on interest rate swap agreements.

For programs funded by state appropriations, the Agency recovers the cost of administering the programs but only to the extent of interest earnings on unexpended state appropriations.

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of \$1.833 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$19.785 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

Fees earned and other income consists mainly of fees related to the financing and administration of Section 8 properties, including administration of a HUD-owned Section 8 portfolio, fees in connection with operating the federal Low Income Housing Tax Credit program, annual fees related to certain multifamily housing development loans, fees from the Low Income Rental Class program, private contributions restricted to use in the Agency's Homeownership Education, Counseling and Training Program, housing development operating subsidies received from other state agencies and fees for issuing and monitoring conduit bonds. Fees earned and other income is recorded as it is earned.

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

The carrying value of certain Housing Affordability Fund (Pool 3) loans and State Appropriated loans which are originated at below market interest rates and for which repayment is deferred for up to 30 years, is written down to zero at the time of origination by providing for a Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans because of the nature of these loans and the risks associated with them. Certain of these loans may be forgiven at maturity.

Other Changes

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Assets to describe various transfers between funds.

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Summary of Significant Accounting Policies (continued)

among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance; and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2012 were \$79.6 million and \$3.9 million for Residential Housing Finance and Single Family, respectively.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the comparative totals columns of the financial statements have been reclassified to conform with the current year presentation.

Income Taxes

The Agency, as an agency of the State of Minnesota, is exempt from federal and state income taxes. Accordingly, no provision for income taxes is necessary.

Rebateable Arbitrage

Arbitrage earnings that are owed to the United States Treasury are recorded in Accounts Payable and based on estimated calculations performed by an independent calculation specialist on an ongoing basis. Also included in this category is yield compliance liability.

Cash, Cash Equivalents and Investment Securities

Permitted Agency investments include government obligations, commercial paper, repurchase agreements, money market funds, guaranteed investment contracts (i.e., investment agreements), the State investment pool, corporate obligations, municipal bonds and other investments consistent with requirements of safety and liquidity that comply with applicable provisions of the bond resolutions, state law or Board policy.

Cash and Cash Equivalents are generally stated at cost, which approximates market value. Certain investment agreements are stated at an amount that is less than cost. The balances were composed of the following at June 30, 2012 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	\$ -	\$ -	\$ 90,544	\$ -	\$ 90,544
Federal Appropriated Accounts	59	1,766	299	-	2,124
State Appropriated Accounts	147	2,954	56,298	-	59,399
Rental Housing	19	17,012	-	11,876	28,907
Residential Housing Finance	2,721	140,474	-	70,960	214,155
Homeownership Finance	-	36,355	-	-	36,355
Multifamily Housing	-	1,198	-	-	1,198
Combined Totals	<u>\$2,946</u>	<u>\$199,759</u>	<u>\$147,141</u>	<u>\$82,836</u>	<u>\$432,682</u>

Deposits were cash awaiting investment, consisting of interest earned on investments received too late on the last day of the fiscal year to be invested and loan servicer deposits in transit.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

The State investment pool is an internal investment pool managed by the Minnesota State Board of Investment (SBI). The SBI invests in debt securities, including U.S. treasury securities, U.S. agency securities, bankers' acceptances, high grade corporates, and commercial paper. This investment pool is unrated.

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2012, all the investment agreement providers had a Standard & Poor's long-term credit rating of "AA-" or higher and a Moody's long-term credit rating of "A1" or higher, except for Depfa Bank PLC's rating which is discussed below. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. Certain investment agreements with Depfa Bank PLC (\$25.518 million) require downgrade to the ratings on the related bonds before triggering the termination clauses. Since those bonds are general obligations of the Agency, it is unlikely that deterioration in Depfa's ratings will affect the ratings on the bonds. Because Depfa Bank PLC's rating is "BBB" from Standard & Poor's and "Baa3" from Moody's, the Agency reduced the carrying value of those agreements by \$1.029 million as of June 30, 2012.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2012 (in thousands):

Investment Securities

Funds	Investment Securities- Other at Amortized Cost	Program Mortgage-backed Securities at Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve Account	\$ 5,015	\$ -	\$ 189	\$ 5,204
Federal Appropriated Accounts	7,114	-	94	7,208
State Appropriated Accounts	12,676	-	956	13,632
Rental Housing	13,969	-	217	14,186
Residential Housing Finance	172,985	89,442	9,678	272,105
Homeownership Finance	135	532,236	40,095	572,466
Multifamily Housing	-	-	-	-
Combined Totals	<u>\$211,894</u>	<u>\$621,678</u>	<u>\$51,229</u>	<u>\$884,801</u>

U.S. Treasury securities, U.S. Agency securities, corporate notes, mortgage-backed securities and commercial paper in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. U.S. treasury and U.S. agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities, except U.S. Treasuries, by their lowest Standard & Poor's and Moody's ratings. Investment securities' credit rating categories (without qualifiers) at June 30, 2012 were (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Cash, Cash
Equivalents
and Investment
Securities
(continued)**

Credit Ratings of Investment Securities

Type	Par Value	AA+/Aaa	AA/Aa3
U.S. Agencies	\$722,495	\$722,495	\$ -
Municipals	87,590	-	87,590
Agency-wide Totals	\$810,085	\$722,495	\$87,590
U.S. Treasuries	10,983		
Agency-wide Totals	\$821,068		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of \$5.625 million and net discounts of \$1.462 million), along with the weighted average maturities (in years) as of June 30, 2012, consisted of the following (in thousands):

Weighted Average Maturity, In Years

Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated
Deposits	\$ 2,946	-	-	-	-	-	-	-	-
Money market fund	199,759	-	-	-	-	-	-	-	-
State investment pool	147,141	-	-	-	-	-	-	-	-
Investment agreements	82,836	-	-	-	-	-	-	-	-
U.S. Agencies	722,495	2.0	15.9	23.3	-	28.6	-	-	16.8
U.S. Treasuries	10,983	-	-	7.6	-	-	-	-	5.9
Municipals	87,590	-	-	-	-	-	-	12.7	-
Corporate notes	5,200	-	-	-	-	-	-	0.1	-
Agency-wide Totals	\$1,258,950								
Weighted Average Maturity		0.1	5.2	8.6	-	26.7	-	1.3	10.5

Investments in any one issuer, excluding \$602 million of investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2012 were as follows (in thousands):

Investment Issuer	Amount
Federal National Mortgage Association, U.S. Agencies	\$99,043

The Agency maintained certain deposits and investments throughout fiscal year 2012 that were subject to custodial credit risk. As of June 30, 2012, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$199,759 in a money market fund and \$147,141 in the State investment pool)	\$ 349,846
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	948,801
Agency-wide Total	\$1,298,647

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Cash, Cash
Equivalents
and Investment
Securities
(continued)**

Net realized gain on sale of investment securities of \$4.109 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service reserves. The required balances at June 30, 2012 were as follows (in thousands):

Funds	Amount
Multifamily Housing Bonds	\$ 479
Rental Housing	8,756
Residential Housing Finance	44,703
Combined Totals	<u>\$53,938</u>

**Loans
Receivable, Net**

Loans receivable, net at June 30, 2012 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts)	Loans Receivable, Net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	171,879	(2,609)	(1,447)	167,823
Residential Housing Finance	1,660,491	(30,973)	(756)	1,628,762
Single Family	-	-	-	-
Multifamily Housing	15,000	(75)	(382)	14,543
State Appropriated	35,065	(1,095)	-	33,970
Federal Appropriated	-	-	-	-
Agency-wide Totals	<u>\$1,882,435</u>	<u>\$(34,752)</u>	<u>\$(2,585)</u>	<u>\$1,845,098</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. A significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not eliminate, loan losses.

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year 2012 the unpaid principal amount of loans with such characteristics aggregated \$8.109 million in the Residential Housing Finance Housing Affordability Fund (Pool 3) and \$14.349 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and on the next page.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Loans
Receivable, Net
(continued)**

Loans receivable, net and gross in Residential Housing Finance at June 30, 2012 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	\$1,311,538	\$1,329,261
Other homeownership loans, generally secured by a second mortgage	1,737	1,800
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	98,987	101,372
Homeownership, first mortgage loans	30,988	31,521
Multifamily, first mortgage loans	156,940	166,760
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	28,572	29,777
Residential Housing Finance Totals	\$1,628,762	\$1,660,491

The Agency is limited by statute to financing real estate located within the State of Minnesota. Collectability depends on, among other things, local economic conditions.

Other Assets

Other assets, including receivables, at June 30, 2012 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	\$1,081	\$ 3	\$ 1,084
Rental Housing	-	4	4
Residential Housing Finance	-	53	53
Single Family	-	-	-
Homeownership Finance	-	15	15
Multifamily Housing	-	-	-
State Appropriated	-	-	-
Federal Appropriated	613	-	613
Agency-wide Totals	\$1,694	\$ 75	\$ 1,769

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Bonds Payable,
Net**

Bonds payable, net at June 30, 2012 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	\$ 105,870	\$ -	\$(1,203)	\$ 104,667
Residential Housing Finance	1,500,095	4,088	(674)	1,503,509
Single Family	-	-	-	-
Homeownership Finance	543,445	3,468	-	546,913
Multifamily Housing	15,000	-	-	15,000
Totals	\$2,164,410	\$7,556	\$(1,877)	\$2,170,089

Summary of bond activity from June 30, 2011 to June 30, 2012 (in thousands):

Funds	June 30, 2011 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2012 Bonds Outstanding, at Par
Homeownership Finance	\$ 399,990	\$149,685	\$ 6,230	\$ 543,445
Multifamily Housing	15,000	-	-	15,000
Rental Housing	159,200	8,965	62,295	105,870
Residential Housing Finance	1,881,285	150,750	531,940	1,500,095
Single Family	97,505	-	97,505	-
Totals	\$2,552,980	\$309,400	\$697,970	\$2,164,410

Bonds payable at June 30, 2012 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Rental Housing Bonds				
2003 Series A	4.55% to 4.95%	2045	\$ 12,770	\$ 11,695
2003 Series B	4.15% to 5.08%	2031	1,945	1,630
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,835
2004 Series A	3.80% to 5.00%	2035	9,345	7,125
2004 Series B	4.00% to 4.85%	2035	3,215	2,860
2004 Series C	3.55% to 4.40%	2022	80,000	30,085
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,560
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,360
2006 Series B	4.89%	2037	5,020	4,675
2006 Series C-1	4.96%	2037	2,860	2,655
2007 Series A-1	4.65%	2038	3,775	3,545
2010 Series A-1	3.75% to 5.25%	2040	3,605	3,605
2010 Series A-2	1.25%	2012	2,630	2,630

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Rental Housing Bonds (continued)				
2010 Series B	1.75%	2013	\$ 8,000	\$ 8,000
2011 Series A	0.75% to 5.45%	2041	8,890	8,645
2012 Series A-1	3.75%	2048	4,175	4,175
2012 Series A-2	0.75%	2014	4,790	4,790
			<u>161,455</u>	<u>105,870</u>
Residential Housing Finance Bonds				
2002 Series H	4.93%	2012	\$ 20,000	\$ 10,000
2003 Series A	3.40% to 4.30%	2034	40,000	8,705
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	4.45% to 5.10%	2020	25,000	3,770
2003 Series J	Variable	2033	25,000	19,770
2004 Series A	3.45% to 4.25%	2018	22,480	15,965
2004 Series B	4.60% to 5.00%	2033	94,620	32,950
2004 Series C	4.700%	2035	14,970	11,810
2004 Series E-1	4.10% to 4.60%	2016	5,110	2,745
2004 Series E-2	4.40% to 4.60%	2016	6,475	3,795
2004 Series F-2	4.80% to 5.25%	2034	36,160	15,965
2004 Series G	Variable	2032	50,000	34,340
2005 Series A	3.60% to 4.125%	2018	14,575	5,325
2005 Series B	4.75% to 5.00%	2035	20,425	11,470
2005 Series C	Variable	2035	25,000	17,825
2005 Series G	4.25% to 4.30%	2018	8,950	6,360
2005 Series H	4.15% to 5.00%	2036	51,050	23,320
2005 Series I	Variable	2036	40,000	28,505
2005 Series J	3.625% to 4.00%	2015	11,890	9,290
2005 Series K	4.30% to 4.40%	2028	41,950	19,595
2005 Series L	4.75% to 5.00%	2036	48,165	26,785
2005 Series M	Variable	2036	60,000	41,725
2005 Series O	3.90% to 4.20%	2015	4,510	4,405
2005 Series P	4.25% to 5.00%	2036	65,490	41,325
2006 Series A	3.70% to 4.00%	2016	13,150	4,860
2006 Series B	4.60% to 5.00%	2037	43,515	24,715
2006 Series C	Variable	2037	28,335	23,185
2006 Series F	3.95% to 4.25%	2016	11,015	4,400
2006 Series G	4.85% to 5.50%	2037	58,985	45,385
2006 Series H	5.85%	2036	15,000	3,465
2006 Series I	4.30% to 5.75%	2038	95,000	62,010

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2006 Series J	6.00% to 6.51%	2038	\$ 45,000	\$ 29,375
2006 Series L	3.65% to 3.95%	2016	6,740	4,040
2006 Series M	4.625% to 5.75%	2037	35,260	31,835
2006 Series N	5.36% to 5.76%	2037	18,000	8,660
2007 Series C	3.75% to 3.95%	2017	12,515	7,720
2007 Series D	4.60% to 5.50%	2038	62,485	47,465
2007 Series E	Variable	2038	25,000	17,615
2007 Series H	3.65% to 3.95%	2017	12,230	11,270
2007 Series I	4.65% to 5.50%	2038	100,270	71,390
2007 Series J	Variable	2038	37,500	27,070
2007 Series L	4.20% to 5.50%	2048	105,000	77,535
2007 Series M	6.345%	2038	70,000	54,915
2007 Series P	3.50% to 3.90%	2017	4,305	3,520
2007 Series Q	4.00% to 5.50%	2038	42,365	30,825
2007 Series R	4.68% to 4.76%	2013	2,840	710
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	26,955
2008 Series A	3.30% to 4.65%	2023	25,090	12,885
2008 Series B	5.50% to 5.65%	2033	34,910	22,855
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	2.55% to 5.20%	2023	26,795	17,360
2009 Series B	5.00% to 5.90%	2038	33,205	22,430
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	1.75% to 4.00%	2020	19,830	12,975
2009 Series E	2.05% to 5.10%	2040	103,960	94,690
2009 Series F	Variable	2031	34,120	27,510
2012 Series A	0.75% to 3.90%	2023	50,945	50,945
2012 Series B	3.30% to 3.45%	2024	8,830	8,830
2012 Series C	3.625% to 3.85%	2029	30,975	30,975
2012 Series D	3.90% to 4.00%	2040	60,000	60,000
			<u>2,166,125</u>	<u>1,500,095</u>
Homeownership Finance Bonds				
2009 A-1	3.01%	2041	\$ 108,000	\$ 107,320
2009 A-2	3.55%	2041	67,500	67,360
2009 A-3	3.48%	2041	28,000	27,990
2009 A-4A	2.48%	2041	21,910	21,910
2009 A-4B	2.48%	2041	13,090	13,090

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2012 Bonds Outstanding, at Par
Homeownership Finance Bonds (continued)				
2009 A-5	2.49%	2041	\$ 21,990	\$ 21,990
2010 A	0.85% to 4.25%	2028	72,000	68,350
2011 A	0.65% to 1.25%	2013	3,740	2,555
2011 B	1.25% to 5.00%	2031	63,760	63,520
2011 C	0.50% to 3.85%	2031	8,310	8,030
2011 D	0.90% to 4.70%	2034	33,690	33,645
2011 E	0.25% to 4.45%	2035	65,000	65,000
2011 F	0.55% to 3.45%	2022	13,575	13,575
2011 G	4.00% to 4.25%	2035	29,110	29,110
			<u>549,675</u>	<u>543,445</u>
Multifamily Housing Bonds				
2009	3.01%	2051	\$15,000	\$15,000
			<u>15,000</u>	<u>15,000</u>
Combined Totals			<u>\$2,892,255</u>	<u>\$2,164,410</u>

The Agency uses special and optional redemption provisions to retire certain bonds prior to their stated maturity from unexpended bond proceeds and revenues in excess of scheduled debt service resulting primarily from loan prepayments.

