

NOTICE

\$8,965,000

Minnesota Housing Finance Agency

\$4,175,000 Rental Housing Bonds 2012 Series A-1 (Non-AMT)

\$4,790,000 Rental Housing Bonds 2012 Series A-2 (Non-AMT))

Official Statement, dated May 10, 2012

The Official Statement, dated May 10, 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**Ratings: Moody's: Aa1
S&P: AA+**

This Official Statement has been prepared by the Minnesota Housing Finance Agency to provide information on 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.

**\$8,965,000****MINNESOTA HOUSING FINANCE AGENCY****\$4,175,000 Rental Housing Bonds, 2012 Series A-1 (Non-AMT)[†]****\$4,790,000 Rental Housing Bonds, 2012 Series A-2 (Non-AMT)[†]****Dated: Date of Delivery****Due: as shown on inside front cover***Tax Exemption*

Interest on the above-captioned bonds (collectively, 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.)

Redemption

The 2012 Series A-1 Bonds are subject to sinking fund, special and optional redemption as described under "The Series Bonds" herein. The 2012 Series A-2 Bonds are subject to special and optional redemption as described under "The Series Bonds" herein.

Security

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, Mortgage Loans, Investments, Revenues and other assets held under the Bond Resolution. The Series Bonds are also general obligations of the Agency, payable out of any of its generally available moneys, assets or revenues. THE AGENCY HAS NO TAXING POWER. THE STATE OF MINNESOTA IS NOT LIABLE FOR THE PAYMENT OF THE SERIES BONDS AND THE SERIES BONDS ARE NOT A DEBT OF THE STATE. (See "Security for the Bonds.")

Interest Payment Dates

February 1 and August 1, commencing August 1, 2012.

Denominations

\$5,000 or any integral multiple thereof.

Closing/Settlement

On or about May 17, 2012 through the facilities of DTC in New York, New York.

Bond Counsel

Kutak Rock LLP, Atlanta, Georgia.

Underwriter's Counsel

Dorsey & Whitney LLP, Minneapolis, Minnesota.

Trustee

Wells Fargo Bank, National Association, in Minneapolis, Minnesota.

Book-Entry-Only System

The Depository Trust Company. (See Appendix F herein.)

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

RBC Capital Markets

The date of this Official Statement is May 10, 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.")

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES

Series A-1 Bonds

\$4,175,000 3.75% Series A-1 Term Bonds Due August 1, 2048 (CUSIP 60416SBF6*)

Series A-2 Bonds

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP</u>
August 1, 2014	\$4,790,000	0.75%	60416SBG4*

Price of all Series Bonds — 100%

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

No dealer, broker, salesman or other person has been authorized by the Minnesota Housing Finance Agency or the Underwriter to give any information or representations, other than those contained in this 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 Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of the information.

In connection with this offering, the Underwriter may over-allot or effect transactions 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.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AGENCY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. 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

INTRODUCTION	4	<u>APPENDIX B</u>	
THE AGENCY	5	AUDITED FINANCIAL STATEMENTS OF THE	
THE DEVELOPMENT	12	AGENCY AS OF JUNE 30, 2011	B-1
THE SERIES BONDS	13	<u>APPENDIX C</u>	
SECURITY FOR THE BONDS	15	FINANCIAL STATEMENTS OF CERTAIN FUNDS OF	
THE RENTAL HOUSING PROGRAM	18	THE AGENCY (EXCLUDING STATE APPROPRIATED	
OTHER PROGRAMS	27	AND FEDERAL APPROPRIATED FUNDS) AS OF	
TAX EXEMPTION AND RELATED		DECEMBER 31, 2011 AND FOR THE SIX MONTHS	
CONSIDERATIONS	27	THEN ENDED (UNAUDITED)	C-1
LITIGATION	30	<u>APPENDIX D</u>	
LEGAL MATTERS	30	SUMMARY OF CONTINUING DISCLOSURE	
FINANCIAL ADVISOR	30	UNDERTAKING	D-1
RATINGS	31	<u>APPENDIX E</u>	
UNDERWRITING	31	SUMMARY OF CERTAIN PROVISIONS OF THE	
MISCELLANEOUS	31	BOND RESOLUTION	E-1
<u>APPENDIX A</u>		<u>APPENDIX F</u>	
DESCRIPTION OF MORTGAGE LOANS AND		BOOK-ENTRY-ONLY SYSTEM	F-1
DEVELOPMENTS PREVIOUSLY FINANCED BY		<u>APPENDIX G</u>	
RENTAL HOUSING BONDS AND PLEDGED AS		FORM OF OPINION OF BOND COUNSEL	G-1
ADDITIONAL SECURITY UNDER THE RENTAL			
HOUSING BOND RESOLUTION AND THOSE			
INTENDED TO BE FINANCED WITH PROCEEDS OF			
THE SERIES BONDS	A-1		

OFFICIAL STATEMENT

relating to

\$8,965,000

MINNESOTA HOUSING FINANCE AGENCY

Rental Housing Bonds, 2012 Series A-1 (Non-AMT)

Rental Housing Bonds, 2012 Series A-2 (Non-AMT)

The purpose of this Official Statement (which includes the cover page, inside front cover and Appendices) is to set forth information concerning the Minnesota Housing Finance Agency (the "Agency"), created by Minnesota Statutes, Chapter 462A, as amended (the "Act"), and its Rental Housing Bonds, 2012 Series A-1 (the "Series A-1 Bonds") and 2012 Series A-2 (the "Series A-2 Bonds" and, together with the Series A-1 Bonds, the "Series Bonds"), in connection with the sale of the Series Bonds by the Agency. The Series Bonds are being issued pursuant to the Act, a resolution of the Agency adopted on February 25, 1988, as heretofore and hereafter amended and supplemented (as so amended and supplemented, the "Bond Resolution"), and a series resolution of the Agency adopted April 26, 2012 relating to the Series Bonds (the "Series Resolution"); the Bond Resolution and the Series Resolution are herein sometimes called the "Resolutions." The Series Bonds and any Rental Housing Bonds heretofore and hereafter issued and Outstanding pursuant to the Bond Resolution will be equally and ratably secured under the Bond Resolution and are herein sometimes called the "Bonds." Bonds Outstanding under the Bond Resolution as of March 31, 2012 aggregated \$140,430,000 in principal amount.

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

INTRODUCTION

The Agency is a public body corporate and politic, constituting an agency of the State of Minnesota.

The Act authorizes the Agency to issue bonds for the purpose, among other purposes, of making long-term mortgage loans to sponsors of residential housing for occupancy by persons and families of low and moderate income 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 and home energy loans and to finance multifamily housing developments. In addition to those programs, which are financed through the issuance of debt, the Agency finances grants and loans through State and Federal appropriations and through its assets in its Alternative Loan Fund in the Residential Housing Finance Program Fund. Please refer to the "Net Assets Restricted by Covenant" footnote included in the notes to the financial statements of the Agency included in Appendix B.

The proceeds of Bonds issued pursuant to the Bond Resolution are used to finance a portion of the activities undertaken pursuant to the Rental Housing Program (the "Program"). The Program is administered by the multifamily division of the Agency. The purpose of the Program is to increase the supply of and to maintain and improve the rental housing stock in Minnesota that is affordable to low and moderate income households. The Program has also provided financing for nonprofit group homes for the developmentally disabled. Through the use of bond financing and other funding sources, the Program is intended generally to provide long-term, fixed rate, first lien (or second lien if the Agency also holds the first lien) mortgage loans ("Mortgage Loans"), and, under certain circumstances, subordinate mortgage loans ("Subordinate Mortgage Loans"), to finance the construction, acquisition, rehabilitation or refinancing of multifamily rental housing and group home developments (the

“Developments”). The Bond Resolution authorizes, upon conditions set forth therein, the issuance of additional series of Bonds on a parity with the Outstanding Bonds, including the Series Bonds.

In recognition of certain risks inherent in mortgage lending, the Agency has adopted policies and review procedures for detailed evaluation of the Developments which it finances prior to making Mortgage Loan commitments. To assure completion of rehabilitation, construction and proper maintenance, the Agency has established reserve and escrow requirements and procedures for regulating and monitoring operations with respect to such Developments. The procedures presently employed by the Agency to reduce such risks are described more fully herein. (See “The Rental Housing Program.”)

The Agency intends to use the proceeds of the Series Bonds for the following purposes: (i) proceeds of the Series A-1 Bonds will be used primarily to fund a long-term first lien mortgage loan, and (ii) proceeds of the Series A-2 Bonds will be used to fund a short-term second lien mortgage loan, both to a private owner that will finance a portion of the costs of the acquisition and rehabilitation of a multifamily housing development in Edina, Minnesota. (See “The Development.”) The Series Bonds are general obligations of the Agency payable from any of its moneys, assets or revenues, subject to the provisions of other resolutions and indentures now or hereafter pledging particular moneys, assets or revenues, to particular notes or bonds, and federal or State laws heretofore or hereafter enacted appropriating funds to the Agency for a specified purpose. The net 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. (For purposes of the Resolutions, the General Reserve is designated as the General Reserve Account.) (See “The Agency — Net Assets Restricted By Covenant and Operations to Date – General Reserve; Alternative Loan Fund.”)

There are further pledged as security for the payment of the Series Bonds (on a parity with the Outstanding Bonds issued and to be issued under the Bond Resolution) amounts on deposit and investments in certain accounts and funds established pursuant to the Resolutions, including the Debt Service Reserve Fund established pursuant to the Bond Resolution in accordance with the Act. Under the Act, upon certification by the Agency, the State Legislature may, but is not required to, appropriate amounts which may be necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement. (See “Security for the Bonds.”)