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in the applicable series resolution. Annual debt service requirements to maturity for bonds outstanding as of June 30, 2012, are as follows (in thousands):

Fiscal Year	Rental Housing		Residential Housing Finance	
	Principal	Interest	Principal	Interest
2013	\$ 14,940	\$ 4,024	\$ 38,450	\$ 51,149
2014	4,660	3,783	32,260	51,583
2015	9,490	3,611	35,000	50,497
2016	4,915	3,432	35,070	49,289
2017	4,405	3,237	37,780	48,120
2018-2022	17,815	13,438	197,650	220,373
2023-2027	11,710	10,608	262,805	180,916
2028-2032	11,390	8,125	340,830	129,467
2033-2037	12,275	5,102	356,495	67,634
2038-2042	9,755	2,565	148,410	9,195
2043-2047	4,310	509	12,500	707
2048-2052	205	6	2,845	26
Total	<u>\$105,870</u>	<u>\$58,440</u>	<u>\$1,500,095</u>	<u>\$858,956</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Bonds Payable,
Net
(continued)

Fiscal Year	Homeownership Finance		Multifamily Housing	
	Principal	Interest	Principal	Interest
2013	\$ 9,265	\$ 18,226	\$ 110	\$ 450
2014	10,015	18,106	230	445
2015	10,220	17,984	230	438
2016	10,475	17,816	230	431
2017	10,785	17,600	240	424
2018-2022	60,275	83,112	1,200	2,012
2023-2027	75,600	70,711	1,200	1,832
2028-2032	97,725	52,603	1,760	1,612
2033-2037	126,305	31,887	1,840	1,342
2038-2042	132,780	9,959	2,390	1,022
2043-2047	-	-	2,790	642
2048-2052	-	-	2,780	189
Totals	<u>\$543,445</u>	<u>\$338,004</u>	<u>\$15,000</u>	<u>\$10,839</u>

Fiscal Year	Combined Totals	
	Principal	Interest
2013	\$ 62,765	\$ 73,849
2014	47,165	73,917
2015	54,940	72,530
2016	50,690	70,968
2017	53,210	69,381
2018-2022	276,940	318,935
2023-2027	351,315	264,067
2028-2032	451,705	191,807
2033-2037	496,915	105,965
2038-2042	293,335	22,741
2043-2047	19,600	1,858
2048-2052	5,830	221
	<u>\$2,164,410</u>	<u>\$1,266,239</u>

Residential Housing Finance Bonds 2003 Series B and J; 2004 Series G; 2005 Series C, I and M; 2006 Series C; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; and 2009 Series C and F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2012 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The income and assets of each of the bond funds are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Bonds Payable,
Net
(continued)**

resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2012, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Redemption notices were issued on or before June 30, 2012 for the redemption of certain bonds thereafter. See Subsequent Events.

**Interest Rate
Swaps**

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2012. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2012. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the statement of net assets. The fair values exclude accrued interest. As of June 30, 2012, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed on the statement of net assets as a liability named "Interest rate swap agreements." The inception-to-date change in fair value as of June 30, 2012 is included in the asset account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from 2003 through 2009. Using variable-rate debt hedged with interest-rate swaps reduced the Agency's cost of capital at the time of issuance compared to using long-term fixed rate bonds and, in turn, enabled the Agency to reduce mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

Swap Payments and Associated Debt

Using rates as of June 30, 2012, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2013	\$ 29,780	\$ 661	\$13,450	\$ 43,891
2014	765	639	12,303	13,707
2015	1,035	637	11,617	13,289
2016	3,725	635	10,863	15,223
2017	7,015	626	10,085	17,726
2018-2022	33,610	2,970	41,960	78,540
2023-2027	68,145	2,527	29,954	100,626
2028-2032	100,960	1,793	20,888	123,641
2033-2037	104,145	856	11,586	116,587
2038-2042	27,150	185	2,310	29,645
2043-2047	8,985	76	861	9,922
2048-2052	3,205	6	66	3,277

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Interest Rate Swaps (continued)

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the two counterparties thereto as of June 30, 2012, are contained in the two tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10 year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Counterparty: The Bank of New York Mellon

Moody's* Aa1 (stable outlook) / Standard & Poor's** AA- (negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of June 30, 2012	Increase (Decrease) in Fair Value since June 30, 2011
RHFB 2003B	\$ 25,000	23-Jul-03	1-Jan-33	3.53%	65% of 1 month LIBOR*** plus 0.23% per annum	(\$1,817)	(\$816)
RHFB 2003J	19,770	15-Oct-03	1-Jul-33	4.18%	65% of 1 month LIBOR*** plus 0.23% per annum	(2,422)	(606)
RHFB 2005C	17,825	2-Mar-05	1-Jan-35	3.59%	64% of 1 month LIBOR*** plus 0.28% per annum	(1,097)	53
RHFB 2005I	28,505	2-Jun-05	1-Jan-36	3.57%	64% of 1 month LIBOR*** plus 0.28% per annum	(2,179)	(134)
RHFB 2005M	41,725	4-Aug-05	1-Jan-36	3.37%	64% of 1 month LIBOR*** plus 0.29% per annum	(2,999)	(243)
RHFB 2006C	23,185	21-Mar-06	1-Jan-37	3.79%	64% of 1 month LIBOR*** plus 0.29% per annum	(2,204)	(248)
RHFB 2007S	18,975	19-Dec-07	1-Jul-38	4.34%	100% of SIFMA**** Index plus 0.06% per annum	(2,080)	(1,367)
RHFB 2007T (Taxable)	26,955	19-Dec-07	1-Jul-26	4.538%	100% of 1 month LIBOR***	(3,048)	(460)
Counterparty Total	\$201,940					(\$17,846)	(\$3,821)

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Counterparty: Royal Bank of Canada

Moody's* Aa3 (stable outlook) / Standard & Poor's** AA- (stable outlook²)

Associated Bond Series	Notional Amount as of June 30, 2012	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of June 30, 2012	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2004G	\$ 34,340	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR*** plus 0.26% per annum	\$ (3,027)	\$ (127)
RHFB 2007E (Taxable)	17,615	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR***	(1,894)	(25)
RHFB 2007J (Taxable)	27,070	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR***	(2,968)	(143)
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR*** plus 0.30% per annum	(5,567)	(2,024)
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 3 month LIBOR*** plus 0.30% per annum	(7,166)	(2,488)
RHFB 2009F	27,510	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA****plus 0.80% per annum	(1,167)	(191)
Counterparty Total	\$ 186,535					\$ (21,789)	\$ (4,998)
Combined Totals	\$ 388,475					\$ (39,635)	\$ (8,819)

¹ A positive fair value represents money due to the Agency by the counterparty upon an assumed termination of the swap while a negative fair value represents the amount payable by the Agency

² Standard & Poor's Ratings Services, Inc. has given the "AA-" rating of this counterparty (Royal Bank of Canada) a negative outlook as of July 27, 2012.

* Moody's Investor Service, Inc.

** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies

*** London Inter-Bank Offered Rate

**** Securities Industry and Financial Markets Association

Termination Risk

The swap contracts may be terminated by either party if the other party fails to perform under the terms of the contract or upon certain termination events. Upon termination at market, a payment is due by one party based upon the fair value of the swap even if the payment is owed to a defaulting party. The potential termination risks to the Agency are the liability for a termination payment to the counterparty or the inability to replace the swap upon favorable financial terms, in which event the variable rate bonds would no longer be hedged. To reduce the risk of termination, swap contracts generally limit counterparty terminations to the following Agency actions or events: payment default, other defaults that remain uncured for 30 days after notice, substantial impairment of credit ratings, bankruptcy and insolvency.

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2012, the Agency did not have a net credit risk exposure to any of its two counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Interest Rate Swaps (continued)

specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than “AA-” and “Aa3” from Standard & Poor’s and Moody’s, respectively, \$5 million if the ratings are not less than “A+” and “A1”, \$3 million if the ratings are not less than “A” and “A2”, and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2012, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

The Agency is subject to amortization risk because prepayments from the mortgage loan portfolio may cause the outstanding principal amount of variable rate bonds to decline faster than the amortization of the notional amount of the swap. To ameliorate amortization risk, termination options were structured within most of the outstanding swaps to enable the Agency to manage the outstanding balances of variable rate bonds and notional swap amounts. (See Terms of Swaps) Additionally, the Agency may terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency’s bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month or three-month taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2012, the interest rate on the Agency’s variable rate tax-exempt debt ranged from 0.18% to 0.32% per annum while the variable interest rate on the associated swaps ranged from 0.24% to 0.56% per annum. As of June 30, 2012, the interest rate on the Agency’s variable rate taxable debt was 0.21% per annum while the variable interest rate on the corresponding swaps ranged from 0.24% to 0.25% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap was based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency’s tax-exempt variable rate bonds).

Tax Risk

The structure of the variable interest rate payments the Agency receives from its LIBOR-based swap contracts relating to tax-exempt variable rate bonds is based upon the historical long-term relationship between taxable and tax-exempt short-term interest rates. Tax risk represents the risk that may arise due to a change in the tax code that may fundamentally alter this relationship. The Agency chose to assume this risk at the time the swaps were entered into because it was not economically favorable to transfer to the swap counterparties.

Defeased Debt

All outstanding Single Family Mortgage Bonds, totaling \$81,085,000, were defeased on April 26, 2012.

On that date, the Agency issued \$150,750,000 of Residential Housing Finance Bonds, 2012 Series ABCD, a portion of which defeased \$45,720,000 of certain outstanding Single Family Mortgage Bonds in 1994 Series E, 1996 Series ABC, 1996 Series DEF, 1998 Series FGH-1, 1998 Series FGH-2, 1999 Series HI, 1999 Series JK, 2000 Series FGH, and 2001 Series AB. The reacquisition price of the refunded bonds exceeded the net carrying amount by \$0.447 million, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately \$3.969 million and resulted in a present value savings of approximately \$5.786 million with refunding bond proceeds and available Agency cash.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Defeased Debt
(continued)**

On April 26, 2012, using available resources the Agency defeased \$35,365,000 of certain outstanding Single Family Mortgage Bonds in 1996 Series ABC, 1996 Series DEF, 1997 Series DEF, 1997 Series GH, 1998 Series FGH-1, 1998 Series FGH-2, 1999 Series HI, 1999 Series JK, 2000 Series FGH, 2001 Series AB, and 2001 Series E. The reacquisition price exceeded the net carrying amount by \$0.754 million, which is included in interest expense.

The trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after April 26, 2012.

At June 30, 2012, the outstanding principal of the defeased bonds was \$12.380 million.

**Conduit Debt
Obligation**

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2012, \$29.9 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

**Appropriation
Debt Obligation**

The Agency has outstanding bonds under a certain indenture of trust that permits capital funding for permanent supportive housing for long-term homeless households and other purposes. As of June 30, 2012, \$31.980 million of bonds were outstanding. These bonds are secured solely by state appropriations. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Accounts payable and other liabilities at June 30, 2012 consisted of the following (in thousands):

Fund	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	\$ -	\$2,583	\$1,990	\$ 4,573
Rental Housing	3,140	-	75	3,215
Residential Housing Finance	139	-	1,794	1,933
Single Family	-	-	-	-
Homeownership Finance	-	-	38	38
Multifamily Housing	-	-	75	75
State Appropriated	-	-	2,170	2,170
Federal Appropriated	-	-	500	500
Agency-wide Totals	<u>\$3,279</u>	<u>\$2,583</u>	<u>\$6,642</u>	<u>\$12,504</u>

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is \$3.140 million and in Residential Housing Finance \$0.139 million, for a total of \$3.279 million.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Interfund
Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2012 consisted of the following (in thousands):

Funds	Due from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	
General Reserve	\$ -	\$ -	\$ 128	\$ -	\$ -	\$ -	\$192	\$413	\$ 733
Rental Housing	-	-	1,181	-	1	-	-	-	1,182
Residential Housing Finance	1,298	-	-	-	9	-	1	-	1,308
Single Family	-	-	-	-	-	-	-	-	-
Home-ownership Finance Bonds	-	-	-	-	-	-	-	-	-
Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-
State Appropriated	-	-	-	-	-	-	-	-	-
Federal Appropriated	-	-	-	-	-	-	-	-	-
Agency-wide Totals	<u>\$1,298</u>	<u>\$ -</u>	<u>\$1,309</u>	<u>\$ -</u>	<u>\$10</u>	<u>\$ -</u>	<u>\$193</u>	<u>\$413</u>	<u>\$3,223</u>

All balances resulted from the time lag between the dates that: (1) interfund goods or services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Interfund
Transfers**

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2012 consisted of the following (in thousands)

Funds	Transfer from								Total
	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	
General Reserve	\$ -	\$ 1,584	\$13,547	\$979	\$2,776	\$97	\$ 789	\$1,785	\$21,557
Rental Housing	205	-	-	-	1	-	-	-	206
Residential Housing Finance	150	12,195	-	-	10	-	1,995	87	14,437
Single Family	-	-	-	-	1	-	-	-	1
Home-ownership Finance Bonds	-	-	10	-	-	-	-	-	10
Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Interfund
Transfers
(continued)**

Transfer to	Transfer from									
			Residential		Home-			Federal		
	Funds	General Reserve	Rental Housing	Housing Finance	Single Family	ownership Finance	Multifamily Housing	State Appropriated	Appropriated	Total
	State Appropriated	-	20	74	64	-	-	-	-	158
	Federal Appropriated	-	185	-	-	-	-	-	-	185
Agency-wide Totals	<u>\$355</u>	<u>\$13,984</u>	<u>\$13,631</u>	<u>\$1,043</u>	<u>\$2,788</u>	<u>\$97</u>	<u>\$2,784</u>	<u>\$1,872</u>	<u>\$36,554</u>	

Interfund transfers recorded in Interfund Payable (Receivable) were made to transfer loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including \$1.995 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated and \$12.195 million of multifamily first mortgage loans transferred from Residential Housing Finance (Pool 2) to Rental Housing; and to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2012, consisted of the following (in thousands):

		Transfer from								
Transfer to	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
	General Reserve	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Rental Housing	-	-	443	-	-	-	-	-	443
	Residential Housing Finance	9,659	-	-	107,095	-	-	-	-	116,754
	Single Family	-	-	34,625	-	-	-	-	-	34,625
	Home-ownership Finance Bonds	-	-	8,642	-	-	-	-	-	8,642
	Multifamily Housing Bonds	-	-	-	-	-	-	-	-	-
	State Appropriated	-	-	-	-	-	-	-	-	-
	Federal Appropriated	-	-	-	-	-	-	-	-	-
	Agency-wide Totals	\$9,659	\$ -	\$43,710	\$107,095	\$ -	\$ -	\$ -	\$ -	\$160,464

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements. In addition, \$72.470 million of the remaining assets net of liabilities in Single Fam-

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Net Assets

ily were transferred to Residential Housing Finance when all Single Family Bonds were defeased.

Restricted by Bond Resolution

Restricted by Bond Resolution Net Assets represents those funds restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

In accordance with provisions of the respective bond resolutions, the Agency may transfer excess money from bond funds to General Reserve. The Agency has pledged to deposit in General Reserve any such funds transferred from the bond funds, except for any amounts as may be necessary to reimburse the state for money appropriated to restore a deficiency in any debt service reserve fund. The Agency further covenanted that it will use the money in General Reserve (or any such transferred funds deposited directly in the Alternative Loan Fund) only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for that purpose. All interfund transfers are approved by the Board of the Agency.

In order to provide financial security for the Agency's general obligation bonds, and to provide additional resources for housing loans to help meet the housing needs of low- and moderate-income Minnesota residents, the Agency's Board adopted the investment guidelines in the following table. These guidelines are periodically evaluated in consideration of changes in the economy and in the Agency's specific risk profile.

The \$468.735 million of net assets restricted by covenant are restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

The Housing Endowment Fund (Pool 1) is maintained in the Restricted by Covenant Net Assets of General Reserve. The Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3) are maintained in the Restricted by Covenant Net Assets of Residential Housing Finance fund.

The combined net assets of the General Reserve and bond funds (exclusive of Pool 3) are required by Board investment guidelines to be not less than the combined net assets of the same funds as of the immediately preceding fiscal year end. These combined net assets were \$683.638 million as of June 30, 2011 and are \$724.098 million as of June 30, 2012.

The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2012 (in thousands):

	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Net Assets — Restricted By Covenant			
Housing Endowment Fund (Pool 1), General Reserve			

Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade securities at market interest rates

\$ 18,176	\$ -	\$ 18,176
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(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Net Assets
(continued)

	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Total Net Assets Restricted by Covenant
Net Assets — Restricted By Covenant			
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	-	-	-
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	\$ 18,176	\$ -	\$ 18,176
Housing Investment Fund (Pool 2), Residential Housing Finance			
An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be the greater of the combined net assets of the same funds for the immediately preceding audited fiscal year end or the combined net assets of the same funds for the immediately preceding fiscal year end plus current fiscal year income over expenses and transfers to Pool 2 less an amount transferred to Pool 3 (\$17,000 for fiscal year 2012). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	371,396	-	371,396
Unrealized depreciation in fair market value of investments	-	959	959
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	371,396	959	372,355
Housing Affordability Fund (Pool 3), Residential Housing Finance			
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities.	76,767	-	76,767
Unrealized appreciation in fair market value of investments	-	1,437	1,437
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	76,767	1,437	78,204
Agency-wide Total	\$466,339	\$2,396	\$468,735

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Net Assets
(continued)**

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$8.799 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2012 are restricted by federal requirements that control the use of the funds. The \$101.779 million of net assets restricted by law in the State Appropriated fund as of June 30, 2012 are restricted by the state laws appropriating such funds.

**Defined Benefit
Pension Plan**

The Agency contributes to the Minnesota State Retirement System (the System), a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

Employees who retire at “normal” retirement age or, for those hired on or before June 30, 1989, at an age where they qualify for the “Rule of 90” (i.e., at an age where age plus years of service equals or exceeds 90) are entitled to an unreduced monthly benefit payable for life. For those hired on or before June 30, 1989, normal retirement age is age 65, or age 62 with 30 years of service. For those hired after June 30, 1989, normal retirement age is the Social Security retirement age. The monthly benefit is calculated according to the “step formula” for anyone retiring under the Rule of 90. For those hired on or before June 30, 1989 and not retiring under the Rule of 90, the monthly benefit is calculated according to the step formula or the “level formula,” whichever provides the largest benefit. For those hired after June 30, 1989, the monthly benefit is calculated according to the level formula. Under the step formula, an employee earns a 1.2% credit for each of the first 10 years of employment and a 1.7% credit for each year thereafter. The monthly benefit is then determined by applying the sum of these credits to the average monthly salary earned during the employee’s five years of greatest earnings. Under the level formula the monthly benefit is computed just as it is under the step formula except that an employee earns a 1.7% credit for each year of employment, not just for those years beyond the first 10. A reduced benefit is available to those retiring at age 55 with at least three years of service. With 30 years of service, a reduced benefit is available at any age to those hired on or before June 30, 1989. The System also provides death and disability benefits. Benefits are established by Minnesota state law.

The statutory pension contribution rates for the employee and employer (as a percentage of salary) are 5% each.

The Agency’s pension contribution to the System for the fiscal year ended June 30, 2012 was \$702 thousand.

Details of the benefit plan are provided on a System-wide basis. The Agency portion is not separately determinable. The funding status of the System’s benefit plan is summarized as follows.

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
7/1/2011	\$9,130,011	\$10,576,481	\$1,446,470	86.32%	\$2,440,580	59.27%
7/1/2010	8,960,391	10,264,071	1,303,680	87.30%	2,327,398	56.01%
7/1/2009	9,030,401	10,512,760	1,482,359	85.90%	2,329,499	63.63%

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Defined Benefit
Pension Plan
(continued)**

Schedule of Employer Contributions (dollars in thousands)						
Year Ended June 30	Actuarially Required Contribution Rate of Assets	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2011	10.99%	\$2,440,580	\$122,029	\$146,191	\$118,563	81.10%
2010	14.85%	2,327,398	115,180	230,439	113,716	49.35%
2009	12.39%	2,329,499	108,866	179,759	107,211	59.64%

*This includes contributions from other sources (if applicable).

The information presented was as of July 1, 2011, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2011, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System website at www.msrs.state.mn.us. The information contained in that website is also available in alternative formats to individuals with disabilities. Please call 1 800-657 5757 or use the MN Relay Service at 1 800-627 3529.

**Post-Employment
Benefits Other
Than Pensions**

The Agency's employees participate in the State of Minnesota-sponsored hospital, medical, and dental insurance group. State statute requires that former employees and their dependents be allowed to continue participation indefinitely, under certain conditions, in the insurance that the employees participated in immediately before retirement. The former employees must pay the entire premium for continuation coverage. An implicit rate subsidy exists for the former participants that elect to continue coverage. That subsidy refers to the concept that retirees under the age of 65 (i.e. not eligible for Medicare) generate greater claims on average than active participants.

The State of Minnesota obtained an actuarial valuation from an independent firm of its postretirement medical benefits as of July 1, 2006 to determine its Post-Employment Benefits Other Than Pensions (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The State and the Agency recorded the liability for the first time during fiscal year 2008. The State calculated the Agency's portion of the OPEB obligation based upon active employee count. For the Agency in fiscal year 2008, the annual required contribution (ARC) was \$96 thousand, the employer contribution was \$58 thousand and the net OPEB obligation (NOO) was \$38 thousand. The NOO is \$156 thousand for fiscal year 2012. The NOO was recorded as an expense and a corresponding liability by the Agency. This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 4.0%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status, from the report dated July 31, 2010, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

Post-Employment
Benefits Other
Than Pensions
(continued)

The funding status is summarized as follows.

Schedule of Funding Progress (dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2006	\$ -	\$564,809	\$564,809	0.00%	\$1,961,643	28.79%
7/1/2008	-	664,452	664,452	0.00%	1,891,300	35.13%
6/30/2010	-	693,297	693,297	0.00%	2,048,761	33.84%

Schedule of Employer Contributions (dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2009	\$65,480	\$24,055	36.74%	\$ 73,127
6/30/2010	67,663	28,343	41.89%	112,447
6/30/2011	66,526	34,208	51.42%	144,765
6/30/2012	70,195	46,519	66.27%	168,441

Development of NOO and Annual OPEB Cost Pursuant to GASB No. 45 (dollars in thousands)

Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interests on NOO	ARC Adjustment with Interest (h) / (e) * 1.0475	Amort- ization Factor	Annual OPEB Cost (a) + (c) - (d)	Change in NOO (f) - (b)	NOO Balance LY +(g)
6/30/2009	\$65,200	\$24,055	\$1,506	\$1,226	27.0839*	\$65,480	\$41,425	\$73,127
6/30/2010	67,018	28,343	3,474	2,828	27.0839*	67,663	39,320	112,447
6/30/2011	65,534	34,208	5,341	4,349	27.0839*	66,526	32,318	144,765
6/30/2012	68,918	46,519	6,876	5,599	27.0839*	70,195	23,676	168,441

* 30-year amortization using 4.75% interest and 4.00% payroll growth.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2012 (continued)

Risk Management

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund (a self-insurance fund) and through purchased insurance coverage. Property, casualty, liability, and crime coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a \$1,000 deductible per claim for the following coverage limits.

Type of coverage	Coverage Limit
Real and personal property loss	\$ 4,702,559
Business interruption/loss of use/extra expense	50,000,000
Bodily injury and property damage per person	500,000
Bodily injury and property damage per occurrence	1,500,000
Faithful performance/commercial crime	14,000,000
Employee dishonesty	250,000

Minnesota Housing retains the risk of loss, although there have been no settlements or actual losses in excess of coverage in the last three fiscal years.

The Agency participates in the State Employee Group Insurance Plan, which provides life insurance and hospital, medical, and dental benefits coverage through provider organizations.

Minnesota Housing participates in the State of Minnesota Workers' Compensation Program. Annual premiums are assessed by the program based on average costs and claims. Minnesota Housing workers compensation costs and claims have been negligible during the last three fiscal years.

Commitments

As of June 30, 2012, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	\$ -
Rental Housing	5,921
Multifamily Finance	-
Residential Housing Finance	180,771
Single Family	-
Homeownership Finance	-
State Appropriated	65,099
Federal Appropriated	22,128
Agency-wide Totals	\$273,919

Board-approved selections of future loans or other housing assistance for multifamily housing projects are included in the above table. Multifamily developers frequently proceed with their projects based upon their selection by the Board and, therefore, a selection is treated like a de facto commitment although it is merely a reservation of funds. The Agency retains the unilateral discretion to cancel any reservation of funds that has not been formally and legally committed.

The Agency has cancellable lease commitments for office facilities through August 2017 and for parking through February 2014, totaling \$5.723 million. Combined office facilities and parking lease expense for fiscal year 2012 was \$1.133 million.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2012 (continued)

**Commitments
(continued)**

On June 30, 2012 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2. No mortgage-backed securities were pledged as of June 30, 2012. The advances taken during fiscal year 2012 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2012, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
\$0	\$25,000	\$25,000	\$0

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

The Agency called for redemption subsequent to June 30, 2012 the following bonds (in thousands):

**Subsequent
Events**

Program	Redemption Date	Par
Residential Housing Finance	July 1, 2012	\$81,590
Residential Housing Finance	September 1, 2012	2,680
Homeownership Finance	July 1, 2012	15,700
Homeownership Finance	September 1, 2012	1,885
Rental Housing	July 16, 2012	4,470
Rental Housing	August 15, 2012	3,035
Rental Housing	September 14, 2012	1,545

On July 26, 2012 the Board of the Agency adopted a series resolution authorizing the issuance of \$50.000 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2012 Series A (GNMA Pass-Through Program) were delivered on August 28, 2012.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2008– 2012

		2008	2009	2010	2011	2012
Loan Receivable, net (as of June 30)	Multifamily programs	\$ 346,509	\$ 348,563	\$ 334,565	\$ 329,452	\$ 339,306
	Homeownership programs	1,899,313	1,934,766	1,780,911	1,589,329	1,372,835
	Home Improvement programs	115,452	108,893	116,713	111,670	98,987
	Total	\$2,361,274	\$2,392,222	\$2,232,189	\$2,030,451	\$1,811,128
Mortgage-backed securities net, at par (as of June 30)	Program mortgage-backed securities	\$ -	\$ -	\$ 32,321	\$ 349,676	\$ 621,678
	Warehoused mortgaged-backed securities	-	-	107,330	49,688	5,081
	Total	\$ -	\$ -	\$ 139,651	\$ 399,364	\$ 626,759
Bonds Payable, net (as of June 30)	Multifamily programs	\$ 178,431	\$ 162,288	\$ 165,085	\$ 172,692	\$ 119,667
	Homeownership programs	2,217,945	2,296,445	2,524,422	2,372,722	2,040,422
	Home Improvement programs	15,000	15,000	15,000	10,000	10,000
	Total	\$2,411,376	\$2,473,733	\$2,704,507	\$2,555,414	\$2,170,089
Mortgage- backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	\$ 30,169	\$ 41,897	\$ 20,874	\$ 33,956	\$ 51,091
	Homeownership programs	436,263	207,050	55,891	31,372	12,736
	Program and warehoused mortgage- backed securities	-	-	140,992	288,580	248,423
	Home Improvement programs	19,883	17,977	32,299	22,780	11,245
	Total	\$ 486,315	\$ 266,924	\$250,056	\$ 376,688	\$ 323,495
Net Assets (as of June 30)	Total Net Assets*	\$ 662,124	\$ 668,242	\$ 683,233	\$ 683,638	\$ 724,098
	Percent of total assets*	19.90%	20.20%	19.10%	19.90%	23.50%
Revenue over Expenses	Revenues over expenses*	\$ 35,352	\$ 6,118	\$ 14,991	\$ 14,305	\$ 57,460

Notes:

* Excludes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
As of June 30, 2012 (with comparative totals as of June 30, 2011)

		Bond Funds			
		Residential Housing Finance			
		General Reserve	Rental Housing	Bonds	Pool 2
Assets	Cash and cash equivalents	\$90,544	\$ 28,907	\$ 203,821	\$ 9,313
	Investments-program mortgage-backed securities	-	-	94,951	-
	Investment securities-other	5,204	14,186	48,855	97,759
	Loans receivable, net	-	167,823	1,313,275	286,915
	Interest receivable on loans and program mortgage-backed securities	-	878	10,230	1,681
	Interest receivable on investments	44	362	462	255
	Deferred loss on interest rate swap agreements	-	-	39,634	-
	FHA/VA insurance claims, net	-	-	8,519	802
	Real estate owned, net	-	-	15,379	187
	Unamortized bond issuance costs	-	1,274	8,385	-
	Capital assets, net	1,937	-	-	-
	Other assets	1,084	4	31	21
	Total assets	\$98,813	\$213,434	\$1,743,542	\$396,933
Liabilities	Bonds payable, net	\$ -	\$104,667	\$1,503,509	\$ -
	Interest payable	-	1,745	32,062	-
	Interest rate swap agreements	-	-	39,634	-
	Deferred revenue-service release fees	-	-	-	5,477
	Accounts payable and other liabilities	4,573	3,215	646	1,213
	Interfund payable (receivable)	565	(1,182)	45	17,888
	Funds held for others	73,562	-	-	-
	Total liabilities	78,700	108,445	1,575,896	24,578
Commitments and contingencies					
Net Assets	Restricted by bond resolution	-	104,989	167,646	-
	Restricted by covenant	18,176	-	-	372,355
	Invested in capital assets	1,937	-	-	-
	Total net assets	20,113	104,989	167,646	372,355
	Total liabilities and net assets	\$98,813	\$213,434	\$1,743,542	\$396,933