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

The Agency has no taxing power. Neither the State of Minnesota nor any political subdivision thereof is or 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

Barbara Sanderson, Member — Term expires January 2012, Grand
Rapids, Minnesota – Writer/Facilitator*

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

*Serves until a successor has been appointed.

Staff

The staff of the Agency presently consists of approximately 219 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 served 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 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 Kappahn — Director of Finance effective September 2008. Mr. Kappahn has managed debt and investments for the Agency since September 2007. Previously Mr. Kappahn 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. Kappahn 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.

Marcia Kolb — Assistant Commissioner, Multifamily, effective May 2012. Prior to that appointment, Ms. Kolb served the Agency for 28 years in a variety of progressively more responsible positions in Single Family, Multifamily and Finance and Operations. From 1990 to 2010 Ms. Kolb was the manager of the Multifamily underwriting staff responsible for underwriting, tax credit allocation, supportive housing, rental rehabilitation loans and real estate closings. She also served as an agency-wide coordinator of a talent and strategy management initiative. Before her work at the Agency, she was a partner in a general contracting and real estate development company. Ms. Kolb holds a Bachelor of Arts degree from Metropolitan State University and a Masters degree in Business Administration from Bethel University.

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, 2011, included in this Official Statement as Appendix B have been audited by LarsonAllen LLP, 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, 2011.

Financial Statements of the Agency

The Agency financial statements included in this Official Statement as Appendix B as of and for the fiscal year ended June 30, 2011 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.

In Appendix C to this Official Statement, the Agency has included certain unaudited financial statements of the Agency (excluding State Appropriated and Federal Appropriated Funds) as of and for the six months ended December 31, 2011. The information in Appendix C has been prepared by the Agency and, in the opinion of the Agency, reflects all normal recurring adjustments and information necessary for a fair statement of the financial position and results of operations of those Funds for the period, subject to year-end adjustments. The information in Appendix C is not accompanied by a statement from the independent auditors.

Disclosure Information

The Agency will covenant in a Continuing Disclosure Undertaking for the benefit of the Holders and Beneficial Owners (as defined in Appendix D hereto) of the Series Bonds to provide annually certain financial information and operating data relating to the Agency (the “Agency Annual Report”) and to provide notices of the occurrence of certain enumerated events. (There is no other obligated person under the Continuing Disclosure Undertaking.) The Agency 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, 2012, with the Municipal Securities Rulemaking Board, at its internet repository named “Electronic Municipal Market Access” (“EMMA”). The notices of the occurrence of events, if any, are also to be filed with EMMA. (See “Appendix D — 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 D — Summary of Continuing Disclosure Undertaking.” These covenants have been made in order to assist the Underwriter 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 semiannual disclosure report for the Bond Resolution and a quarterly disclosure report for its single family bond resolutions. Recent reports are available at the Agency’s website at <http://www.mnhousing.gov/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 \$674.5 million, representing the combined net assets of these funds so calculated as of June 30, 2011. 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, 2011 appears in the notes to the financial statements of the Agency included in Appendix B under the heading "Net Assets Restricted by Covenant" at pages 53 and 54 therein (however, the amounts of the Pool 2 requirement as of June 30, 2011 and June 30, 2010 on page 53 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 and for the six-month period ended December 31, 2011 (unaudited) (in thousands):

	Six Months Ended December 31, 2011 <u>(unaudited)</u>	Fiscal Year Ended <u>June 30, 2011</u>	Fiscal Year Ended <u>June 30, 2010</u>
Revenues			
Fees earned and other income ⁽¹⁾	\$ 4,413	\$10,289	\$ 8,907
Interest earned on investments	(11)	292	342
Unrealized gain (loss) on investments	70	(95)	25
Administrative reimbursement ^{(2), (3)}	<u>10,812</u>	<u>20,733</u>	<u>21,658</u>
Total revenues	15,284	31,219	30,932
Expenses			
Salaries and benefits	8,557	17,716	17,815
Other general operating expenses	<u>3,029</u>	<u>5,714</u>	<u>8,820</u>
Total expenses	11,586	23,430	26,635
Revenues over expenses	3,698	7,789	4,297
Non-operating transfer of assets between funds ⁽⁴⁾	(5,365)	(10,029)	(6,794)
Change in net assets	(1,667) ⁽⁵⁾	(2,240) ⁽⁵⁾	(2,497) ⁽⁵⁾
Net assets beginning of period	<u>21,929</u>	<u>24,169</u>	<u>26,666</u>
Net assets end of period	<u>\$20,262</u>	<u>\$21,929</u>	<u>\$24,169</u>

-
- (1) Fees earned consist primarily of fees collected in conjunction with the administration of the low income housing tax credit program and HUD contract administration of certain non-Agency financed Section 8 developments.
- (2) 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 B to this Official Statement for additional information.
- (5) The significant reductions in net assets for fiscal years 2010 and 2011 and the first six months in fiscal year 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 a mortgage-backed securities 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 administrative or general operating 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 March 31, 2012:

	Number of Series*	Final Maturity	Original Principal Amount* (in thousands)	Principal Amount Outstanding (in thousands)
Rental Housing Bonds	27	2047	\$ 496,895	\$ 140,430
Residential Housing Finance Bonds	63	2048	2,186,680	1,443,980
Single Family Mortgage Bonds	24	2035	505,215	81,085
Homeownership Finance Bonds	14	2041	549,675	543,445
Multifamily Housing Bonds (Treasury HFA Initiative)	1	2051	15,000	15,000
Total Debt Outstanding	129		\$3,753,465	\$2,223,940

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

The Agency called for redemption on May 1, 2012 from excess funds available under the applicable bond resolution \$43,525,000 in aggregate principal amount of Bonds (including all Outstanding Bonds of the following series: 1995 Series C-2, 1995 Series D, 1997 Series A, 1998 Series A, 1998 Series B, 1998 Series C, 1999 Series A, 1999 Series B, 2000 Series A, 2000 Series B, 2001 Series A, and 2002 Series A) and \$27,235,000 in aggregate principal amount of its Residential Housing Finance Bonds.

On April 26, 2012, the Agency issued \$150,750,000 in aggregate principal amount of Residential Housing Finance Bonds and used a portion of the proceeds thereof, with other available funds of the Agency, to defease all then outstanding Single Family Mortgage Bonds.

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 B to this Official Statement and in the unaudited financial statements contained in Appendix C to this Official Statement. No representation is made as to the creditworthiness of any provider or counterparty on such facilities and agreements. On March 28, 2012, the Agency consented to the assignment by UBS AG, Stamford Branch, to The Bank of New York Mellon of the outstanding swap agreements relating to Residential Housing Finance Bonds. There was no change in the financial terms of the swap agreements and the Agency made no payments to either UBS AG, Stamford Branch, or the Bank of New York Mellon in connection with the novation of the swap 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 March 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.

THE DEVELOPMENT

The Development

The Agency intends to use the proceeds of the Series A-1 Bonds to make a long-term first lien Mortgage Loan and the proceeds of the Series A-2 Bonds to make a short-term second lien Mortgage Loan that will finance a portion of the costs of the acquisition and rehabilitation of a multifamily housing development. The Development, known as Yorkdale Townhomes, is a multi-building rental family development having a primary address of 7401 York Avenue South, Edina, Minnesota 55435, and was substantially completed and originally placed in service in 1980. The Development has a total of 90 residential units (all subject to a U.S. Department of Housing and Urban Development Section 8 Housing Assistance Payment Contract) located in eight townhome style buildings intended for general occupancy. The Development also includes 90 garage stalls contained in five free-standing banks and will also include a new stand-alone community building that will be available to the residents of the Development. The total development cost, including acquisition and rehabilitation, is estimated to be approximately \$17.4 million, including total rehabilitation costs of approximately \$6.1 million. The rehabilitation is expected to be completed by March 31, 2013.

The Agency expects to use the proceeds of the Series A-1 Bonds to be deposited in the Mortgage Loan Account to make a fully amortizing first lien Mortgage Loan with respect to the Development in May 2012. The first Mortgage Loan, in the principal amount of approximately \$4.175 million, will be insured under the HUD Risk-Sharing Program, with HUD through the Federal Housing Administration insuring 100% of any loss less certain deductions and the Agency reimbursing HUD for 50% of any loss. (See “The Rental Housing Program—Low and Moderate Income Rental Program.”) The first lien Mortgage Loan has been established in an amount estimated to be

supported by the net operating income of the Development. The Agency will also make a non-amortizing second lien bridge Mortgage Loan with respect to the Development, which is expected to close in May 2012 and will mature in full on July 1, 2014 in the total principal amount of approximately \$4.79 million, from the proceeds of the Series A-2 Bonds. The bridge Mortgage Loan will not be insured, but is expected to be repaid from equity contributions from the tax credit investor and will be secured in part by a guaranty from an affiliate of the general partner of the borrower and in part from proceeds of the deferred interest loan described in the next sentence. The Agency will also make a subordinate non-amortizing deferred interest loan in the principal amount of approximately \$2.895 million for this Development from Agency resources other than the proceeds of the Series Bonds or other Bonds.

The Development is benefited by a project-based Section 8 Housing Assistance Payments Contract (the “HAP Contract”) originally entered into with HUD in 1979, which has an expiration date of January 7, 2019. The borrower will enter into a covenant with the Agency under which it agrees to take all actions necessary to maintain housing assistance benefits for the Development during the life of the Mortgage Loans, to the extent housing assistance benefits are available from HUD or other sources. There is no assurance that housing assistance benefits will be made available after the expiration of the existing HAP Contract or that the available housing assistance benefits will provide assistance at rent levels equal to the levels provided under the existing HAP Contract. (See “The Rental Housing Program—Section 8 Housing Assistance Payment Program.”)

As a result of the issuance of the Series Bonds, at least 87 of the dwelling units in the Development will be eligible for low income housing tax credits under Section 42 of the Internal Revenue Code of 1986, as amended. Occupancy in these units will be limited to households with incomes at initial occupancy at or below 60% of the area median income, adjusted for household size.

Estimated Sources and Uses of Series Bond Proceeds and Agency Funds

The estimated sources and uses of proceeds of the Series Bonds and funds to be contributed by the Agency are as follows:

Sources:

Principal Amount of Series Bonds	\$8,965,000
Agency Contribution	<u>424,627</u>
Total Sources of Funds.....	<u>\$9,389,627</u>

Uses:

Series A-1 Mortgage Loan Account	\$4,175,000
Series A-2 Mortgage Loan Account	4,790,000
Debt Service Reserve Fund	225,000
Revenue Fund	30,000
Cost of Issuance Account	<u>169,627</u>
Total Uses of Funds	<u>\$9,389,627</u>

THE SERIES BONDS

The Series Bonds are issuable only as fully registered bonds 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.

The Series A-1 Bonds are issuable as term bonds in the denominations of \$5,000 or any integral multiple thereof each of a single stated maturity. The Series A-2 Bonds are issuable as bonds of a single stated maturity in the denominations of \$5,000 or any integral multiple thereof. The Series Bonds mature, subject to redemption as herein described, on the dates and in the amounts set forth on the inside front cover hereof.

The Series Bonds bear interest from their respective dated dates, payable semiannually thereafter on February 1 and August 1 of each year, commencing August 1, 2012, at the respective rates set forth on the inside front cover hereof until payment of the principal or redemption price on such Bonds. As long as a series of the

Series Bonds is in book-entry form, interest on such 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. (See Appendix F – “Book-Entry-Only System.”)

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

Sinking Fund Redemption of Series A-1 Bonds

The Series A-1 Bonds are subject to mandatory redemption in part on each February 1 and August 1, commencing February 1, 2014 and concluding February 1, 2048, at their principal amount plus accrued interest, without premium, from funds in the Sinking Fund Account, in the years and in the principal amounts as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
February 1, 2014	\$15,000	August 1, 2031	\$ 55,000
August 1, 2014	20,000	February 1, 2032	55,000
February 1, 2015	20,000	August 1, 2032	55,000
August 1, 2015	25,000	February 1, 2033	60,000
February 1, 2016	30,000	August 1, 2033	60,000
August 1, 2016	30,000	February 1, 2034	60,000
February 1, 2017	35,000	August 1, 2034	60,000
August 1, 2017	35,000	February 1, 2035	65,000
February 1, 2018	35,000	August 1, 2035	65,000
August 1, 2018	35,000	February 1, 2036	65,000
February 1, 2019	35,000	August 1, 2036	65,000
August 1, 2019	35,000	February 1, 2037	70,000
February 1, 2020	35,000	August 1, 2037	70,000
August 1, 2020	40,000	February 1, 2038	70,000
February 1, 2021	40,000	August 1, 2038	75,000
August 1, 2021	40,000	February 1, 2039	75,000
February 1, 2022	40,000	August 1, 2039	75,000
August 1, 2022	40,000	February 1, 2040	80,000
February 1, 2023	40,000	August 1, 2040	80,000
August 1, 2023	45,000	February 1, 2041	80,000
February 1, 2024	45,000	August 1, 2041	85,000
August 1, 2024	45,000	February 1, 2042	85,000
February 1, 2025	45,000	August 1, 2042	85,000
August 1, 2025	45,000	February 1, 2043	90,000
February 1, 2026	45,000	August 1, 2043	90,000
August 1, 2026	50,000	February 1, 2044	90,000
February 1, 2027	50,000	August 1, 2044	95,000
August 1, 2027	50,000	February 1, 2045	95,000
February 1, 2028	50,000	August 1, 2045	100,000
August 1, 2028	55,000	February 1, 2046	100,000
February 1, 2029	50,000	August 1, 2046	100,000
August 1, 2029	50,000	February 1, 2047	105,000
February 1, 2030	50,000	August 1, 2047	105,000
August 1, 2030	50,000	February 1, 2048	110,000
February 1, 2031	55,000	August 1, 2048 (maturity)	95,000

Upon optional redemption of Series A-1 Bonds or any purchase and cancellation thereof by the Agency, the principal amount of such Series A-1 Bonds so redeemed or purchased may be credited toward one or more Sinking Fund Installments thereafter to become due on Series A-1 Bonds in the manner specified by the Agency. The portion of any Sinking Fund Installment remaining after the deductions credited to such payments is the unsatisfied balance

of such Sinking Fund Installment with respect to the Series A-1 Bonds for the purpose of calculating the payment due on or scheduled for a future date.

Special Redemption at Par

The Series Bonds are subject to special redemption, at the option of the Agency, in whole or in part on any date, at a redemption price equal to the principal amount thereof plus accrued interest, without premium, (i) from unexpended proceeds of the Series Bonds not used to finance the Development, together with amounts allocable to the Development on deposit in the Debt Service Reserve Fund; (ii) in the event the Agency receives or recovers Recovery Payments (as defined in Appendix E) relating to the Development; and (iii) with respect to the Series A-1 Bonds, in the event the Agency receives a Prepayment relating to the Development upon a determination by HUD that such Prepayment will avoid a mortgage insurance claim and is therefore in the best interests of the federal government. The Agency will apply any such unexpended proceeds, Recovery Payments or Prepayments to the redemption of Series Bonds, as determined by the Agency. If such Recovery Payments or Prepayments are not sufficient to redeem all Outstanding Series Bonds as aforesaid, the Agency reserves the right to apply other funds to the special redemption of the Series Bonds, in addition to the Recovery Payments or Prepayments.

Optional Redemption

The Series A-1 Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2022, in such amounts as the Agency may designate, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium. The Series A-2 Bonds are subject to redemption at the option of the Agency, in whole or in part, on any date on or after August 1, 2013, in such amounts as the Agency may designate, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium.

General Redemption Provisions

Any Series Bonds to be redeemed other than upon mandatory sinking fund redemption shall be redeemed only upon receipt by the Trustee of a certificate signed by an authorized officer of the Agency and stating the series and principal amount of the Series Bonds to be redeemed. If less than all Series Bonds of a series are to be redeemed, the Series Bonds of such series to be redeemed are to be selected in \$5,000 principal amounts at random by the Trustee. The Agency shall not at any time cause Series Bonds to be optionally redeemed if this would have any material adverse effect on its ability to pay when due the principal of and interest on the Bonds Outstanding after such redemption.

The Trustee is required to mail a copy of the notice of redemption to the registered owner of any Series Bond called for redemption at least 30 days prior to the redemption date. Any defect in or failure to give the required mailed notice of redemption shall not affect the validity of any proceedings for the redemption of Series Bonds not affected by such defect or failure.

SECURITY FOR THE BONDS

Outstanding Bonds, including the Series Bonds, are secured as provided in the Bond Resolution by a pledge and a grant of a security interest in (a) all proceeds of the sale of Bonds (other than proceeds deposited in trust for the retirement of outstanding bonds and notes), (b) all Mortgage Loans and Investments made or purchased from such proceeds, (c) all Revenues as defined in the Bond Resolution, and (d) money, Investments, and other assets and income held in and receivables of Funds established by or pursuant to the Bond Resolution. The Bonds, including the Series Bonds, are also general obligations of the Agency, payable out of any of its moneys, assets or revenues, subject only to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets or revenues to particular notes or Bonds, and federal or State laws heretofore or hereafter enacted pledging particular funds for a specified purpose. The pledge and security interests granted by the Bond Resolution shall be for the equal benefit, protection and security of Holders of all Bonds, including the Series Bonds.

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

Mortgage Loans

The Bond Resolution requires, except in certain circumstances hereinafter described, that each Mortgage Loan be secured by a first mortgage lien (subject to permitted encumbrances) on the real property or leasehold interest of the Mortgagor under a lease with a term at least twice the length of the term of the Bonds which is the site of the Development financed by such Mortgage Loan, and all improvements thereon. At the initial closing for each Development, the Agency receives a recorded Mortgage and a mortgagee's title insurance policy in the amount of the Mortgage Loan. The Agency may also participate with other parties in the making of a Mortgage Loan if the Agency's mortgage lien, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Bond Resolution also permits the Agency, if it holds a Mortgage that constitutes a first mortgage lien on a Development, to make an additional Mortgage Loan for the Development and secure such additional Mortgage Loan by a Mortgage on a parity with or junior and subordinate to the first lien Mortgage held by the Agency. In addition, the Bond Resolution allows the Agency to make Subordinate Mortgage Loans with respect to a Development upon such terms and conditions as the Agency may deem appropriate, but solely from amounts which would otherwise be available to be removed by the Agency from the lien of the Bond Resolution.