Bond Funds			General Reserve & Bond Funds Excluding Pool 3	General Reserve & Bond Funds Excluding Pool 3	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
Single Family	Home-ownership Finance	Multifamily Housing	Total For The Year Ended June 30, 2012	Total For the Year Ended June 30, 2011			
\$ -	\$ 36,355	\$ 1,198	\$ 370,138	\$ 469,765	\$ 1,021	\$ 371,159	\$ 473,687
-	572,331	-	667,282	356,227	-	667,282	356,227
-	135	-	166,139	498,976	30,540	196,679	523,741
-	-	14,543	1,782,556	2,004,893	28,572	1,811,128	2,030,451
-	1,883	55	14,727	15,299	76	14,803	15,375
-	1	-	1,124	1,718	136	1,260	1,990
-	-	-	39,634	30,815	-	39,634	30,815
-	-	-	9,321	7,761	-	9,321	7,761
-	-	-	15,566	24,604	-	15,566	24,604
-	3,534	161	13,354	13,307	-	13,354	13,307
-	-	-	1,937	1,445	-	1,937	1,445
-	15	-	1,155	2,220	1	1,156	2,220
<u>\$ -</u>	<u>\$614,254</u>	<u>\$15,957</u>	<u>\$3,082,933</u>	<u>\$3,427,030</u>	<u>\$ 60,346</u>	<u>\$3,143,279</u>	<u>\$3,481,623</u>
\$ -	\$546,913	\$15,000	\$2,170,089	\$2,555,414	\$ -	\$2,170,089	\$2,555,414
-	9,142	38	42,987	46,799	-	42,987	46,799
-	-	-	39,634	30,815	-	39,634	30,815
-	-	-	5,477	3,634	-	5,477	3,634
-	38	75	9,760	14,922	74	9,834	15,019
-	10	-	17,326	13,602	(17,932)	(606)	(404)
-	-	-	73,562	78,206	-	73,562	78,206
<u>-</u>	<u>556,103</u>	<u>15,113</u>	<u>2,358,835</u>	<u>2,743,392</u>	<u>(17,858)</u>	<u>2,340,977</u>	<u>2,729,483</u>
-	58,151	844	331,630	281,199	-	331,630	281,199
-	-	-	390,531	400,994	78,204	468,735	469,496
-	-	-	1,937	1,445	-	1,937	1,445
<u>-</u>	<u>58,151</u>	<u>844</u>	<u>724,098</u>	<u>683,638</u>	<u>78,204</u>	<u>802,302</u>	<u>752,140</u>
<u>\$ -</u>	<u>\$614,254</u>	<u>\$15,957</u>	<u>\$3,082,933</u>	<u>\$3,427,030</u>	<u>\$ 60,346</u>	<u>\$3,143,279</u>	<u>\$3,481,623</u>

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information (Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

General Reserve and Bond Funds

Year ended June 30, 2012 (with comparative totals for year-ended June 30, 2011)

		Bond Funds			
		Residential Housing Finance			
		General Reserve	Rental Housing	Bonds	Pool 2
Revenues	Interest earned on loans	\$ -	\$ 13,152	\$ 75,186	\$ 19,489
	Interest earned on investments-program mortgage-backed securities	-	-	791	-
	Interest earned on investments-other	63	2,274	8,355	1,330
	Administrative reimbursement	21,622	-	-	-
	Fees earned and other income	8,865	505	-	850
	Unrealized gains (losses) on Investments	70	299	4,479	2,337
	Total revenues	30,620	16,230	88,811	24,006
Expenses	Interest	-	7,345	71,034	2
	Loan administration and trustee fees	-	171	3,890	1,252
	Administrative reimbursement	-	1,584	9,918	2,572
	Salaries and benefits	17,541	-	-	-
	Other general operating	5,236	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	(56)	-	(712)
	Provision for loan losses	-	(2,203)	24,565	(4,504)
	Total expenses	22,777	6,841	109,407	(1,390)
Revenues over (under) expenses		7,843	9,389	(20,596)	25,396
Other changes	Non-operating transfer of assets between funds	(9,659)	443	89,595	(33,551)
	Change in net assets	(1,816)	9,832	68,999	(8,155)
Net Assets	Total net assets, beginning of year	21,929	95,157	98,647	380,510
	Total net assets, end of year	\$20,113	\$104,989	\$167,646	\$372,355

Bond Funds			General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
Single Family	Home- ownership Finance	Multifamily Housing					
\$ 6,212	\$ -	\$655	\$114,694	\$123,164	\$ 529	\$115,223	\$123,542
-	20,036	-	20,827	7,814	-	20,827	7,814
1,241	59	18	13,340	16,939	617	13,957	18,106
-	-	-	21,622	20,733	-	21,622	20,733
-	-	-	10,220	11,507	121	10,341	11,529
(26)	32,791	(3)	39,947	314	928	40,875	(903)
7,427	52,886	670	220,650	180,471	2,195	222,845	180,821
4,534	15,949	456	99,320	97,189	-	99,320	97,189
292	168	2	5,775	6,129	12	5,787	6,139
979	2,776	97	17,926	17,018	1,057	18,983	18,053
-	-	-	17,541	17,716	-	17,541	17,716
-	-	-	5,236	5,716	2,217	7,453	9,498
-	-	-	(768)	995	5,408	4,640	14,387
227	-	75	18,160	21,403	799	18,959	22,427
6,032	18,893	630	163,190	166,166	9,493	172,683	185,409
1,395	33,993	40	57,460	14,305	(7,298)	50,162	(4,588)
(72,470)	8,642	-	(17,000)	(13,900)	17,000	-	-
(71,075)	42,635	40	40,460	405	9,702	50,162	(4,588)
71,075	15,516	804	683,638	683,233	68,502	752,140	756,728
\$ -	\$58,151	\$844	\$724,098	\$683,638	\$78,204	\$802,302	\$752,140

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information (Unaudited)

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds

Year ended June 30, 2011 (with comparative totals for year ended June 30, 2010)

		Bond Funds			
		Residential Housing Finance			
		General Reserve	Rental Housing	Bonds	Pool 2
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 30,110	\$ 121,592	\$ 45,712
	Investment in loans and program mortgage-backed securities	-	(11,536)	(61,531)	(33,488)
	Interest received on loans and program mortgage-backed securities	-	10,565	72,148	19,082
	Other operating	-	-	-	-
	Fees and other income received	9,104	505	-	6,208
	Salaries, benefits and vendor payments	(22,577)	(139)	(4,220)	(4,756)
	Administrative reimbursement from funds	21,547	(1,584)	(9,918)	(2,572)
	Deposits into funds held for others	31,297	-	-	-
	Disbursements made from funds held for others	(36,087)	-	-	-
	Interfund transfers and other assets	(1,593)	(1,182)	60	2,012
	Net cash provided (used) by operating activities	1,691	26,739	118,131	32,198
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	8,965	153,538	25,000
	Principal repayment on bonds and notes	-	(62,295)	(531,940)	(25,000)
	Interest paid on bonds and notes	-	(7,719)	(75,122)	(2)
	Financing costs paid related to bonds issued	-	(134)	(2,170)	-
	Principal paid/received between funds	-	-	10,000	(10,000)
	Agency contribution to program funds	-	443	20,077	(19,467)
	Transfer of cash between funds	(9,631)	-	(36,235)	8,889
	Net cash provided (used) by noncapital financing activities	(9,631)	(60,740)	(461,852)	(20,580)
Cash flows from investing activities	Investment in real estate owned	-	-	(6,434)	(207)
	Interest received on investments	925	1,759	2,839	1,303
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	77,447	1,442
	Proceeds from maturity, sale or transfer of investment securities	40,020	90,997	361,460	289,146
	Purchase of investment securities	-	(63,374)	(82,960)	(328,522)
	Purchase of loans between funds	-	(12,195)	-	10,564
	Net cash provided (used) by investing activities	40,945	17,187	352,352	(26,274)

Bond Funds			General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
Single Family	Home- ownership Finance	Multifamily Housing				
\$ 10,884	\$ 24,801	\$ -	\$ 233,099	\$ 1,899	\$ 234,998	\$ 193,947
(23)	(234,640)	(15,000)	(356,218)	(14,721)	(370,939)	(404,510)
5,285	18,640	654	126,374	504	126,878	126,172
-	-	-	-	(2,144)	(2,144)	(3,686)
-	-	-	15,817	121	15,938	15,106
(316)	(188)	73	(32,123)	(109)	(32,232)	(29,775)
(979)	(2,776)	(97)	3,621	(1,057)	2,564	2,973
-	-	-	31,297	-	31,297	31,942
-	-	-	(36,087)	-	(36,087)	(35,135)
482	(2)	-	(223)	(593)	(816)	(1,022)
15,333	(194,165)	(14,370)	(14,443)	(16,100)	(30,543)	(103,988)
-	152,127	-	339,630	-	339,630	2,104,183
(97,505)	(6,230)	-	(722,970)	-	(722,970)	(2,251,945)
(6,957)	(10,438)	(452)	(100,690)	-	(100,690)	(96,654)
1,164	(1,959)	-	(3,099)	-	(3,099)	(3,382)
-	-	-	-	-	-	-
(2,742)	1,689	-	-	-	-	-
36,285	-	-	(692)	692	-	-
(69,755)	135,189	(452)	(487,821)	692	(487,129)	(247,798)
(611)	-	-	(7,252)	0	(7,252)	(5,064)
753	1,232	23	8,834	870	9,704	17,991
4,347	-	-	83,236	0	83,236	76,729
30,450	10,304	13,924	836,301	41,836	878,137	1,832,106
(18,605)	(9,940)	(13,450)	(516,851)	(33,825)	(550,676)	(1,712,998)
-	-	-	(1,631)	3,626	1,995	1,856
16,334	1,596	497	402,637	12,507	415,144	210,620

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information (Unaudited)

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2012 (with comparative totals for year ended June 30, 2011)

		Bond Funds			
		Residential Housing Finance			
		General Reserve	Rental Housing	Bonds	Pool 2
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$ 7,843	\$ 9,389	\$(20,596)	\$25,396
	Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
	Amortization of premiums (discounts) and fees on loans and program mortgage-backed securities	-	(104)	1,332	(411)
	Depreciation	1,286	-	-	-
	Realized losses (gains) on sale of securities, net	175	(737)	(3,033)	(42)
	Unrealized losses (gains) on securities, net	(70)	(299)	(4,479)	(2,337)
	Provision for loan losses	-	(2,203)	24,565	(4,504)
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	(56)	-	(712)
	Capitalized interest on loans and real estate owned	-	-	(6,086)	(53)
	Interest earned on investments	(238)	(2,038)	(5,123)	(1,288)
	Interest expense on bonds and notes	-	7,345	71,034	2
	Changes in assets and liabilities:				
	Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	18,574	60,061	12,224
	Decrease (increase) in interest receivable on loans	-	66	925	57
	Increase (decrease) in arbitrage rebate liability	-	(2,048)	(199)	-
	Increase (decrease) in accounts payable	(933)	30	(336)	1,853
	Increase (decrease) in interfund payable, affecting operating activities only	(64)	(1,181)	(54)	2,023
	Increase (decrease) in funds held for others	(4,790)	-	-	-
	Other	(1,518)	1	120	(10)
	Total	(6,152)	17,350	138,727	6,802
	Net cash provided (used) by operating activities	\$ 1,691	\$26,739	\$ 118,131	\$32,198

Bond Funds			General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2012	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total For The Year Ended June 30, 2012	General Reserve & Bond Funds Total For The Year Ended June 30, 2011
Single Family	Home- ownership Finance	Multifamily Housing				
\$ 1,395	\$ 33,993	\$ 40	\$ 57,460	\$ (7,298)	\$ 50,162	\$ (4,588)
(753)	487	-	551	(25)	526	1,414
-	-	-	1,286	-	1,286	1,540
(345)	(23)	1	(4,004)	(1)	(4,005)	(16)
26	(32,791)	3	(39,947)	(928)	(40,875)	903
227	-	75	18,160	799	18,959	22,427
-	-	-	(768)	5,408	4,640	14,387
(336)	-	-	(6,475)	-	(6,475)	(8,576)
(634)	(36)	(19)	(9,376)	(616)	(9,992)	(17,397)
4,534	15,949	456	99,320	-	99,320	97,189
10,861	(209,839)	(15,000)	(123,119)	(12,822)	(135,941)	(210,563)
162	(1,883)	(1)	(674)	-	(674)	898
(262)	-	-	(2,509)	-	(2,509)	387
(28)	(27)	75	634	(23)	611	2,041
(63)	(2)	-	659	(593)	66	248
-	-	-	(4,790)	-	(4,790)	(3,193)
549	7	-	(851)	(1)	(852)	(1,089)
13,938	(228,158)	(14,410)	(71,903)	(8,802)	(80,705)	(99,400)
<u>\$15,333</u>	<u>\$ (194,165)</u>	<u>\$ (14,370)</u>	<u>\$ (14,443)</u>	<u>\$ (16,100)</u>	<u>\$ (30,543)</u>	<u>\$ (103,988)</u>

Other Information

Board of Directors

Kenneth R Johnson., Chair
Member

Joseph Johnson III, Vice Chair
Member

The Honorable Rebecca Otto
Ex-officio member
State Auditor, State of Minnesota

Gloria J Bostrom
Member

John DeCramer
Member

Steve Johnson
Member

Stephanie Klinzing
Member

Legal and Financial Services

Bond Trustee and Bond Paying Agent
Wells Fargo Bank, National Association

Bond Counsel
Kutak Rock LLP, Atlanta

Financial Advisor
CSG Advisors Incorporated

Underwriters
RBC Capital Markets, Morgan Stanley, Piper Jaffray & Co.

Certified Public Accountants
CliftonLarsonAllen® LLP

Location

Minnesota Housing is located at 400 Sibley Street, Suite 300, Saint Paul, Minnesota 55101-1998.

For further information, please write, call or visit our web site.

(651) 296-7608 (general phone number)

(800) 657-3769 (toll free)

(651) 296-8139 (fax number)

www.mnhousing.gov

If you use a text telephone or Telecommunications Device for the Deaf, you may call (651) 297-2361.

Minnesota Housing does not discriminate on the basis of race, color, status with regard to receipt of public assistance, creed, marital status, sexual orientation, familial status, national origin, sex, religion, age, or disability in employment or the provision of services or resources. Information contained in this publication will be made available in an alternative format upon request.

APPENDIX B

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

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

Purpose

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

Definitions

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

“*Annual Financial Information*” means the following financial information and operating data (in addition to Audited Financial Statements): information about the outstanding principal amounts and types of Program Securities pledged to the payment of Bonds outstanding under the Bond Resolution as the end of such fiscal year of a type substantially similar to that under the heading “Security for the Bonds—Program Securities Pledged under the Bond Resolution” in the Official Statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year ending June 30, 2013, by one of the following methods: (i) the Agency may deliver such Annual Financial Information and the Audited Financial Statements to the MSRB within 120 days of the completion of the Agency’s fiscal year or (ii) delivery of an Official Statement of the Agency to the MSRB within 120 days of the completion of the Agency’s fiscal year, but only to the extent such Official Statement includes such Annual Financial Information and Audited Financial Statements.

The Agency shall deliver such information in Prescribed Form and by such time so that such entities receive the information by the dates specified.