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

The scheduled payments of the Principal Installments of and interest on the Bonds are generally based on the receipt of scheduled payments by the Agency on the Mortgage Loans and any Subordinate Mortgage Loans, together with capitalized interest and estimated investment income of certain Funds and Accounts established by the Bond Resolution, to the extent provided therein. The ability of the Mortgagors to make scheduled payments to the Agency depends, among other things, on the Developments achieving and sustaining occupancy and rental levels necessary to generate rental income which, together with any applicable subsidies, is expected to be sufficient to meet the required loan payments, to fund required reserves and escrows and to meet operating expenses. Under the Bond Resolution, the Agency (unless otherwise required by any agency of the United States guaranteeing, insuring or otherwise assisting in the payment of the Mortgage Loan or Subordinate Mortgage Loan) may give its consent to Prepayment of a Mortgage Loan or Subordinate Mortgage Loan only if certain conditions as described under the caption "Summary of Certain Provisions of the Bond Resolution — Mortgage Provisions and Conditions — Prepayments" in Appendix E hereto have been met. If any Mortgage Loan or Subordinate Mortgage Loan goes into default or investment income differs from the amounts estimated to be received, the amount of money available for the payment of Principal Installments of and interest on the Bonds may be adversely affected; however, as is described elsewhere in this Official Statement, moneys may be available from other sources, including the Debt Service Reserve Fund.

Appendix A to this Official Statement contains a brief description of the Mortgage Loans outstanding as of December 31, 2011, that have been financed by Bonds and that have been pledged as additional security under the Bond Resolution for the payment of Outstanding Bonds. Appendix A does not include two Mortgage Loans relating to the Development that are currently outstanding but that will be discharged upon the issuance of the Series Bonds.

Debt Service Reserve Fund

The Debt Service Reserve Requirement for the Series A-1 Bonds is \$225,000, which is not less than the maximum annual debt service payable on Outstanding Series A-1 Bonds in any future fiscal year of the Agency. Upon issuance of the Series A-1 Bonds, Investment Obligations valued at not less than \$225,000, as calculated under the Bond Resolution, and acquired with Agency funds, not proceeds of the Series Bonds, will be deposited into the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the Series A-1 Bonds.

No funds will be credited to the Debt Service Reserve Fund with respect to the Series A-2 Bonds (and the Debt Service Reserve Requirement in respect of the Series A-2 Bonds will be \$0.00), since, in addition to the other security provided pursuant to the Bond Resolution, payment of principal with respect to the bridge loan funded by the Series A-2 Bonds will be secured as described under “The Development.”

Upon issuance of the Series Bonds, the aggregate Debt Service Reserve Requirement for the Bond Resolution will be approximately \$17,376,200 and the value of the investments in the Debt Service Reserve Fund as calculated under the Bond Resolution will not be less than the aggregate Debt Service Reserve Requirement. The Debt Service Reserve Fund secures all Bonds issued under the Bond Resolution, including the Series Bonds, on a parity basis.

The Act provides that the Agency may create and establish one or more debt service reserve funds for the security of its bonds. The moneys held in or credited to a debt service reserve fund shall be used solely for the payment of principal of bonds of the Agency as the same mature, the purchase of such bonds, the payment of interest thereon or the payment of any premium required when such bonds are redeemed before maturity, provided that the moneys in such fund shall not be withdrawn therefrom at any time in such amount as would reduce the amount reasonably necessary for the purposes of the fund, except for the purpose of paying principal and interest due on the bonds secured by the fund for the payment of which other moneys of the Agency are not available. The Agency shall not issue any additional bonds or notes which are secured by a debt service reserve fund if the amount in that debt service reserve fund or any other debt service reserve fund at the time of such issuance does not equal or exceed the minimum amount required by the resolution creating such fund unless the Agency shall deposit in each such fund at the time of such issuance from the proceeds of the bonds or otherwise an amount which, together with the amount then in the fund, will be no less than the minimum amount so required. The Act further provides that:

In order to assure the payment of principal and interest on bonds and notes of the agency and the continued maintenance of all debt service reserve funds created and established therefor, the agency shall annually determine and certify to the governor, on or before December 1, (a) the amount, if any, then needed to restore each debt service reserve fund to the minimum amount required by the resolution or indenture establishing the fund, not exceeding the maximum amount of principal and interest to become due and payable in any subsequent year on all bonds or notes which are then outstanding and secured by such fund; and (b) the amount, if any, determined by the agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received during that year, for the payment of the principal and interest due and payable in that year on all then outstanding bonds and notes secured by a debt service reserve fund the amount of which is then less than the minimum amount agreed. The governor shall include and submit to the legislature, in the budget for the following fiscal year, or in a supplemental budget if the regular budget for that year has previously been approved, the amounts certified by the agency
.....

In the opinion of Bond Counsel and counsel to the Agency, the Legislature is legally authorized, *but not legally obligated*, to appropriate such amounts to the Debt Service Reserve Fund.

Additional Bonds

The Bond Resolution permits the issuance of additional Bonds, upon the adoption of a series resolution, to provide funds for the purpose of financing Mortgage Loans for Developments under the Agency’s programs of making Mortgage Loans and, in addition, to refund outstanding Bonds or other obligations issued to finance Mortgage Loans, upon certain conditions contained therein (see Appendix E – “Summary of Certain Provisions of the Bond Resolution—Additional Bonds”), without limitation as to amount except as may from time to time be

provided by law. Any additional Bonds issued under the Bond Resolution will be on a parity with the Series Bonds and the Outstanding Bonds, and will be entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the Bond Resolution.

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

State Pledge Against Impairment of Contracts

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

THE RENTAL HOUSING PROGRAM

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

The precise nature of the multifamily housing programs financed under the Bond Resolution has varied over the years and is expected to continue to vary based on the housing needs of the State of Minnesota and resources available to address those needs. There follows a description of the housing programs for which there are loans outstanding which were either funded from Bond proceeds under the Bond Resolution or are pledged as additional security under the Bond Resolution. All of the Developments financed under the Bond Resolution in recent years have been processed under the Low and Moderate Income Rental Program. Recently originated loans have included the acquisition and rehabilitation of existing market rate rental properties, and loans for the preservation of existing Federal subsidies under the Section 8 and Section 236 programs.

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

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

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

- Apartment Renovation Mortgage Program

The following table provides summary data regarding the outstanding loans financed or pledged as a portion of the security for the Rental Housing Bond Resolution as of December 31, 2011 for the programs as listed above:

Rental Housing Program Mortgage Loan Program Summary as of December 31, 2011

Program	<u>Number of Loans</u>	<u>Number of Units</u>	<u>Outstanding Loan Amount</u>	<u>Percentage of Total Amount</u>
Section 8 Housing Assistance Payments Program*	115	5,632	\$86,419,765	48.01%
Apartment Renovation Mortgage Program	5	140	1,395,848	0.78
Low and Moderate Income Rental Program**	38	2,734	79,167,239	43.98
Market Rate Mortgage Loan Program ...	6	265	3,440,070	1.91
Section 236 Interest Reduction Payments Program***	<u>8</u>	<u>543</u>	<u>9,587,457</u>	<u>5.33</u>
	<u>172</u>	<u>9,314</u>	<u>\$180,010,379</u>	<u>100.00%</u>

*Includes two FHA-insured loans for Developments with 91 aggregate units and an aggregate outstanding loan amount of \$933,384.

**Includes 17 HUD Risk-Sharing loans for Developments with 1,718 aggregate units and an aggregate outstanding loan amount of \$49,447,496. Also includes three FHA-insured loans for Developments with 447 units and an aggregate outstanding loan amount of \$7,337,187.

***Includes one FHA-insured loan for a Development with 31 units and an outstanding loan amount of \$126,754.

Low and Moderate Income Rental Program

The Low and Moderate Income Rental Program (the "LMIR Program") is the program under which the Agency is currently making loans funded from the proceeds of Bonds issued under the Bond Resolution. Some of the loans involve the preservation of existing federal housing subsidies. The federal housing subsidies preserved in connection with loans under the LMIR Program have included Section 8 project based assistance and Interest Reduction Payments Contracts under Section 236, both of which subsidy programs are described below. Most recent developments financed under this program have also benefited from the receipt of federal low-income tax credits.

In the LMIR Program, which is administered by the Multifamily Division of the Agency, the Agency uses the proceeds of Bonds issued under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The Agency, under the LMIR Program, may also use its general reserves to provide permanent and construction loan financing for the acquisition/rehabilitation, refinance/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds or reserves are loaned by the Agency to nonprofit or limited profit entities that agree to construct or rehabilitate the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. Several of the loans made under the LMIR Program have been insured under the FHA Section 223(a)(7) and 241 insurance programs. Generally, loans financed under the LMIR Program have one or more low or non-interest bearing, non-amortizing subordinate mortgages that facilitate keeping rents below market rate levels and reduce the amount of amortizing debt.

In the Agency's administration of its LMIR Program, the Agency has made Mortgage Loans of up to 100% of total development costs. Mortgage Loans for Developments are generally made for terms of 30 to 40 years.

HUD Risk-Sharing Program

As part of the LMIR Program under the Bond Resolution, the Agency has made and expects to make Mortgage Loans under the Department of Housing and Urban Development Housing Finance Agency Risk-Sharing

Program for Insured Affordable Multifamily Project Loans (“HUD Risk-Sharing Program”). Section 542(c) of the Housing and Community Development Act of 1992, as amended (the “Risk-Sharing Act”) authorized the Secretary of HUD to enter into risk-sharing agreements with qualified state or local housing finance agencies (“HFAs”) to enable those HFAs to underwrite and process loans for which HUD, acting through the Federal Housing Administration (“FHA”), will provide full mortgage insurance for eligible projects. HUD has promulgated regulations at 24 C.F.R. Part 266 (the “Regulations”) pursuant to the Risk-Sharing Act. The HUD Risk-Sharing Program allows HFAs to carry out certain HUD functions, including the assumption of underwriting, loan management and property disposition functions and responsibility for defaulted loans, and provides for reimbursement of HUD for a portion of the loss from any defaults that occur while the HUD contract of mortgage insurance is in effect.

The HUD Risk-Sharing Program requires that an interested HFA first be approved as a qualified housing finance agency. Upon notification of approval as a qualified HFA, the HFA must execute a risk-sharing agreement between the Commissioner of FHA and the HFA. The risk-sharing agreement must state the agreed upon risk apportionment between HUD and the HFA, the number of units allocated to the HFA, a description of the HFA’s standards and procedures for underwriting and servicing loans, and a list of HFA certifications designed to assure its proper performance.

Projects eligible to be insured under the HUD Risk-Sharing Program include projects receiving Section 8 or other rental subsidies, single room occupancy projects, board and care/assisted living facilities and elderly projects. Transient housing or hotels, projects in military impact areas, retirement service centers, and nursing homes or intermediate care facilities are specifically excluded from eligibility for insurance under the program.

The Agency has been designated by HUD as a “qualified HFA” under the Risk-Sharing Act. The Agency has entered into a risk-sharing agreement with HUD dated as of May 3, 1994 (the “Risk-Sharing Agreement”) which sets out the terms for the Agency’s participation in the HUD Risk-Sharing Program. The Agency has a “Level I” and “Level II” approval under the regulations, which means the Agency agrees to reimburse HUD for 50% or from 10% to 50% of any losses incurred as a result of a default under a HUD Risk-Sharing Program loan. “Level I” approval permits the Agency to use its own underwriting standards and loan terms and conditions (as disclosed and submitted with its application) to underwrite and approve loans with review and approval by the local HUD office. Substantially all of the Developments committed to be financed to date under the HUD Risk-Sharing Program have been insured based upon a 50/50 split of any losses.

Prior to funding of a Mortgage Loan by the Agency, HUD issues a Risk-Sharing Firm Approval Letter under which it agrees to endorse the Mortgage Note either at closing (in which case all advances are insured) or upon completion of construction and satisfaction of various conditions relating to the Mortgage Loan, including funding of all anticipated sources of funds. If the Mortgage Note is not endorsed until completion of construction, HUD is not obligated to reimburse the Agency for any losses which occur as a result of a default under the loan documents prior to completion of construction and endorsement of the Mortgage Note for insurance by HUD.

A mortgagee under an FHA-insured mortgage is entitled to receive the benefits of insurance after the mortgagor has defaulted and such default continues for a period of 30 days. If the default continues to exist at the end of the 30-day grace period, the mortgagee is required to give HUD written notice of the default within 10 days after such grace period and monthly thereafter, unless waived by HUD, until such default has been cured or the Agency has filed an application for an initial claim payment. Unless a written extension is granted by HUD, the Agency must file an application for initial claim payment (or, if appropriate, for partial claim payment) within 75 days from the date of default unless extended at the request of the HFA. The initial claim amount is based on the unpaid principal balance of the mortgage note as of the date of default, plus interest at the mortgage note rate from the date of default to the date of initial claim payment. HUD must make all claim payments in cash. The initial claim payment is equal to the initial claim amount, less any delinquent mortgage insurance premiums, late charges and interest assessment under the Regulations. Within 30 days of the initial claim payment, the HFA must use the proceeds of the initial claim payment to retire any bonds or any other financing mechanisms and must also issue to HUD a debenture, payable in five years unless extended, in an amount equal to the amount of the initial claim payment, representing the HFA’s reimbursement obligation to HUD under its Risk-Sharing Agreement.

The Regulations provide that not later than 30 days after either (1) foreclosure sale or sale after acceptance of a deed-in-lieu of foreclosure or (2) expiration of the term of the HFA debenture, loss on the mortgaged property is

determined and allocated between HUD and the HFA in accordance with their respective percentages of risk specified in the mortgage note and risk-sharing agreement.

The Agency Regulatory Agreement

The uninsured Section 8-assisted Developments and Developments financed under the LMIR and HUD Risk-Sharing Programs are all subject to regulatory agreements with the Agency regulating their rents, distributions, occupancy, management and operation. The regulatory agreements are in effect during the entire term of the Mortgage Loan. Under the regulatory agreements, a limited-profit or nonprofit owner may not make distributions to its partners or members in any one year in excess of a percentage of its initial equity in a Development. The allowable percentage of equity ranges from 6% to 15%, depending on the program under which the Mortgage Loan was financed.

Section 8 Program

General Description

Under the Section 8 Program, HUD provides for the payment of a subsidy for the benefit of low income families, which are defined generally as those families whose incomes do not exceed 80% of the median income for the area, as determined by HUD. Until recent years, almost all of the Developments with Section 8 subsidies financed by the Agency were financed from a set-aside from HUD under which the Developments were underwritten and financed by the Agency. The Agency entered into Traditional Contract Administration (TCA) Annual Contributions Contracts (“ACC”s) with HUD and Section 8 Housing Assistance Payments Contracts (“HAP Contracts”) with owners under which the subsidy payments were made on behalf of tenants in the Developments. Pursuant to the ACC for each Development, HUD committed funding through the entire term of the HAP Contract. The Agency receives monthly subsidy payments with respect to each assisted dwelling unit, and then in turn disburses or credits monthly housing assistance payments to the owner of the Development under the HAP Contract. In addition, several of these Developments also received an Agency first mortgage loan, some of which were insured under an FHA insurance program. Some of these Developments received the benefit of a 20-year HAP Contract directly between the owner and HUD. For eight of these Developments, the original HAP Contracts have expired. After the initial contract expiration, many of these HAP Contracts have been renewed for a period of 20 years. The owner has the option to renew for a shorter term. It is anticipated, but not assured, that HUD will continue to provide the opportunity for owners to renew expiring HAP Contracts under the provisions of Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997, as amended. In recent years, the Agency has provided new financing (deferred or amortizing) to Developments with HAP Contracts, many in conjunction with a Declaration of Covenants, Conditions and Restrictions pursuant to which the owner has agreed to continuously renew the HAP Contract through the maturity date of the Agency’s Mortgage Loan. It is anticipated, but not assured, that the federal government will continue to provide these owners with the option to renew their HAP Contracts upon expiration. Renewals of HAP Contracts beyond the expiration of the initial contract term are subject to annual appropriations and spending authority in the federal budget. Contracts to convert tenant-based HUD vouchers or certificates into project-based assistance (as described below) are also subject to annual appropriation and spending authorization in the federal budget.

HAP Contract Term for State Agency Set-Aside Program

Under HUD regulations, the initial terms of the HAP Contracts for uninsured Developments financed under the state agency set-aside program were for either 30 or 40 years, with provisions for renewal for five-year periods within the 30- or 40-year term. The term of the initial ACC is the same as the initial HAP Contract term. Nonrenewal of the Section 8 HAP Contract under federal law and Minnesota state statutes requires proper notification to the residents, the applicable city, the Metropolitan Council Housing and Redevelopment Authority, the Agency and HUD. This nonrenewal (opt-out) of the HAP Contract is independent of the Development’s existing first mortgage financing. (See “Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.”) Although the Section 8 housing assistance payments are made to the owner and in effect represent rental income, the HAP Contract may, with HUD’s consent, be assigned as security by the owner to the first mortgage lender for the Development. All of the Developments with HAP Contracts within the Agency’s first mortgage loan portfolio are assigned to the Agency as security for the Mortgage Loan. HAP Contracts may not be terminated by HUD if the Mortgage Loan on the Development goes into default, so long as the owner has not

breached any of the owner's obligations under the HAP Contract. In the event of a breach of the HAP Contract by the owner, HUD may abate subsidy payments or terminate the HAP Contract after giving the owner reasonable opportunity to comply with the requirements of the HAP Contract. Under HUD regulations, the HAP Contract may be assigned to a new owner of the Development. HUD may also determine that the HAP Contract may be terminated or may reassign the Section 8 housing assistance payments subsidy to another development. If the Section 8 subsidy is assigned to another development, the HAP Contract and the ACC will continue in effect and housing assistance payments will continue in accordance with the terms of the HAP Contract. (See "Certain Information Regarding Housing Assistance Payment Contracts – Certain Recent Developments.")

Certain Information Regarding Housing Assistance Payment Contracts

General

The following discussion provides certain information with regard to the Section 8 program and HAP Contract requirements that may affect payments made by HUD pursuant to the HAP Contracts. Such information is not comprehensive or definitive and, as appropriate, is qualified in its entirety by reference to the United States Housing Act of 1937, as amended (the "Housing Act"), and HUD Section 8 Program Guidebooks, Handbooks, Notices, and Memoranda.

Adjustments in Contract Rents

The HAP Contract defines the type of contract rent adjustment that the Development can request. For HAP Contracts in the Agency's Traditional Contract Administration portfolio that are in their original term, owners can request an Annual Adjustment Factor Rent Adjustment based on the annual adjustment factor published by HUD. Interim revisions may be made where market conditions warrant. The annual adjustment factor is applied on the anniversary date of each HAP Contract to contract rents, resulting in upward adjustment. Pursuant to federal legislation enacted in 1997, if the contract rents for a Development exceed the applicable HUD fair market rents, then contract rents may not be increased beyond comparable market rents (plus the initial differential between the initial contract rents and the comparable rents). The comparable rents are determined by independent appraisals of Developments in the form of a Rent Comparability Study submitted by the owner. In addition, special additional adjustments may be granted to reflect increases in the actual and necessary expenses of owning and maintaining a Development resulting from substantial "and general increase in real property taxes, assessments, utility rates and hazard insurance increases, where the increased cost is not sufficiently covered by the annual AAF adjustment." HUD Notice H 2002-10. Adjustments may not result in material differences between rents charged for assisted units and unassisted units of similar quality and age in the same market area, except to the extent of the initial difference at the time of contract execution. Under current law, "[t]he Secretary may not reduce the contract rents in effect on or after April 15, 1987, for newly constructed, substantially rehabilitated, or moderately rehabilitated projects assisted under this section, unless the project has been refinanced in a manner that reduces the periodic payments of the owner." 42 U.S.C. § 1437f(c)(1)(C). There can be no assurance that increases in contract rents will result in revenues sufficient to compensate for increased operating expenses of the Developments. There can be no assurance that there will not be a decrease in contract rents. A rent decrease may affect the ability of the owners of the Developments to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds with amounts pledged under the Bond Resolution. (See "Certain Recent Developments.")