If any part of the Annual Financial Information can no longer be generated because the operations to which it is related have been materially changed or discontinued, the Agency shall disseminate a statement to such effect as part of its Annual Financial Information for the year in which such event first occurs.

If any amendment is made to this Disclosure Undertaking, the Annual Financial Information for the year in which such amendment is made (or in any notice or supplement provided to the MSRB) shall contain a narrative description of the reasons for such amendment and its impact on the type of information being provided.

All or a portion of the Annual Financial Information and the Audited Financial Statements may be included by reference to other documents which have been submitted to the MSRB or filed with the Commission. The Agency shall clearly identify each such item of information included by reference.

Annual Financial Information will be provided to the MSRB within 120 days after the last day of the Agency's fiscal year. Audited Financial Statements as described below should be filed at the same time as the Annual Financial Information. If Audited Financial Statements are not available when the Annual Financial Information is filed, unaudited financial statements shall be included, and Audited Financial Statements will be provided to the MSRB within 10 business days after availability to the Agency.

Audited Financial Statements will be prepared in accordance with generally accepted accounting principles in the United States as in effect from time to time.

If any change is made to the Annual Financial Information as permitted by the Disclosure Undertaking, including for this purpose a change made to the fiscal year-end of the Agency, the Agency will disseminate a notice to the MSRB of such change in Prescribed Form.

Listed Events Disclosure

The Agency shall disseminate in a timely manner, not in excess of 10 business days after the occurrence of the event, Listed Events Disclosure to the MSRB in Prescribed Form. Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Series Bonds or defeasance of any Series Bonds need not be given under this Disclosure Undertaking any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Series Bonds pursuant to the Resolution. In addition, notice of the mandatory redemption of the Series Bonds is not required to be given as a Listed Event.

Consequences of Failure of the Agency To Provide Information

The Agency shall give notice in a timely manner, not in excess of 10 business days after the occurrence of the event, to the MSRB in Prescribed Form of any failure to provide Annual Financial Information Disclosure when the same is due hereunder.

In the event of a failure of the Agency to comply with any provision of this Disclosure Undertaking, the Bondowner or Beneficial Owner of any Series Bond may seek specific performance by court order to cause the Agency to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Resolution or any other agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Agency to comply with this Disclosure Undertaking shall be an action to compel performance.

Amendment; Waiver

Notwithstanding any other provision of this Disclosure Undertaking, the Agency may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if:

- (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;

(ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver does not materially impair the interests of the Bondowners of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondowners of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Resolution at the time of the amendment; or

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

Termination of Undertaking

This Disclosure Undertaking shall terminate when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if the Undertaking is so terminated before the final stated maturity of the Series Bonds.

Additional Information

Nothing in this Disclosure Undertaking shall be deemed to prevent the Agency from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information Disclosure or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Undertaking. If the Agency chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Undertaking, the Agency shall not have any obligation under this Disclosure Undertaking to update such information or include it in any future disclosure or notice of the occurrence of a Listed Event.

Beneficiaries

This Disclosure Undertaking has been executed in order to assist the Participating Underwriter in complying with the Rule; however, this Disclosure Undertaking shall inure solely to the benefit of the Agency, the Bondowners and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

Recordkeeping

The Agency shall maintain records of all Annual Financial Information Disclosure and Listed Events Disclosure, including the content of such disclosure, the names of the entities with whom such disclosure was filed and the date of filing such disclosure.

APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

The following statements are brief summaries of certain provisions of the Bond Resolution and particular provisions of the 2012B Series Resolution. Terms defined herein are identical in all material respects with the definitions in the Bond Resolution and the 2012B Series Resolution.

CERTAIN DEFINED TERMS

Business Day: Any day (a) on which banks in the cities in which the Corporate Trust Office of the Trustee and the principal office of any applicable Paying Agent are located are not required or authorized by law to be closed and (b) on which the New York Stock Exchange is open.

Cash Flow Certificate: A certificate from an Authorized Officer giving effect to the action proposed to be taken and demonstrating that in the current and in each succeeding Fiscal Year in which Bonds are scheduled to be Outstanding that Revenues and other amounts expected to be on deposit in the Funds and Accounts established hereunder or under any Series Resolution (excluding, except to the extent otherwise provided in a Series Resolution, the Single Family Housing Fund) will be at least equal to all amounts required to be on deposit in order to pay the Debt Service on the Bonds and to maintain the balance in the Mortgage Reserve Fund at the Mortgage Reserve Requirement; provided that, to the extent specified in a Series Resolution, a Fund or Account (other than the Single Family Housing Fund as excluded above) shall not be taken into account when preparing such Cash Flow Certificate. The Cash Flow Certificate shall set forth the assumptions upon which the estimates therein are based, which assumptions shall be based upon the Agency's reasonable expectations at the time such Cash Flow Certificate is filed.

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

Counterparty Hedge Payment: A payment due to or received by the Agency from a Hedge Counterparty pursuant to a Hedge Agreement (including, but not limited to, payments in respect of any early termination of such Hedge Agreement) and amounts in respect thereof received by the Agency under any related Hedge Counterparty Guarantee.

Debt Service: As of the date of calculation and with respect to any particular Fiscal Year, an amount equal to the sum of (i) all interest payable on all Outstanding Bonds during such Fiscal Year, plus (ii) any Principal Installment with respect to all Outstanding Bonds during such Fiscal Year; provided, that, if any Bonds bear interest at a rate that is not, as of the date of calculation, determinable for all or any portion of a Fiscal Year, the Agency may make reasonable assumptions regarding the interest rate borne by such Bonds during such period.

Fannie Mae: The Federal National Mortgage Association, a federally-chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. §1716 et seq., or any success thereto.

Fannie Mae Security: A single pool, guaranteed mortgage pass-through Fannie Mae Program Security, guaranteed as to timely payment of principal and interest by Fannie Mae and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool.

Federal Mortgage Agency: GNMA, Fannie Mae, Freddie Mac and such other public or private agencies or corporations as the United States Congress may create for the purpose of housing finance and which are an agency or instrumentality of the United States or sponsored thereby.

FHA: The Federal Housing Administration of the Department of Housing and Urban Development or any agency or instrumentality of the United States of America succeeding to the mortgage insurance functions thereof.

Finance or finance: When used with reference to a Program Obligation, shall be construed to include (i) the making or purchase of such Program Obligation, (ii) the participation by the Agency, either with itself or with others, in the making or purchase thereof, or (iii) the permanent financing of a Program Obligation which has been temporarily financed by the Agency through the issuance of notes or other obligations or otherwise.

Fiscal Year: The period of 12 calendar months commencing on July 1 in any calendar year and ending on June 30 in the following year, or such other 12-month period as may be designated by the Agency by Agency Certificate delivered to the Trustee.

Freddie Mac: The Federal Home Loan Mortgage Corporation, a shareholder-owned government-sponsored enterprise organized and existing under the laws of the United States, created pursuant to the Federal Home Loan Mortgage Act (Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§ 1451-1459), and any successor to its functions.

Freddie Mac Security: A single pool, guaranteed mortgage pass-through Freddie Mac program security, guaranteed as to timely payment of principal and interest by Freddie Mac and backed by Conventional Mortgage Loans, or FHA Insured or VA Guaranteed Program Loans, in the related mortgage pool

GNMA: The Government National Mortgage Association, a government-sponsored enterprise organized and existing under the laws of the United States within HUD, and any successor to its functions. Its powers are prescribed generally by Title III of the National Housing Act, as amended (12 U.S.C., §1716 et seq.).

GNMA Security: The GNMA I Mortgage Pass-Through Certificate or a GNMA II Mortgage Pass-Through Certificate issued by the Servicer in the name of the Trustee in exchange for Mortgage Loans and guaranteed as to timely payment of principal and interest by GNMA pursuant to Section 306(g) of Title III of the National Housing Act of 1934 and the regulations promulgated thereunder, and in the form of Appendix 39 “Single Family Mortgage-Backed Certificate” of the GNMA Guide.

GSE: Either Fannie Mae or Freddie Mac or both, collectively, as the context may require.

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

Hedge Counterparty: any Person with whom the Agency has from time to time entered into a Hedge Agreement, as specified in a Series Resolution or other resolution of the Agency.

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

Interest Requirement: With respect to Outstanding Bonds and as of any particular date of calculation, except as otherwise required in a Series Resolution with respect to a Series of Bonds, the amount equal to unpaid interest then due, plus an amount equal to the interest to become due on each Outstanding Bond of all Series on the next respective Interest Payment Date or Dates within the next succeeding six months and, if any Bonds bear interest at a rate which is not determinable to and including the day preceding the next Interest Payment Date thereon, the Interest Requirement shall be calculated as if such Bonds continue to bear interest to, but not including, the next Interest Payment Date at the interest rate in effect on the Bonds on the date of calculation.

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

- (a) Direct obligations of, or obligations the timely payment of principal and interest on which are insured or guaranteed by, the United States of America, which obligations include, but are not limited to, the following: (i) United States Treasury obligations which are direct or fully guaranteed obligations, and (ii) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by GNMA;

(b) Obligations (i) which are backed by the full faith and credit of any state of the United States of America, (ii) of any agency of the United States of America, or (iii) of any public corporation sponsored by the United States of America, provided that, at the time of purchase, such obligations shall not impair the Rating of any Outstanding Bonds;

(c) Federal Home Loan Mortgage Corporation participation certificates guaranteed by Freddie Mac as to timely payment of principal and interest and senior debt obligations;

(d) Fannie Mae's mortgage-backed securities and senior debt obligations, excluding interest-only stripped securities;

(e) Interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other savings institution (including any Fiduciary) whose outstanding unsecured short-term debt obligations are rated by Moody's not less than P-1 (or such comparable rating from each Rating Agency then providing a rating on the Bonds); provided that (i) such deposits, certificates and other arrangements are fully insured by the Federal Deposit Insurance Corporation or guaranteed by the State, the proceeds of which insurance are timely available, or (ii) such Depository has combined capital and surplus of at least \$75,000,000 and such deposits, certificates and other arrangements are fully secured by obligations described in clause (a) or (b) of this definition, or a combination thereof, at such levels and valuation frequency as shall not impair the Rating of any Outstanding Bonds, or (iii) the deposit of funds with such Depository will not impair the Rating of any Outstanding Bonds;

(f) Any repurchase agreement and reverse repurchase agreement with banks which are members of the Federal Deposit Insurance Corporation, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which agreement is secured by obligations described in the preceding clauses (a) and (b) of this definition, as long as such agreement, as of the date of its execution and delivery, does not impair the Rating of any Outstanding Bonds;

(g) Shares of (i) an investment company registered under the federal investment company act of 1940, whose shares are registered under the federal securities act of 1933, whose only investments are in securities described in subparagraphs (a), (b) or (f) above, or (ii) a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$75,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, whose only investments are in securities described in subparagraphs (a), (b) or (f) above, and, in the case of both (i) and (ii), which are not rated less than "Aaa" by Moody's (or such comparable rating from each Rating Agency then providing a Rating on the Bonds);

(h) Any investment contract with any provider as long as such investment contract, as of the date of its execution and delivery, does not impair the Rating of any Outstanding Bonds; and

(i) Any other investment that as of the date made does not impair the Rating of any Outstanding Bonds.

Lender: Unless otherwise provided in a Series Resolution, a Person executing a Participation Agreement and which is: (i) a bank, savings bank, credit union, mortgage company or nonprofit corporation organized or licensed under the laws of the State or the United States, or a mortgagee or lender approved or certified by the Secretary of Housing and Urban Development or by the Administrator of Veteran Affairs; or (ii) an agency or instrumentality of the United States or the State, or a political subdivision of the State.

Master Servicer: The Person designated as servicer under the Participation Agreements and the Servicing Agreement, and its successors or assigns, or any substitute servicer designated by the Agency in accordance with the Servicing Agreement.

Mortgage Reserve Requirement: As of any particular date of computation, the sum of amounts, if any, established for each Series of Bonds by each Series Resolution.

Other Obligations: a Hedge Agreement or, if and to the extent provided in a Series Resolution or other resolution of the Agency, with respect to Bonds of one or more Series, an insurance policy insuring, or a letter of credit, line of credit, surety bond or standby bond purchase agreement providing a direct or indirect source of funds for, the timely payment of principal of or interest on such Bonds (but not necessarily principal due upon the acceleration thereof), or any or all of the remarketing agreements, depository agreements, credit facilities, reimbursement agreements, standby bond purchase agreements and the like pertaining to Bonds with a tender right granted to or tender obligation imposed on the Owner thereof

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

(a) any Bond cancelled or delivered to the Trustee for cancellation on or before such date;

(b) any Bond (or any portion of any Bond) (i) for the payment or redemption of which there shall be held in trust under the Resolution and set aside for such payment or redemption, moneys and/or Government Obligations maturing or redeemable at the option of the holder thereof not later than such maturity or redemption date which, together with income to be earned on such Government Obligations prior to such maturity or redemption date, will be sufficient to pay the principal or Redemption Price thereof, as the case may be, together with interest thereon to the date of maturity or redemption, and (ii) in the case of any Bond (or any portion of any Bond) to be redeemed prior to maturity, notice of the redemption of which shall have been given in accordance with the Resolution or irrevocably provided for in a manner satisfactory to the Trustee;

(c) any Bond in lieu of or in exchange for which another Bond shall have been authenticated and delivered pursuant to the Resolution; or

(d) any Bond deemed to have been paid as provided in the Resolution.

Parity Certificate: An Agency Certificate, giving effect to the action proposed to be taken in connection with the filing thereof, showing that (A) the sum of (i) the moneys, Investment Obligations and Cash Equivalents then credited to the Acquisition Accounts, the Revenue Fund, the Bond Fund Principal Account, the Bond Fund Interest Account and the Mortgage Reserve Fund, (ii) the unpaid principal amount of all Program Obligations credited to the Acquisition Accounts, and (iii) any other moneys, Investment Obligations and Cash Equivalents and the unpaid principal amount of all Program Obligations otherwise specifically pledged to the payment of Outstanding Bonds by a Series Resolution, exceeds (B) an amount equal to 103% of the principal amount of Outstanding Bonds of all Series. If, however, on the date the Agency Certificate is to be delivered, the aggregate outstanding principal amount of all Program Securities held by the Trustee is equal to or greater than the aggregate principal amount of all Bonds then Outstanding, as certified in the Agency Certificate, then the percentage in clause (B) of the immediately preceding sentence shall be 100%.

Participation Agreements: One or more of the Participation Agreements, as amended, relating to the origination of Program Loans under the Program, between the Agency or the Master Servicer and a Lender.

Private Mortgage Insurer: Any private mortgage insurance company that is licensed to do business in the State and that is approved by the applicable Federal Mortgage Agency and the Agency and providing private mortgage guaranty insurance on Conventional Mortgage Loans.

Principal Requirement: As of any particular date of calculation with respect to Bonds Outstanding on that date, the amount of money equal to any unpaid Principal Installment then due plus the Principal Installment to become due on each Series of Bonds on the next respective Principal Installment Date within the next succeeding six months.

Private Mortgage Insurer: Any private mortgage insurance company approved by the applicable Federal Mortgage Agency and the Agency and providing private mortgage guaranty insurance on Conventional Mortgage Loans.

Program: The program for the financing of Program Obligations for Housing established by the Agency pursuant to the Act, as the same may be amended from time to time, and the Bond Resolution and for financing Other Obligations.

Program Loan: A loan for Housing secured by a mortgage, made by a Lender in accordance with the Act and the Program.