Limitations on Increases in Housing Assistance Payments

An increase in contract rents, because of the application of an annual adjustment factor or a special additional adjustment, will normally result in an increase in Housing Assistance Payments payable to the owner under the HAP Contract. The annual maximum housing assistance payments are initially limited to the initial contract rents. A project account is required to be established and maintained by HUD, in an amount determined by HUD, and the account must be established and maintained consistent with its responsibilities under the Housing Act. Whenever the estimated annual housing assistance payment exceeds the annual maximum housing assistance commitment and would cause the amount in the project account to be less than 40 percent of such maximum commitment, HUD is required to take additional steps authorized by Section 8(c)(6) of the Housing Act to assure that housing assistance payments will be increased on a timely basis. Section 8(c)(6) of the Housing Act authorizes "the reservation of annual contributions authority for the purpose of amending housing assistance contracts, or the

allocation of a portion of new authorizations for the purpose of amending housing assistance contracts.” Based on this guidance, HUD does not increase annual contributions contract authority until such time as the project account has been exhausted.

Certain Recent Developments

In July 2002, HUD announced an interpretation of its Office of General Counsel with respect to the form of HAP Contract in use prior to 1979 (the “Old Regulation HAP Contract”). This interpretation provides that the HAP Contract terminates upon any prepayment of the original permanent financing of the related development, including any refinancing that included prepayment of the first Mortgage Loan. HUD also stated that it would agree to amend any HAP Contract to eliminate such termination. All of the first mortgage loans with this form of HAP Contract in the Agency’s TCA portfolio were provided by the Agency. There are many Developments with Agency mortgage loans that have been prepaid where HUD has continued to make payments under the HAP Contracts during the years since the Agency loans were prepaid. It is the Agency’s understanding that current HUD practice is to approve the continuation of HAP Contracts upon payment of the original financing when the owner has elected to remain in the Section 8 program. In addition, the Agency’s interpretation of the relevant language in the Old Regulation HAP Contract is that the HAP Contract will continue until the last payment under the original Agency Mortgage Loan would have been due.

In recent years, there have been numerous pronouncements from HUD officials and various elected officials as to the future of HUD and the Section 8 program. The scope of these pronouncements has ranged from a total elimination of HUD and the Section 8 program to a restructuring of HUD and the reduction in funding of the Section 8 program. In addition, the consolidation of HUD’s programs and the transfer of certain administrative responsibilities for HUD programs to state and local governments and other entities continue to be proposed. (Note that HUD has contracted project-based Section 8 program administration services to state and local governments and other entities since 1999.) Furthermore, Congress continues to propose reductions in all federal spending, including funding for HUD and its programs.

HUD officials have from time to time proposed to Congress that it repeal the provision of the Housing Act prohibiting the Secretary of HUD from reducing contract rents below the current contract rents in effect as of April 15, 1987. (See “Adjustments in Contract Rents.”) It is not clear whether such a repeal would withstand a constitutional challenge. The effect of repealing those provisions would be to permit HUD to reduce the contract rents for Section 8 Developments to “market rents,” but not lower than the initial contract rents, plus the initial difference, approved by HUD for the Development.

At this time, the Agency cannot predict the terms of the legislation, if any, that may be enacted with respect to HUD. Such legislation could significantly change HUD’s structure, its administration and its programs (including the Section 8 program), and the funding of HUD and its programs. The Agency also cannot predict whether any such legislation, if enacted, would adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds (including the Series Bonds) with amounts pledged under the Resolutions.

Over the years, there have been several court decisions with respect to the Section 8 program and HAP Contracts. The United States Supreme Court, in its 1993 decision, *Cisneros v. Alpine Ridge Group*, held that HAP Contracts between private landlords and HUD did not prohibit the use of comparability studies with private market rents to impose an independent cap on formula-based rent adjustments. In a January 1997 decision, *National Leased Housing Association v. United States*, the United States Court of Appeals for the Federal Circuit upheld a decision of the Court of Claims that the “overall limitation” provision contained in the rent adjustment section in HAP Contracts (which states, in effect, that notwithstanding any other provision of the HAP Contract, adjustments provided for in that section of the HAP Contract shall not result in material differences between the rents charged for assisted and comparable unassisted units except to the extent that differences existed with respect to the contract rents set at contract execution or cost certification, as applicable) permits HUD to use comparability studies to decrease contract rents to eliminate material differences between rents charged for assisted and comparable unassisted units which are greater than the initial difference. In addition, the Court of Appeals affirmed the decision of the Court of Claims that HAP Contracts permit HUD to reduce rents below a previous year’s rent levels through the use of comparability studies, and that the “initial difference” referred to in the HAP Contract is determined by the initial dollar amount and not by a percentage of the initial rents. Based on guidance in HUD’s Section 8 Renewal Policy Guidebook, issued in 2000, as amended, HAP Contracts that are renewed under the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) may have their contract rents reduced to “market rents.” This

Guidebook also provides the opportunity for debt restructuring by HUD's Office of Affordable Housing Preservation in conjunction with the reduction in contract rents.

At this time, the Agency is unable to predict what additional actions, if any, HUD or Congress will take in the future with respect to such rent adjustments. Future policy changes for rent increases may be impacted by federal budget constraints. For federal fiscal year 2012, HUD has implemented three primary cost cutting measures that affect all New Regulation (i.e., post-1979) HAP Contracts. For federal fiscal year 2013, HUD is proposing to expand its cost cutting measures to Old Regulation HAP Contracts as well. These cost cutting measures include using residual receipts in lieu of rent increases, limiting Option 1 and 2 renewals by requiring use of a Small Area Fair Market Rent to establish a benchmark for determining market rents, limiting option 4 renewals to the Operating Cost Adjustment Factor, and short funding HAP Contracts. As noted above under "Adjustments in Contract Rents," Congress has passed legislation and HUD has implemented procedures to restrict contract rent increases above fair market rents for the 1997 and subsequent federal fiscal years. HUD's Section 8 Renewal Policy Guidebook, as amended, and HUD's Handbook 4350.1, Chapter 7 do not allow for the use of initial differences when determining rent adjustments. Upon initial renewal of the HAP Contract, the Development generally is not eligible for Annual Adjustment Factor rent adjustments under MAHRA, but is eligible for budget based, Operating Cost Adjustment Factor, mark-up-to-market, and mark-to-market (mark down to market) rent adjustments. Actions by HUD that limit options for contract renewals and restrict the definition of market rents may result in a decrease in contract rents, which could negatively impact the ability of owners to pay principal and interest on the Mortgage Loans, which in turn could adversely affect the ability of the Agency to make timely payments of interest and principal on the Bonds from the amounts pledged under the Bond Resolution.

Project-Based Vouchers

Recently, the Agency has been working with local housing and redevelopment authorities and public housing authorities to provide for project-based Section 8 Housing Choice Vouchers for a portion of the units in a Development financed under the Low and Moderate Income Rental Program (LMIR). Under this program, approximately 20% of the units in a Development receive year-to-year project-based Housing Choice Vouchers with the rents set at the Section 8 Existing Housing Fair Market Rent ("FMR") or payment standard. The Agency has found that the HUD-published FMR or payment standard is typically less than the market rent that could be charged without the subsidy; therefore, staff considers there to be minimal risk in the event of nonrenewal of the year-to-year ACC.

Section 8 Contract Administration

In 2000, the Agency was awarded a contract with HUD to perform project-based HAP Contract administration, as a Performance-Based Contract Administrator (PBCA), for a portion of HUD's Section 8 portfolio. Under these contracts, HUD partners with qualified entities through an umbrella ACC for the administration of HAP Contracts made directly between HUD and owners of the affected developments. In 2011, HUD held a national competitive rebid to qualified entities for the work performed under the ACC. Due to legal challenges to HUD's competitive bidding process, PBCA contracts were awarded only in states, such as Minnesota, where there was only one bid for the PBCA work. The Agency was awarded a new two-year PBCA contract, which will expire on September 30, 2013. At that time, a new NOFA (Notice of Funding Availability) will be offered, and the Agency plans to apply. It is possible that HUD will offer an extension to the existing PBCA contract in place of a NOFA at the time of the scheduled contract expiration.

Section 236 Interest Reduction Payments Program

Under the Section 236 program, HUD makes monthly interest reduction payments directly to the Agency as mortgage lender on behalf of the Mortgagor. The amount of the monthly HUD payment is calculated as the difference between the monthly payment that would be required for principal, if any, interest (not in excess of the maximum rate approved by HUD for loans insured by FHA as of the date of the agreement plus one half of one percent per annum) and fees and charges (not in excess of one half of one percent per annum of the principal amount of the Mortgage Loan) which the Mortgagor is obligated to pay with respect to the subsidized dwelling units and the monthly payment that would be required for principal, if any, and interest which the Mortgagor would be required to pay with respect to the subsidized dwelling units if the Mortgage were to bear interest at the rate of 1% per annum. The Section 236 program requires that the Mortgagor covenant, among other things, that (1) the Mortgagor will

establish basic (subsidized) rents and fair market rents for each subsidized dwelling unit, (2) the rent for each subsidized dwelling unit shall be equal to 30% of the tenant's income or the basic rent, whichever is greater, up to a maximum of the fair market rent, (3) the Mortgagor will limit admission to subsidized dwelling units to families whose incomes do not exceed the federal income limits, and (4) the Mortgagor will remit to HUD monthly the amount by which the total rents collected on all subsidized dwelling units exceed the sum of the approved basic rents for all such units.

Beginning in 1999, the Agency has made loans to new and existing owners of Developments originally financed under the Section 236 program to refinance the original Mortgage Loan and make additional Mortgage Loans for rehabilitation and other project purposes in order to maintain the Developments as subsidized housing. For the Section 236 refinancings, the interest reduction payments are continued after the refinancing in various forms in accordance with the original payment schedule through the scheduled maturity date of the original Mortgage Loan. Since the new Mortgage Loans have had 30-year maturities, the term of the interest reduction payments is less than the term of the new Mortgage Loan. The reduction in project revenue at the end of the term of the Section 236 contract has been taken into account in the underwriting of the new Mortgage Loans. In the one instance where a Section 236 mortgage was refinanced for an existing owner, the loan was financed from Agency resources and not financed or pledged under the Bond Resolution.

For Developments with uninsured first mortgage loans or loans made under the HUD Risk-Sharing Program, the Agency enters into agreements for interest reduction payments among HUD, the Agency and the Mortgagor which provide for administration of the Section 236 program by the Agency and interest reduction payments by HUD. HUD shall terminate payments under the agreement if the Development is acquired by the Agency or any owner not eligible under Section 236(b) of the National Housing Act. HUD shall have discretion to terminate payments at any time under the agreement (1) upon default by the Mortgagor or the Agency under any provision of the agreement; or (2) if any action of foreclosure is instituted by the Agency, unless the Agency (i) gives to HUD in advance written notice of its intention to institute such foreclosure, and (ii) submits to HUD in advance a plan acceptable to HUD providing for continuity of the eligibility of the Development for receiving the benefits of Section 236. If payments are terminated or to be terminated pursuant to the agreement, such payments may be reinstated or continued by HUD at its discretion and on such conditions as it may prescribe. The rights and obligations under the agreement are not assignable by the Agency or by the Mortgagor without prior written approval by HUD; except that, in connection with the issuance of its notes and bonds for the purpose of providing financing under the Development's Mortgage, the Agency may assign or pledge the Development's Mortgage and its rights thereunder as security to its note or bond holders or to a trustee without such prior written approval of HUD.

Apartment Renovation Mortgage Program

The purpose of this Program is to maintain and improve the rental housing in Minnesota that is affordable to low and moderate income households. Developments were financed under this Program from 1987 to 1991 using taxable bond financing, all of which has since been redeemed. The Agency is not presently making any Mortgage Loans pursuant to this Program.

Market Rate Mortgage Loan Program

In its Market Rate Mortgage Loan Program, which is administered by the Multifamily Division of the Agency, the Agency issues Bonds under the Bond Resolution to provide permanent and construction loan financing for the acquisition/rehabilitation or construction of multifamily housing Developments. The proceeds of the Bonds are loaned by the Agency to nonprofit or limited profit sponsors which agree to construct the Developments and lease the dwelling units therein principally to persons and families of low and moderate income. The Agency is not presently making any Mortgage Loans pursuant to this Program.

Monitoring of Developments

In an attempt to minimize the risk inherent in long-term Mortgage Loans, the Agency has established the following guidelines for the monitoring of Developments:

- The Agency's Accounting Division is responsible for monthly billing of principal and interest and escrows, and for paying insurance, property taxes and other expenses in a timely manner.
- The Agency's Multifamily Asset Management Section is responsible for the supervision of all Developments, beginning with the feasibility processing and continuing through the new construction or rehabilitation stages. During the latter stages of construction or rehabilitation, the Asset Management Section works with sponsors and their marketing agents in reviewing marketing plans. The Section's primary responsibility is to assist in the preparation of the management plan and to monitor the implementation of the management plan. The management plan is prepared prior to occupancy of a Development and includes information on the management agent's proposed method of operating the Development. Such information relates to the organizational structure and on-site duties and staffing of the management agent, initial and on-going marketing plans, contents of an orientation handbook for residents and requirements for reporting budget and energy conservation information.

The Asset Management Section generally monitors the operations of Developments on an ongoing basis in generally the following ways:

- *On-Site Inspections.* After initial marketing has been completed, on-site inspections are periodically made to check on management performance. Reports summarizing findings of inspections are submitted to the owner and management agent along with a timetable for correcting deficiencies, if necessary.
- *Reporting Requirements.* Management agents for each Development are required to submit regular accounting and occupancy reports to the Agency's Asset Management Section. Smaller, non-subsidized Developments have proven to be erratic in meeting the Agency's reporting requirements. The reports are reviewed by the Housing Management Officer assigned to each Development in order to identify significant deviations from the operating budget or change in occupancy.

The Agency generally receives the following financial information related to each Development:

- (i) Monthly Operating Report—due the 15th day of the following month;
- (ii) Analysis of Accounts Payable and Receivable—due the 15th day of the month following the end of each quarter;
- (iii) Analysis of Reserve Accounts—prepared monthly by Asset Management staff;
- (iv) Annual Budget—due 60 days prior to the beginning of the fiscal year to which the budget relates; and
- (v) Annual Audited Financial Statements—due not more than 90 days (60 days for HUD Risk Share) following the end of each fiscal year.

For seasoned, well-maintained, financially sound Developments, the Agency may only require annual operating reports in the future.

- *Training Sessions.* The Agency holds training sessions for new management agents and the on-site resident manager to acquaint them with Agency and HUD procedures and requirements. Sessions are held for each Development prior to occupancy and periodically thereafter.

Applicable Federal Law Requirements

Applicable federal tax law imposes significant limitations on the financing of Mortgage Loans for Developments with the proceeds of a qualified residential rental property 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 B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

General

The applicable federal tax law establishes certain requirements that must be met subsequent to the issuance and delivery of the Series Bonds in order that interest on the Series Bonds be and remain excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). These requirements are generally described below. Noncompliance with these requirements may cause interest on the Series Bonds to become includable in gross income for purposes of federal and State of Minnesota income taxation retroactive to their date of original issue, irrespective in some cases of the date on which such noncompliance is ascertained or occurs.

The Bond and Series Resolutions, and loan documentation pertaining to the Developments financed by the Series Bonds, contain provisions (the “Tax Covenants”), including covenants of the Agency and the owner, pursuant to which, in the opinion of Bond Counsel, the current requirements of the Code can be satisfied.

Opinion of Bond Counsel

In the opinion of Kutak Rock LLP, Bond Counsel, to be delivered, with respect to the Series Bonds, on the date of issuance of the Series Bonds, assuming the accuracy of certain representations and continuing compliance by the Agency with the Tax Covenants, under existing laws, regulations, rulings and judicial decisions, interest payable on the Series Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, except that no opinion is expressed as to such exclusion of interest on any Series Bond for any period during which the Series Bond is held by a person who is a “substantial user” of the facilities financed with the proceeds of the Series Bonds or a “related person” within the meaning of Section 147(a) of the Code. Bond Counsel is further of the opinion that interest on the Series Bonds is not a specific preference item or included in adjusted current earnings for purposes of the federal alternative minimum tax.

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

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series Bonds, and renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series Bonds, or under state and local tax law.

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

Prospective owners of the Series Bonds should be aware that the ownership of obligations such as the Series Bonds may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S Corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. The extent of these collateral tax consequences will depend upon such owner's particular tax status and other items of income or deduction, and Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series Bonds should consult their tax advisors as to the tax consequences of purchasing or owning the Series Bonds. Interest on the Series Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

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

Certain Ongoing Federal Tax Requirements and Covenants

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

Low Income Set-Aside Requirements under the Code

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

The Code requires that at least 95 percent of the net proceeds of exempt facility bonds under Section 142(a)(7) (after reduction for amounts applied to fund a reasonably required reserve fund) be used to provide "qualified residential rental projects." The Code defines a residential rental project as a project containing units with separate and complete facilities for living, sleeping, eating, cooking, and sanitation that are available to the general public and are to be used on other than a transient basis. Section 142(d) of the Code requires that either (i) at least 20% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously

occupied during the “qualified project period” by individuals and families whose annual adjusted income does not exceed 50% of the area median income (with adjustments for family size), or (ii) at least 40% of the completed units in a project to be financed with the proceeds of the Series Bonds be continuously occupied during the qualified project period by individuals and families whose annual adjusted income does not exceed 60% of the area median income (with adjustments for family size). The Agency will make elections on the applicable low income set-aside requirements with respect to the Development expected to be financed with the proceeds of the Series Bonds prior to the issuance date of the Series Bonds. In addition, all of the units in the Development must be rented or available for rental on a continuous basis throughout the applicable qualified project period. The Code defines the “qualified project period” as the period beginning on the first day upon which 10% of the units in a project are occupied and ending on the latest of (i) the date that is 15 years after the date upon which 50% of the residential units in such project are occupied, (ii) the first day on which no tax-exempt private activity bond issued with respect to such project is outstanding, or (iii) the date upon which any assistance provided with respect to such project under Section 8 of the United States Housing Act of 1937, as amended, terminates. A Development generally will meet the continuing low income set aside requirement so long as a tenant's income does not increase to more than 140% of the applicable income limitation. Generally, upon an increase of a tenant's income over 140% of the applicable income limitation, the next available unit of comparable or smaller size in the applicable Development must be rented to a tenant whose income does not exceed the applicable income limitation; provided however, that if tax credits under Section 42 of the Code are allowed with respect to the applicable Development, the next available unit of a comparable or smaller size in the same building as the tenant whose income has increased over 140% of the applicable income limitation must be rented to a tenant whose income does not exceed the applicable income limitation. The Code requires annual certifications to be made to the Secretary of the Treasury regarding compliance with the applicable income limitations.