Program Obligation: Any Program Loan or Program Security acquired by the Agency by the expenditure of amounts in an Acquisition Account.

Program Security: An obligation representing an undivided interest in a pool of Program Loans issued and acquired pursuant to the Program, to the extent the payments to be made on such obligation are guaranteed or insured by a Federal Mortgage Agency.

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

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

Revenues: With respect to the Outstanding Bonds, (i) all payments, proceeds, rents, premiums, penalties, charges and other cash income received by the Agency from or on account of any Program Obligation (including any payments received from a Federal Mortgage Agency, scheduled, delinquent and advance payments of, and any net insurance or guaranty proceeds with respect to, principal of and interest on any Program Obligation or the net operating income or net proceeds of sale of any property acquired thereunder), (ii) all income received by the Trustee from or in connection with any Servicing Agreement or by the Trustee or the Agency from or in connection with any Participation Agreement, unless otherwise provided in a Series Resolution with respect to all or a part thereof (but exclusive of indemnification rights of the Agency), (iii) any Counterparty Hedge Payments received from any Hedge Counterparty pursuant to a Hedge Agreement or any payments received from another Beneficiary to be applied to the payment of principal of, interest on, or the purchase price with respect to any Bonds, (iv) any amounts deposited in or irrevocably appropriated to any Fund or Account established under the Bond Resolution (other than the Single Family Housing Fund, except as otherwise provided in a Series Resolution) from sources not subject to the lien of the Bond Resolution, and (v) all interest earned or gain realized in excess of losses as a result of the investment of the amount in any Fund or Account established under the Bond Resolution (other than the Single Family Housing Fund, except as otherwise provided in a Series Resolution), but excluding: (a) any amount retained by a servicer (including the Agency) of any Program Obligation as compensation for services rendered in connection with such Program Obligation, (b) any payments for the guaranty or insurance of any Program Obligation, (c) any payments of taxes, assessments or similar charges or premiums or other charges for fire or other hazard insurance (and any escrow payments in connection therewith) called for by or in connection with any Program Obligation, (d) amounts payable with respect to a Program Obligation that represent a return on amounts financed by the Agency or by other Persons pursuant to a participation, forbearance or other arrangement from sources other than proceeds of Bonds or other amounts held hereunder, and (e) to the extent such items do not exceed the income derived therefrom, payments or charges constituting expenses of managing and maintaining property acquired pursuant to a Program Loan.

Series: All Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Bond Resolution.

Series Program Determinations: Determinations by the Agency relating to Program Obligations and certain other matters in connection with a Series of Bonds under the Program to be set forth (or provided to be determined at certain specified times in the future) in a Series Resolution and shall include, to the extent determined by the Agency to be relevant, the following: (i) the terms of the Program Securities or the Program Loans, including such matters as interest rates, payment dates, maturity dates, loan insurance provisions, and similar provisions; (ii) the requirements of the Code applicable to the Program Loans, if any; (iii) provisions relating to sale of Program Obligations and prepayments of Program Obligations, including application thereof for redemption of Bonds or

financing new Program Obligations and provisions relating to the investment of funds relating to the Series of Bonds; (iv) the Mortgage Reserve Requirement, if any, and (v) any other provision deemed advisable by the Agency not in conflict with the Bond Resolution; provided that, pursuant to an Agency Certificate delivered to the Trustee, the Agency may amend or revise any of the above determinations with respect to any portion of the proceeds of the Series of Bonds prior to the date that such proceeds are applied to the financing of Program Obligations to the extent that such revisions do not impair the Rating on the Series of Bonds and do not affect the excludability of interest on such Series of Bonds from gross income for federal income tax purposes.

Series Resolution: A resolution of the Agency authorizing the issuance and delivery of Bonds of one or more Series pursuant to the Bond Resolution.

Servicing Agreement: The Servicing Agreement, dated as of July 9, 2009, between the Agency, the Trustee and U.S. Bank, National Association, as Master Servicer, as the same has been or may be amended from time to time or any agreement executed by the Agency replacing such agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

Series Accounts

Unless otherwise provided in a Series Resolution, the Trustee shall establish within each Fund under the Bond Resolution (other than the Single Family Housing Fund), a separate Series Account for each Series of Bonds. The proceeds of a particular Series of Bonds, other amounts made available by the Agency in the Series Resolution or otherwise relating to a particular Series of Bonds and the Revenues relating to a particular Series of Bonds (including the payments on Program Obligations acquired with the proceeds of a particular Series of Bonds or the payments on any other collateral pledged to a particular Series of Bonds and the earnings on investments of any of said proceeds, funds and amounts) shall be deposited or credited to the separate Series Accounts established for that particular Series of Bonds. Where required to assure compliance with the covenants of the Bond Resolution and any Series Resolution, withdrawals from Series Accounts established in connection with a particular Series of Bonds may be made and used (including for purposes of redemption) for any other Series of Bonds. For purposes of investment, the Trustee, may, or shall at the direction of the Agency, consolidate the Series Accounts required to be established in a particular Fund so long as adequate records are maintained as to the amounts held in each such Fund allocable to each Series of Bonds. In addition to the Funds and Accounts established under the Bond Resolution, the Trustee may from time to time, establish, maintain, close and reestablish such accounts and subaccounts as may be requested by the Agency for convenience of administration of the Program and as shall not be inconsistent with the provisions of the Bond Resolution.

Cost of Issuance Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds may, but is not required to, provide for a separate Cost of Issuance Account to be held by the Trustee. Moneys in each such Cost of Issuance Account shall be expended for Costs of Issuance of such Series of Bonds and for no other purpose upon receipt by the Trustee of a requisition signed by an Authorized Officer stating the amount and purpose of any such payment. Any amounts in a Cost of Issuance Account remaining therein upon payment of all Costs of Issuance for such Series of Bonds shall (i) if not proceeds of Bonds, be transferred to the Revenue Fund and (ii) if sale proceeds, investment proceeds or transferred proceeds of Bonds, be transferred to any one or more of the Acquisition Accounts or the Bond Redemption Fund, upon receipt by the Trustee of a Certificate of the Agency stating that such moneys are no longer needed for the payment of Costs of Issuance whereupon such Account shall be closed. Interest and other income derived from the investment or deposit of each such Cost of Issuance Account shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Acquisition Accounts

Each Series Resolution authorizing the issuance of a Series of Bonds shall establish a separate Acquisition Account to be held by the Trustee. There shall be deposited from time to time in an Acquisition Account (i) any proceeds of Bonds or other amounts required to be deposited therein pursuant to the Bond Resolution or the applicable Series Resolution and (ii) any other amounts determined by the Agency to be deposited therein from time to time.

Except as otherwise permitted or required to be transferred to other Funds and Accounts, amounts in an Acquisition Account shall be expended only to Finance Program Obligations. All Program Obligations Financed by application of amounts in an Acquisition Account shall be credited to such Acquisition Account. No Program Loan shall be Financed unless the requirements of the applicable Series Resolution have been met, and no Program Security shall be Financed unless the Program Security represents a pass through or participation interest in a pool of Program Loans and provides for a guaranty of all payments to be made to the Agency thereunder by a Federal Mortgage Agency.

Amounts in an Acquisition Account for a Series of Bonds may be expended for the acquisition of a Program Security, or portion thereof, only if (1) the principal amount of the Program Security is less than or equal to the principal amount of the Program Loans backing the Program Security; (2) the Program Security bears interest at a rate equal to the rate of interest on the Program Loans backing the Program Security minus the applicable servicing and guaranty fees; (3) upon such purchase, the sum of (a) amounts held in all Accounts relating to the Series of Bonds and (b) the aggregate outstanding principal amount at time of purchase by the Trustee of all Program Securities held by the Trustee is equal to or greater than (c) the aggregate principal amount of all Bonds then Outstanding, or if conditions (a), (b) and (c) of this paragraph are not met, such disbursement alone shall not result in a reduction of the Rating on the Series of Bonds following notice by the Trustee to the Rating Agencies; and (4) the Trustee (i) has physical possession of the Program Security and the Program Security is registered in the name of the Trustee, (ii) the Program Security is credited to the account of the Trustee at a clearing corporation, as defined under and pursuant to the Uniform Commercial Code applicable to the clearing corporation, and the clearing corporation is registered as a clearing agency under the Securities Exchange Act of 1934, (iii) for a Program Security issued in book-entry form through a book-entry system operated by the Federal Reserve System, the Program Security shall have been registered on the books of the Federal Reserve Bank in the name of the Trustee (acting as a "depository" within the meaning of 24 C.F.R. Section 81.44(b)), and the Trustee shall have received confirmation in writing that the depository is holding the Program Security on behalf of, and has identified the Program Security on its records as belonging to, the Trustee, or (iv) any other arrangement so that, in Counsel's Opinion (with customary exceptions and qualifications), the Trustee has a first perfected security interest in the Program Security.

The Trustee shall pay out and permit the withdrawal of amounts on deposit in any Acquisition Account at any time for the purpose of making payments pursuant to the Bond Resolution, but only upon receipt of the following documents prior to any proposed withdrawal:

- (1) an Agency Certificate setting forth the amount to be paid, the Person or Persons to whom such payment is to be made (which may be or include the Agency) and, in reasonable detail, the purpose or purposes of such withdrawal; and

- (2) an Agency Certificate stating that the amount to be withdrawn from the Acquisition Account pursuant to the requisition is a proper charge thereon and, if such requisition is made to Finance the acquisition of Program Obligations, that (i) the terms of the Program Obligations conform to the description of the Program Obligations to be Financed from such amount as provided to the Trustee pursuant to the terms of the Bond Resolution, and (ii) the Program Obligations otherwise comply with the provisions of the Bond Resolution.

At any time the Agency, by Agency Certificate, may direct the Trustee to transfer amounts in an Acquisition Account into the Bond Fund Principal Account or Bond Fund Interest Account, as appropriate, to pay principal or Sinking Fund Installments of and interest on the related Series of Bonds, or into the appropriate account in the Mortgage Reserve Fund, which request shall state that such transfer is appropriate to meet the requirements of the Fund.

The interest earned and other income derived from the investment or deposit of each Acquisition Account may be transferred to the appropriate account in the Revenue Fund for the related Series of Bonds by the Trustee upon receipt thereof to the extent that such amounts exceed any losses realized by investment of deposits in such Acquisition Account or may be retained in the Acquisition Account for the Financing of additional Program Obligations, as directed by Agency Certificate.

All amounts deposited into an Acquisition Account shall be disbursed in the manner provided in the Bond Resolution or the Agency may, by Agency Certificate, direct the Trustee to transfer any amounts from the

Acquisition Account to the Bond Redemption Fund to be used for the redemption of Bonds of the related Series; provided, however, that (i) the Agency Certificate shall specify the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed (including any credits against Sinking Fund Installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, the Agency shall file an updated Cash Flow Certificate with the Trustee.

The Agency may establish temporary subaccounts within an Acquisition Account for the collection and custody of fees paid by Lenders or other Persons in connection with the reservation or holding of funds in the Acquisition Account for use in Financing Program Obligations to be originated by such Lenders or other persons. To the extent that the Agency's agreements with such Lenders or other persons provide for the refund of any such fees (or portions thereof), amounts may be withdrawn from any such subaccount or the Acquisition Account in accordance with such agreements, and any amounts not required to be so applied may, pursuant to an Agency Certificate, be applied to any other purpose of the Acquisition Account as provided in the Bond Resolution.

Any moneys deposited in an Acquisition Account which are not used or to be used to purchase Program Securities by the end of the Delivery Period specified in such Series Resolution, or by such earlier date as may be required by the Code and specified in such Series Resolution, shall be transferred by the Trustee to the Bond Redemption Fund in accordance with the provisions of the applicable Series Resolution, and applied to redeem Bonds.

Revenue Fund

The Agency shall cause all Revenues to be deposited promptly with a Depository and to be transmitted regularly to the Trustee. Unless otherwise provided in the Bond Resolution, all such amounts shall be deposited in the Revenue Fund. There shall also be deposited in the Revenue Fund any other amounts required to be deposited therein pursuant to the Bond Resolution or the Series Resolution or other resolution of the Agency.

The Trustee shall withdraw from any money in the Revenue Fund and credit to each of the following Funds and Accounts, or pay to the Person specified, the amount indicated in the following tabulation, at the times indicated in the following tabulation:

(1) on or before the applicable Interest Payment Date, to the Bond Fund Interest Account the amount needed, taking into account any balance then on deposit therein, to increase the balance therein to the Interest Requirement;

(2) on or before the applicable Principal Installment Date, to the Bond Fund Principal Account the amount, needed, taking into account any balance then on deposit therein, to increase the amount therein to the Principal Requirement;

(3) on any date, assuming any prior transfers required pursuant to subsections (1) and (2) above have been made, to the Mortgage Reserve Fund, the amount, if any, needed to increase the amount therein to the Mortgage Reserve Requirement;

(4) if expressly provided in the Series Resolution in respect of a series of Bonds to which a Hedge Agreement relates in whole or in part, on or before the applicable due dates, but only to the extent any prior transfers required pursuant to subsections (1), (2) and (3) above have been made, to any Hedge Counterparty, the Agency Hedge Payments due from time to time pursuant to a Hedge Agreement; provided, however, that if the Series Resolution provides that Agency Hedge Payments exclusive of amounts payable upon any early termination of the Hedge Agreement are to be made on a parity with payment of principal of and interest on Outstanding Bonds, then to the Hedge Counterparty, such portion of Agency Hedge Payments when due, and if the balance in the Revenue Fund is not sufficient to make the transfers then required under subsections (1), (2) and (3) and this payment, then the balance shall be applied, pro rata, to such transfers and this payment;

(5) at any time upon the purchase of Program Obligations from the moneys on deposit in an Acquisition Account, withdraw from the Revenue Fund and pay to the applicable Servicer or other Person the accrued and unpaid interest on the Program Obligations as of the date of purchase; and

(6) to the extent not transferred pursuant to the preceding subsections, the balance shall be held in the Revenue Fund until and unless directed by Agency Certificate to be transferred and utilized as set forth elsewhere.

At such periodic intervals as the Agency, by Agency Certificate, shall direct, the Trustee shall withdraw from the Revenue Fund and transfer to the United States of America such amounts as are necessary to comply with the Code, including particularly the arbitrage rebate requirements of Section 148 thereof.

Amounts credited to the Revenue Fund shall be transferred to the Bond Redemption Fund on or before the designated Redemption Date to be used for the purchase or redemption of Bonds pursuant to the Bond Resolution and the terms of any related Series Resolution upon the filing with the Trustee of (i) an Agency Certificate specifying the maturities, the principal amounts of each maturity, and the Series of Bonds to be redeemed or purchased (including any credits against Sinking Fund Installments on any Term Bonds to be redeemed) and (ii) in the case of any selection method of Bonds for an optional or special redemption different from the selection method assumed in the most recently filed Cash Flow Certificate, a Cash Flow Certificate.

Amounts credited to the Revenue Fund may be transferred to an existing Acquisition Account or a new Acquisition Account to be established to be used to acquire Program Obligations upon filing with the Trustee of (i) an Agency Certificate specifying the amount to be so transferred and either specifying the existing Acquisition Account to which the funds are to be deposited or directing the establishment of a new Acquisition Account for the deposit of the funds and providing the information relating to the new Acquisition Account required by the Bond Resolution and (ii) a Cash Flow Certificate.

Amounts credited to the Revenue Fund, as directed by an Agency Certificate, shall be released to the Agency for the payment of Program Expenses or the establishment of reserves therefor in an amount needed or required to pay reasonable and necessary Program Expenses; provided that if the amount to be released exceeds the amount assumed in the most recently filed Cash Flow Certificate, the Agency shall file a new Cash Flow Certificate with the Trustee.

Amounts credited to the Revenue Fund, except Program Expenses, may be released to the Agency free and clear of the lien of the Bond Resolution, for deposit in the Agency's General Reserve Account or the Single Family Housing Fund, upon the filing with the Trustee of (i) an Agency Certificate directing the same, (ii) a Cash Flow Certificate, and (iii) a Parity Certificate.

Any investment earnings on moneys held in the Revenue Fund shall be retained therein.

Bond Fund Interest Account and Bond Fund Principal Account

The Trustee shall withdraw from the Bond Fund Interest Account, on or immediately prior to each Interest Payment Date of the Bonds, an amount equal to the unpaid interest due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is authorized to transmit the same to any Paying Agents which shall apply the same to such payment.

If the withdrawals required with respect to the same and every prior date shall have been made, the Trustee shall withdraw from the Bond Fund Principal Account, on or immediately prior to each Principal Installment Date, an amount equal to the Principal Installments of the Outstanding Bonds, if any, payable on the Principal Installment Date and shall cause the same to be applied to the payment of the Principal Installments when due and is authorized to transmit the same to any Paying Agents which shall apply the same to such payment.

Any amount at any time held in the Bond Fund Interest Account or Bond Fund Principal Account in excess of the Interest Requirement or Principal Requirement may be transferred by the Trustee to the Revenue Fund, if so directed by Agency Certificate, and otherwise shall be retained in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be.

The interest earned or other income derived from the investment of moneys in the Bond Fund Interest Account and Bond Fund Principal Account shall be transferred by the Trustee to the Revenue Fund (unless the Trustee is directed by Agency Certificate to retain such amounts in the Bond Fund Interest Account or Bond Fund Principal Account, as the case may be).

Upon the purchase of Program Obligations from the moneys on deposit in the applicable Acquisition Account, the Trustee shall, in accordance with the provisions of the applicable Series Resolution, withdraw from the Revenue Fund or, if funds available in the Revenue Fund are not sufficient, from the applicable Bond Fund Interest Account, and pay to the applicable Servicer the then accrued and unpaid interest on such Program Obligations.

Bond Redemption Fund

Subject to the provisions of the respective Series of Bonds and to the provisions of the respective Series Resolutions authorizing the issuance thereof, all amounts deposited in the Bond Redemption Fund shall be applied to the purchase or redemption of Bonds (other than the Single Family Housing Fund), including payment of any redemption premium, on the applicable Redemption Date; provided, however, that in the event the Agency has issued refunding obligations for the purpose of redeeming Bonds of a Series in accordance with the Bond Resolution, upon receipt of an Agency Certificate directing such transfer and confirmation by the Trustee that provisions have been made for wiring proceeds of such refunding obligations to the Trustee, the Trustee, immediately on the date of such confirmation, shall transfer moneys in the Bond Redemption Fund in an amount equal to the amount of refunding proceeds received by the Trustee to the funds or accounts specified in the refunding resolution as specified in the Agency Certificate. The Redemption Price of Bonds subject to redemption by operation of the Bond Redemption Fund in the Bond Fund shall be the price set forth in the applicable Series Resolution. Upon receipt of an Agency Certificate directing the same, the Trustee shall transfer at the time of purchase or no more than 45 calendar days prior to such redemption to the Bond Redemption Fund in the Bond Fund from the Mortgage Reserve Fund the amount stated in such direction, which amount shall be no greater than the amount by which the Mortgage Reserve Requirement will decrease due to the purchase or redemption of Bonds. Subject to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds, requiring the application thereof to the purchase or redemption of any particular Bonds, the Trustee shall apply any amounts deposited in the Bond Redemption Fund to the purchase or redemption of Bonds at the times and in the manner provided in the Bond Resolution. Amounts on deposit in the Bond Redemption Fund for the payment, purchase or redemption of any particular Bonds in accordance with the provisions of any Series Resolution authorizing the issuance of Refunding Bonds shall be segregated and shall be identified as such on the records of the Trustee.

Any earnings derived from the investment of amounts deposited in the Bond Redemption Fund pursuant to the issuance and delivery of Refunding Bonds, to the extent required to provide amounts sufficient for the payment or redemption of Bonds in accordance with the conditions for issuance of Refunding Bonds set forth in the Resolution, be deposited in the Bond Redemption Fund. All other interest earned or other income derived from the investment of moneys in the Bond Redemption Fund shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Mortgage Reserve Fund

There shall be deposited in the Mortgage Reserve Fund all amounts required to be deposited therein by the Bond Resolution or any Series Resolution and any other amounts available therefor and determined by the Agency to be deposited therein.

If on any Bond Payment Date the amount in the Bond Fund Interest Account, Bond Fund Principal Account or Bond Redemption Fund, as appropriate, shall be less than the amount required for the payment of the Principal Installments and interest due on the Outstanding Bonds on such date, the Trustee shall apply amounts from the Mortgage Reserve Fund to the extent required pursuant to the Bond Resolution.

If, concurrently with any allocation from the Revenue Fund pursuant to the Bond Resolution, or, on any date upon which a Series Resolution shall be delivered to the Trustee, the amount on deposit in the Mortgage Reserve Fund shall be in excess of the Mortgage Reserve Requirement, the Trustee shall, if so directed in writing pursuant to an Agency Certificate, (1) transfer the amount of such excess which is Revenues to any one or more of the Acquisition Accounts, the Bond Fund Interest Account, the Bond Fund Principal Account, the Bond Redemption

Fund or the Revenue Fund as so directed and (2) transfer the amount of such excess which is sale proceeds, investment proceeds or transferred proceeds of Bonds to any one or more of the Acquisition Accounts or the Bond Redemption Fund.

Subject to any limitation provided in the Act, a Series Resolution may provide that the Mortgage Reserve Requirement may be funded through Cash Equivalents. For purposes of determining whether such Requirement has been met, the amount in the Mortgage Reserve Fund so funded shall be deemed to include any amount payable under such Cash Equivalents on the demand of the Trustee.

Any earnings derived from the investment of amounts deposited in the Mortgage Reserve Fund shall, to the extent the balance therein is less than the Mortgage Reserve Requirement, be retained in the Mortgage Reserve Fund and otherwise shall be transferred by the Trustee upon receipt thereof to the Revenue Fund.

Single Family Housing Fund

The Trustee shall deposit in the Single Family Housing Fund any amounts authorized by an Agency Certificate to be withdrawn from the Revenue Fund and deposited therein and any other amounts provided by the Agency for deposit therein. Amounts on deposit in the Single Family Housing Fund, except as may be otherwise provided in a Series Resolution, shall be free and clear of any restrictions on the investment of funds set forth in the Bond Resolution. Amounts deposited in the Single Family Housing Fund may be used for any lawful purpose for which the Agency may from time to time use funds on deposit in its General Reserve Account in connection with (i) the Program and (ii) other programs of the Agency that facilitate the development and maintenance of a sufficient supply of safe and affordable single family residential housing in the State, including but not limited to Agency programs that finance the acquisition, construction, rehabilitation, improvement and betterment of single family residential property, upon such terms as the Agency may determine. Pending such use, such amounts may be invested in any securities or investments permissible generally for the investment of funds of the Agency as specified by Agency Certificate, subject, however, to any covenants or agreements made by the Agency in a Series Resolution. By Agency Certificate furnished to the Trustee, the Agency may at any time appropriate any funds and investments on deposit in the Single Family Housing Fund to any other Account or Fund created pursuant to the Bond Resolution or may direct that such funds and investments be transferred to the Agency's General Reserve Account or to any other fund or account established pursuant to resolution of the Agency, subject, however, to any covenants or agreements made by the Agency in a Series Resolution.

Subject to the uses permitted by the Bond Resolution, funds, securities and other investments, loans and other property held from time to time in the Single Family Housing Fund are available for, and pledged to, the payment of Debt Service on the Bonds when due and the payment of any other amounts required to be paid from time to time from the Funds and Accounts established pursuant to the Bond Resolution or any Series Resolution, including Agency Hedge Payments; provided that the Agency may from time to time pledge all or any of the assets of the Single Family Housing Fund to any other Person or Persons in connection with the programmatic uses permitted by the Bond Resolution upon such terms as the Agency may determine, which pledge may be superior to, on a parity with, or subordinate to the pledge made under the Bond Resolution to the Bondowners or any Beneficiaries, except as otherwise provided in a Series Resolution or resolution authorizing an Other Obligation. Available cash and cash equivalent funds on deposit in the Single Family Housing Fund may be used to make up deficiencies in the Bond Fund Interest Account or the Bond Fund Principal Account for such purposes and, if directed by an Authorized Officer, shall be transferred to the Bond Fund Interest Account or the Bond Fund Principal Account when required on any Bond Payment Date or other payment date. Unless otherwise specified in a Series Resolution or other resolution of the Agency, the Agency shall not be required to maintain any minimum balance in the Single Family Housing Fund and the Agency makes no covenant to Bondowners or any other Person that funds or other assets will be available in the Single Family Housing Fund in the event of a deficiency in the Bond Fund Interest Account or the Bond Fund Principal Account on a Bond Payment Date or other payment date.

The Agency, by Agency Certificate, may request the Trustee to establish one or more subaccounts in the Single Family Housing Fund to be restricted to such uses, and used in accordance with such terms, as are specified in the Agency Certificate.

Any earnings derived from the investment of amounts deposited in the Single Family Housing Fund shall be retained therein unless otherwise directed by Agency Certificate.

Investment of Moneys Held by the Trustee

Moneys held by the Trustee for the credit of any Account or Fund established under the Bond Resolution (other than the Single Family Housing Fund) shall be invested by the Trustee as directed by the Agency to the fullest extent practicable and reasonable in Investment Obligations which shall mature or be redeemable at the option of the Owner prior to the respective dates when the moneys held for the credit of such Fund or Account will be required for the purposes intended.

The Investment Obligations purchased shall be held by the Trustee and shall be deemed at all times to be part of the Fund or Account or combination thereof, and the Trustee shall inform the Agency of the detail of all such investments. The Trustee shall sell at the best price obtainable, or present for redemption, any Investment Obligations purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment from a Fund or Account. The Trustee shall not be liable for any depreciation of the value of any investment on the redemption, sale or maturity thereof, and, in the absence of any direction from the Agency, the Trustee shall not be required to invest such funds.

The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, any Investment Obligations. The Trustee shall advise the Agency in writing monthly, unless otherwise directed by Agency Certificate, of all investments held for the credit of each Fund and Account in its custody under the provisions of the Bond Resolution as of the end of the preceding month.

In computing the amount in any Fund or Account, (i) Investment Obligations shall be valued at par or, if purchased at a price other than par, at their Amortized Value, in either event exclusive of accrued interest, and (ii) Program Obligations shall be valued at 100% of the outstanding principal balance thereof, plus accrued interest.

Except as otherwise specifically provided in the Bond Resolution or in a Series Resolution, the income or interest earned, or gain, shall be transferred by the Trustee upon receipt thereof to the appropriate subaccount in the Revenue Account.

The Trustee shall not be liable or responsible for the making of any investment authorized by the Bond Resolution in the manner provided in the Bond Resolution or for any loss resulting from any such investment so made, except for its own negligence.

Covenants Relating to Servicing Agreement and Participation Agreements

The Agency agrees that the Trustee in its name or (to the extent required by law) in the name of the Agency may enforce all rights of the Agency and all obligations of a Servicer under and pursuant to a Servicing Agreement for and on behalf of the Bondowners whether or not an Event of Default under the Bond Resolution or the Series Resolutions has occurred or is continuing. The Agency shall supervise, or cause to be supervised, each Lender's compliance with the Participation Agreements. In the event the Servicing Agreement shall be terminated for any reason, the Agency shall proceed with due diligence to appoint a successor Master Servicer, subject to the provisions of the Servicing Agreement and the Participation Agreements and the requirements of each applicable Federal Mortgage Agency. During the period necessary to obtain such successors, the Trustee shall, subject to the approval of the applicable Federal Mortgage Agency, cause to be performed the duties and responsibilities of the Master Servicer under the Servicing Agreement and shall be compensated therefor, in addition to the compensation payable to it under the Bond Resolution or any other instrument, in the same manner and amounts as provided under the Servicing Agreement.

Sale of Program Obligations

The Agency may at any time sell, assign or otherwise dispose of one or more Program Obligations:

(i) in order to obtain funds to provide for the redemption (whether optional or special, to the extent permitted by the terms of any applicable Series Resolution) or purchase of an amount of Bonds having a value less than or equal to the value of the Program Obligation as reasonably estimated by the Agency; or

(ii) in the event that an Agency Certificate shall be filed with the Trustee and each Rating Agency, which gives effect to the proposed sale, assignment, transfer or other disposition and the application of the

proceeds thereof and states that such sale, assignment, transfer or other disposition would not have a material adverse effect on the ability of the Agency to pay the Debt Service on the Outstanding Bonds when due and reasonable and necessary Program Expenses.

Enforcement of Program Securities

The Program Securities acquired by the Trustee on behalf of the Agency shall be held at all times by the Trustee in trust and subject to the pledge of the Bond Resolution. If the Trustee does not receive a payment on a GNMA I Security when due by the close of business on the 17th day of each month, or if the Trustee does not receive a payment on a GNMA II-Custom Pool Security when due by the close of business on the 22nd day of each month, the Trustee shall immediately notify, and demand payment from GNMA. If the Trustee does not receive payment or advice from the depository of payment, with respect to a Fannie Mae Security when due by the close of business on the 25th day of any month (or the next Business Day if the 25th is not a Business Day), the Trustee shall immediately demand payment from Fannie Mae in connection with the guaranty of timely payments of principal and interest by Fannie Mae. If the Trustee does not receive payment on a Freddie Mac Security when due by the close of business on the 18th day of each month (or the next Business Day if the 18th day is not a Business Day), the Trustee shall immediately demand payment from Freddie Mac.

Modifications of Program Securities

The Agency shall not consent to the modification of the rate or rates of interest, or the amount or time of payment of any installment of interest or principal, or the security for or any of the terms or provisions of any Program Security in any manner that would result in the failure of the Program Securities, in the aggregate, to have scheduled payments of principal and interest at least sufficient, together with other expected Revenues, to pay all Debt Service when due with respect to the Bonds and Program Expenses or which would materially impair the security of the Outstanding Bonds. The Agency may otherwise consent to the modification of the security for, or any terms or provisions of, one or more Program Securities but only if the Agency reasonably determines that the modification will not be materially adverse to the security or other interests of Owners of Outstanding Bonds.

Cash Flow Certificates

The Agency is required to file a Cash Flow Certificate (i) at least once within any 12-month period and (ii) at such other times as may be required pursuant to the provisions of the Bond Resolution or of any Series Resolution authorizing the issuance of Bonds of a Series then Outstanding.

Creation of Liens

Except as permitted for Hedge Agreements, the Agency shall not issue any bonds or other evidences of indebtedness, other than the Bonds, secured by a pledge of Revenues or of the moneys, securities, rights and interests pledged or held or set aside by the Agency or by any Fiduciary under the Bond Resolution and shall not create or cause to be created any lien or charge on any pledged Revenues or such moneys, securities, rights or interests: provided, however, that nothing in the Bond Resolution shall prevent the Agency from issuing (i) evidences of indebtedness secured by a pledge of Revenues to be derived after any pledge of Revenues provided in the Bond Resolution shall be discharged and satisfied as provided in the Bond Resolution, or (ii) notes or bonds of the Agency not secured under the Bond Resolution; and provided, further, that, to secure its obligation to make Agency Hedge Payments to a Hedge Counterparty pursuant to a Hedge Agreement or to secure the obligations of the Agency under a different Other Obligation, the Agency may grant to the Hedge Counterparty or other Beneficiary a pledge, on a parity with, or junior and subordinate to, the pledge granted to the Trustee to secure payment of Outstanding Bonds, in all or any of the revenues, assets or other collateral pledged to the payment of the Bonds under the Bond Resolution; provided, however, that any Agency Hedge Payments payable upon early termination of a Hedge Agreement may be secured only by a pledge junior and subordinate to the pledge granted to the Trustee.

Defeasance of Bonds

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Trustee or any one or more of the alternate Paying Agents (through deposit by the Agency of moneys for such payment or redemption or otherwise) at the maturity or Redemption Date thereof shall

be deemed to have been paid within the meaning and with the effect expressed in the Bond Resolution. All Outstanding Bonds of any Series shall be deemed prior to the maturity or Redemption Date thereof to have been paid within the meaning and with the effect expressed in the Bond Resolution if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of redemption of such Bonds on said date; (ii) there shall have been deposited with the Trustee either moneys in an amount sufficient, or Government Obligations the principal of and the interest on which when due will provide moneys in an amount that, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be. Neither Government Obligations nor moneys deposited with the Trustee pursuant to this section nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, of and interest on said Bonds.

Events of Default

Each of the following events shall constitute an event of default under the Bond Resolution: (1) the Agency shall fail to pay any Principal Installment or the Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call for redemption or otherwise, or shall fail to pay the purchase price of any Bond tendered or deemed tendered for purchase on the date established therefor; or (2) the Agency shall fail to pay any installment of interest on any Bond when and as the same shall become due and payable; or (3) the Agency shall fail to perform or observe any other covenant, agreement or condition on its part contained in the Bond Resolution or in the Bonds, and such failure shall continue for a period of 60 days after written notice thereof to the Agency by the Trustee or to the Agency and to the Trustee by the Bondowners of not less than a majority in principal amount of the Bonds Outstanding; or (4) the Agency shall file a petition seeking a composition of indebtedness under the federal bankruptcy laws, or under any other applicable law or statute of the United States of America or of the State; or (5) the State limits or alters the rights of the Agency pursuant to the Act, as in force on the date of adoption of the Bond Resolution, to fulfill the terms of any agreements made with the Owners of the Bonds or in any way materially impaired the rights and remedies of Owners of Bonds while any Bonds are Outstanding.

Acceleration; Annulment of Acceleration

Upon the occurrence of an Event of Default, the Trustee may and, upon the written request of the Bondowners of not less than a majority in aggregate principal amount of Bonds Outstanding shall, give 30 days' notice in writing to the Agency of its intention to declare all Bonds Outstanding immediately due and payable; provided, however, that the Trustee may not make any such declaration with respect to an Event of Default under clause (3) above unless (1) the Trustee has received a written request to do so from 100% of the Owners of all Outstanding Bonds or (2) there are sufficient moneys available in the Funds and Accounts to pay the principal and interest on the Outstanding Bonds upon such declaration. At the end of such 30 day period the Trustee may, and upon such written request of Bondowners of not less than a majority in aggregate principal amount of Bonds Outstanding shall, by notice in writing to the Agency, declare all Bonds Outstanding immediately due and payable and such Bonds shall become and be immediately due and payable, anything in the Bonds or in the Bond Resolution to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment.

At any time after the principal of the Bonds shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Bond Resolution, the Trustee may annul such declaration and its consequences with respect to any Bonds not then due by their terms if (1) moneys shall have been deposited in the Bond Fund Interest Account and the Bond Fund Principal Account sufficient to pay all matured installments of interest and principal or Redemption Price or purchase price (other than principal then due only because of such declaration) of all Outstanding Bonds; (2) moneys shall have been deposited with the Trustee sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee and any Paying Agents; (3) all other amounts then payable by the Agency under the Bond Resolution shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (4) every Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such

declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

If the Agency shall fail to pay any Principal Installment, the Redemption Price, the purchase price or any installment of interest on any Bond when and as the same shall become due and payable, the Trustee shall, within 30 days, give written notice thereof by first class mail to the Bondowners, shown by the registry of Bondowners required to be maintained at the office of the Trustee.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuation of any Event of Default, the Trustee may, and upon the written request of the Bondowners of not less than a majority in aggregate principal amount of the Bonds Outstanding, together with indemnification of the Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Bondowners under the Act, the Bonds and the Bond Resolution by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient, including but not limited to: (1) suit upon all or any part of the Bonds; (2) suit to require the Agency to account as if it were the trustee of an express trust for the Bondowners; (3) suit to enjoin any acts or things that may be unlawful or in violation of the rights of the Bondowners; (4) enforcement of any other right of the Bondowners conferred by law or by the Bond Resolution; and (5) in the event that all Outstanding Bonds are declared due and payable, by selling Program Obligations.

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

Application of Revenues Following an Event of Default

The Agency covenants that if an Event of Default shall happen and shall not have been remedied, the Agency, upon demand of the Trustee, shall pay or cause to be paid over to the Trustee (1) forthwith, all moneys and securities then held by the Agency in any Fund or Account under the Bond Resolution, and (2) as promptly as practicable after receipt thereof, any Revenues and other payments or receipts pledged under the Bond Resolution.

During the continuation of an Event of Default the Trustee shall apply such moneys, securities, Revenues, payments and receipts and the income therefrom as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Owners of the Bonds and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Bond Resolution;

(2) To the payment of the interest and Principal Installments or Redemption Price then due and payable on the Bonds, as follows:

(a) Unless the principal of all of Outstanding Bonds shall have become or have been declared due and payable:

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

Second: To the payment to the Persons entitled thereto of the unpaid Principal Installments or Redemption Price of any Outstanding Bonds that shall have become due and payable, whether at maturity or by call for redemption, in the order of their due dates, and if the

amounts available shall not be sufficient to pay in full all Outstanding Bonds due and payable on any date, then to the payment thereof ratably, according to the amounts of Principal Installments or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of Outstanding Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Outstanding Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference;

(3) To the payment of the amounts required for reasonable and necessary Program Expenses.

Whenever all principal amounts of and interest on all Outstanding Bonds have been paid under these provisions and all fees, expenses and charges of the Trustee and any Paying Agent have been paid, any balance remaining under the Bond Resolution not segregated for the payment of Bonds shall be paid to the Agency.

The Trustee

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Bond Resolution or any Series Resolution authorizing the issuance of a Series of Bonds then Outstanding. In case an Event of Default has occurred and has not been cured, the Trustee shall exercise such of the rights and powers vested in it by the Bond Resolution and use the same degree of care and skill in their exercise as a prudent trustee would exercise or use under the circumstances.

The Trustee, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bond Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Bond Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the Agency, and any Counsel's Opinion shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Bond Resolution in good faith and in accordance therewith.

The Agency shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Bond Resolution and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees, incurred in and about the performance of their powers and duties under the Bond Resolution, and each Fiduciary shall have a lien therefor on any and all Revenues, Program Obligations and Investment Obligations at any time held or received by it under the Bond Resolution (excluding money or Governmental Obligations segregated to pay outstanding Bonds).

The Trustee may resign at any time and be discharged of the duties and obligations created by the Bond Resolution by giving not less than 60 days' written notice to the Agency and mailing notice thereof, at its own expense and without reimbursement therefor, to each Bondowner and Rating Agency, specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the Agency or the Bondowners as provided in the Bond Resolution, in which event such resignation shall take effect immediately on the appointment of such successor. In no event, however, shall such a resignation take effect until a successor Trustee has been appointed pursuant to the Bond Resolution.

The Trustee may be removed (i) at any time by an instrument or concurrent instruments in writing, filed with the Trustee and each Rating Agency, and signed by the Owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Agency and (ii) by the Agency at any time except during the continuation of an Event of Default for such cause as shall be determined in the sole discretion of the Agency by filing with the Trustee and each Rating Agency notice of

removal in the form of an Agency Certificate. In no event, however, shall such removal take effect until a successor Trustee has been appointed pursuant to the Bond Resolution.

No successor Trustee may be appointed under the Bond Resolution without the prior written consent of the GSEs, which consent is not to be unreasonably withheld.

Amendments

Amendments of the Resolutions may be made by a Supplemental Resolution.

For any one or more of the following purposes, and at any time or from time to time, a Supplemental Resolution of the Agency may be adopted, which, upon the filing with the Trustee of a copy thereof, shall be fully effective in accordance with its terms, subject, however, to the rights of the GSEs to consent thereto (see “Summary of Certain Provisions of the Program Series Resolution—Covenants Regarding Administration of Bond Resolution and the Series Bonds”):

(1) To close the Bond Resolution or any Series Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Bond Resolution or any Series Resolution on, the delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the Agency in the Bond Resolution or any Series Resolution, other covenants and agreements to be observed by the Agency which are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Bond Resolution or any Series Resolution, other limitations and restrictions to be observed by the Agency which are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution as theretofore in effect;

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

(5) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Bond Resolution or any Series Resolution, of Revenues or of any other securities or funds;

(6) To modify any of the provisions of the Bond Resolution or any Series Resolution in any respect whatever, provided that (a) such modification shall be, and be expressed to be, effective only after all Bonds of any Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, or (b) the modification, in the sole judgment of the Agency, is reasonably necessary to assure that the interest on any related Series of Outstanding Bonds remains, or on any Series of Bonds thereafter issued will be, exempt from income taxation under the Code;

(7) To authorize the issuance of additional Series of Bonds in accordance with the provisions of Article II hereof;

(8) To amend the Bond Resolution by creating and establishing additional accounts;

(9) To amend the provisions described under “Enforcement of Program Securities” above to provide different days on which payments on the applicable Program Security are now payable;

(10) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Bond Resolution or any Series Resolution;

(11) To insert such provisions clarifying matters or questions arising under the Bond Resolution or any Series Resolution as are necessary or desirable and are not contrary to or inconsistent with the Bond Resolution or the applicable Series Resolution theretofore in effect; and

(12) To waive any right reserved to the Agency, provided that the loss of such right shall not adversely impair any Revenues available to pay the Outstanding Bonds of any Series.

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

Other Supplemental Resolutions may become effective only with consent (i) of the Bondowners of at least a majority in principal amount of the Bonds Outstanding at the time such consent is given and (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Bondowners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given.

However, no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price or purchase price thereof or in the rate of interest thereon (except as otherwise provided in a Series Resolution) without the consent of the Bondowners of all such Bonds, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Bondowners of which is required to effect any such modification or amendment or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

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

Certain Rights of GSEs

The Agency in the Program Series Resolution has made certain covenants for the sole benefit of the GSEs so long as any 2009 Series B Bonds are Outstanding, including covenants not to amend or supplement the Bond Resolution without the prior written consent of the GSEs (exclusive of amendments solely to provide for the issuance of Additional Bonds), not to issue variable rate Bonds, not to enter into any Hedge Agreement under the Bond Resolution, and not to exercise its right to make voluntary withdrawals of cash or other assets from the lien of the Bond Resolution except upon certain conditions. Only the GSEs may enforce, or cause the Trustee to enforce, these covenants and either or both GSEs may waive such covenants in their sole discretion.

APPENDIX D

BOOK-ENTRY-ONLY SYSTEM

General

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

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

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

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Series Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the Series Bonds are being redeemed, unless the “Pro-Rata Pass-Through Distribution of Principal” method is employed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such Series Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to any Series Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the bond issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of the principal, redemption price, and interest on with respect to the Series Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the bond issuer or trustee on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Trustee or the Agency, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption price, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC), is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Under the 2012B Series Resolution, payments made by or on behalf of the Agency to DTC or its nominee shall satisfy the Agency’s obligations to the extent of the payments so made.

The above information contained in this section “Book-Entry-Only System” is based solely on information provided by DTC. No representation is made by the Agency or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the Underwriters and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities Exchange Commission, and the current “Procedures” of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriters nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to Owners of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondowner.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to the Series Bonds at any time by giving notice to the Agency and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Series Bonds are required to be delivered as described in the 2012B Series Resolution. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner’s name, is to become the Bondowner.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for the Series Bonds. In such event, the Series Bonds are to be delivered as described in the 2012B Series Resolution.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

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

_____, 2012

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Re: Minnesota Housing Finance Agency
Homeownership Finance Bonds, 2012 Series B (GNMA and FNMA Pass-Through Program)

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the “Agency”) in connection with the authorization, issuance and delivery by the Agency of its Homeownership Finance Bonds, 2012 Series B (GNMA and FNMA Pass-Through Program), in the aggregate principal amount of \$75,000,000 (the “2012 Series Bonds”), which are issuable only as fully registered bonds.

The 2012 Series Bonds are dated, mature on the date, bear interest at the rate and are payable as provided in the Series Resolution referenced below. The 2012 Series Bonds are subject to optional and mandatory redemption prior to maturity, including mandatory redemption at par, as provided in the Series Resolution referenced below.

As bond counsel, we have examined certificates as to facts, estimates and circumstances and certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency’s Bond Resolution adopted December 11, 2009, as amended and supplemented (the “Bond Resolution”), and the Series Resolution relating to the 2012 Series Bonds adopted September 27, 2012 (the “Series Resolution”). As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Applicable federal tax law, including certain provisions of Sections 143 and 148 of the Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements which must be met subsequent to the delivery of the 2012 Series Bonds in order that interest on the 2012 Series Bonds may be excluded from gross income for federal income tax purposes. The Agency has covenanted in the Bond Resolution and Series Resolution to comply with the requirements of applicable federal tax law and for such purpose to adopt and maintain appropriate procedures. In rendering this opinion, we have assumed compliance by the Agency with and enforcement by the Agency of the provisions of the Bond Resolution and Series Resolution.

From such examination it is our opinion that, under state and federal laws, regulations, rulings and decisions in effect on the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Program Obligations, Investment Obligations, Revenues, moneys and other assets held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2012 Series Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are further secured by the pledge of the full faith and credit of the Agency, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, or state laws appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2012 Series Bonds are not a debt of the State; and (4) the interest payable on the 2012 Series Bonds is not includable in gross income of owners thereof for

federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax.

Interest on the 2012 Series Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and interest on the 2012 Series Bonds will not be included in the calculation of adjusted current earnings for purposes of calculating the federal alternative minimum tax imposed on corporations. Interest on the 2012 Series Bonds will not be treated as an item of tax preference for purposes of calculating the Minnesota alternative minimum tax imposed on individuals, trusts and estates. We express no opinion regarding other federal, state or local tax consequences arising from the ownership or disposition of the 2012 Series Bonds. All owners of 2012 Series Bonds (including, but not limited to, insurance companies, financial institutions, Subchapter S corporations, United States branches of foreign corporations and recipients of social security and railroad retirement benefits) should consult their tax advisors concerning other possible indirect tax consequences of owning and disposing of the 2012 Series Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2012 Series Bonds and the Bond Resolution and Series Resolution subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully yours,