Expenditures for Rehabilitation

The Code requires that the owner of the Development spend a minimum sum of money for rehabilitation expenditures with regard to the Development. The minimum amount of rehabilitation expenditures that must be incurred is equal to 15% of the amount of Series Bond proceeds applied to pay for the cost of acquiring the existing building (including the building fixtures and equipment within, but not including the cost of land). Such minimum amount of rehabilitation expenditures must be incurred no later than 2 years after the later of the date of issuance of the Bonds or the date that the building is acquired by the owner. The Code also requires less than 25% of the net proceeds of the Bonds be used to acquire land.

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.”

Since the Series Bonds are “private activity bonds” and the Supreme Court's opinion left open the possibility of a challenge to Minnesota's differential treatment of the interest on private activity bonds issued in

other states, the Agency cannot predict the outcome of any 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, prevent owners of the Series Bonds from realizing the full current benefit of the tax treatment of the Series Bonds or adversely affect the market value of the Series Bonds. 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 the Series Bonds and the tax exemption of interest thereon are subject to the legal opinion of Kutak Rock LLP, Atlanta, Georgia, Bond Counsel. A copy of the opinion of said firm, substantially in the form set forth in Appendix G hereto, will be available at the time of delivery of the Series Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Dorsey & Whitney LLP, Minneapolis, Minnesota.

FINANCIAL ADVISOR

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

RATINGS

The Series Bonds are rated “Aa1” by Moody’s Investors Service, Inc., and “AA+” by Standard & Poor’s Ratings Services. The ratings reflect only the views of the applicable rating agency, and an explanation of the significance of such rating may be obtained only from the rating agency and its published materials. The ratings described above are not a recommendation to buy, sell or hold the Series Bonds. There can be no assurance that any 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 the rating agency, circumstances so warrant. Therefore, after the date hereof, investors should not assume that such ratings are still in effect. A downward revision or withdrawal of either rating is likely to have an adverse effect on the market price and marketability of the Series Bonds. The Agency has not assumed any responsibility either to notify the owners of the Series Bonds of any proposed change in or withdrawal of 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 D to this Official Statement), or to contest any such revision or withdrawal.

UNDERWRITING

RBC Capital Markets, LLC (the “Underwriter”) will purchase the Series Bonds. The Underwriter is to be paid a fee of \$89,626.90 with respect to its purchase of the Series Bonds. The Underwriter may offer and sell the Series Bonds to certain dealers and certain dealer banks at prices lower than the public offering prices stated on the inside front cover hereof.

MISCELLANEOUS

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

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

MINNESOTA HOUSING FINANCE AGENCY

By /s/ MARY TINGERTHAL
Commissioner

Dated: May 10, 2012.

APPENDIX A

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY
FINANCED BY RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY
UNDER THE RENTAL HOUSING BOND RESOLUTION
INCLUDING THOSE INTENDED TO BE FINANCED
WITH PROCEEDS OF THE SERIES BONDS**

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF DECEMBER 31, 2011

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
ABBEY FIELD	St. Francis	5.23 % \$	187,288	-	\$ 255,554	08/01/13	HAP	(A)	42	42
APPLEWOOD WEST	Duluth	7.05	22,915	-	86,299	02/01/12	HAP	05/05/12	42	42
BIRCHWOOD EAST	Virginia	6.75	535,257	-	11,074	05/01/18	HAP	06/01/17	30	60
BIRMINGHAM	St. Paul	7.05	67,307	-	125,909	11/01/12	HAP	12/31/12	21	21
BLACKDUCK	Blackduck	7.50	251,824	-	225,038	12/01/17	HAP	10/01/16	30	30
BOARDWALK	Wayzata	6.50	895,399	-	233,027	12/01/19	HAP	10/23/18	77	77
BOSSER PARK APTS	Minneapolis	6.68	2,275,747	-	267,332	02/01/30	LMIR/HRS	N/A	0	110
CAMBER HILL	So. St. Paul	5.23	238,561	-	87,949	09/01/13	HAP	(A)	44	44
CANADIAN TERRACE	Minneapolis	7.55	150,432	-	214,012	09/01/16	MR	N/A	0	19
CASCADE	Fergus Falls	0.00	381,812	-	76,703	01/01/19	HAP	05/31/18	36	36
CASCADE	Fergus Falls	0.00	130,179	-	See above	12/01/21	HAP	See above	See above	See above
CEDAR HILLS	Minnnetonka	5.23	193,852	-	269,875	10/01/13	HAP	12/29/12	30	30
CEDAR TERRACE	St. Cloud	7.05	34,874	-	7,044	05/01/12	HAP	08/13/12	24	24
CEDAR VILLAS	Eagan	6.00	10,829,882	-	314,265	12/01/44	LMIR/HRS	N/A	0	104
CEDAR VILLAS	Eagan	6.00	398,914	-	See above	01/01/21	LMIR/HRS	See above	See above	See above
CENTENNIAL PLAZA	Le Center	7.50	264,744	-	169,627	12/01/17	HAP	12/10/16	40	40
CHICAGO AVE APT	Minneapolis	7.45	749,462	-	259,415	12/01/22	LMIR/HAP/FHA	(A)	60	60
CLOVERDALE	St. Joseph	7.25	730,815	-	380,973	10/01/21	HAP	03/28/20	36	36
COLONY APTS (3)	North Mankato	8.50	75,452	-	149,150	06/01/12	LMIR/HRS/236	05/01/12	120	120
COLONY APTS	North Mankato	6.30	1,308,267	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
COUNTRYSIDE T.H.	Fairmont	6.50	884,973	-	491,630	12/01/19	HAP	09/22/18	71	71
CROSSROADS	New Brighton	5.87	6,758,497	-	513,425	07/01/28	HAP	08/30/19	172	172
DEWEY PLACE/PINES	Foley	7.05	70,610	-	134,247	08/01/12	HAP	07/01/31	36	36
DOVER HILL	Golden Valley	6.07	7,969,833	196,355	798,770	03/01/41	HRS	03/01/41	196	234
EASTGATE	Montevideo	0.00	786,879	-	122,540	09/01/21	HAP	07/31/20	46	46
EIGHTEENTH & CLINTON	Minneapolis	7.05	14,364	-	14,257	07/01/12	HAP	08/27/16	8	8
ELLIOT PARK APTS	Minneapolis	5.23	147,547	-	139,029	12/01/13	HAP	01/31/13	30	30
ENDION SCHOOL	Duluth	5.23	155,349	-	545,261	11/01/13	HAP	11/17/12	26	26
ETNA WOODS	St. Paul	7.05	11,986	-	23,830	02/01/12	HAP	06/30/16	20	20
FAIRVIEW APTS (3)	St. Peter	7.00	123,201	-	1,928	06/01/14	LMIR/HRS/236	05/01/14	48	48
FAIRVIEW APTS	St. Peter	7.55	417,337	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
FIFTEEN HUND PERKINS	Windom	0.00	737,673	-	424,967	03/01/21	HAP	11/27/19	48	48
FONTAINE TOWERS	Rochester	5.23	2,009,959	-	1,019,889	12/01/15	HAP	06/30/13	151	151
FRANKLIN LANE (3)	Anoka	7.17	774,945	-	327,263	05/01/27	LMIR/FHA/236	05/01/27	66	66
FRANKLIN LANE	Anoka	7.35	199,279	-	See above	05/01/15	LMIR/FHA	See above	See above	See above
FRANKLIN LANE	Anoka	7.35	546,993	-	See above	05/01/27	LMIR	See above	See above	See above
GARDEN COURT	Winnebago	0.00	298,405	-	98,658	01/01/19	HAP	05/01/18	36	36
GENEVA VILLAGE	Oakdale	7.21	3,490,124	-	400,035	01/01/28	LMIR	N/A	0	175
GLENWOOD MANOR	Glenwood	7.05	9,783	-	301,380	01/01/12	HAP	05/26/12	36	36
GRAHEK APTS.	Ely	7.25	545,538	-	238,336	11/01/19	HAP	03/30/19	42	42
GREENWOOD PLACE	Faribault	7.25	937,331	-	146,333	10/01/20	HAP	06/05/19	51	51
GREYSOLON PLAZA	Duluth	6.50	6,026,592	-	1,607,021	05/01/47	HAP/HRS	11/25/20	150	150
HEIGHTS MANOR	Columbia Heights	6.50	871,043	-	675,892	12/01/19	HAP	09/22/18	85	85
HERITAGE HOUSE	St. Paul	5.23	410,599	-	344,052	11/01/13	HAP	04/27/13	58	58
HERITAGE PRAIRIE	Wabasso	6.50	238,287	-	486,246	01/01/19	HAP	06/15/18	28	28

Footnotes and Program Type legend appear on the last page of this Appendix A.

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF DECEMBER 31, 2011

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
HICKORY RIDGE	Maple Grove	5.23 %	347,478	-	10,262	03/01/15	HAP	01/28/13	32	32
HILLSIDE HOMES	Spring Valley	6.50	362,465	-	98,164	10/01/19	HAP	12/14/18	37	37
HILLSIDE TERRACE	Long Lake	6.72	1,757,592	-	311,418	08/01/34	LMIR/HRS	01/15/31	44	44
HILLSIDE TERRACE-MONTICELLO	Monticello	7.05	51,766	-	182,165	05/01/12	HAP	08/16/12	36	36
HOLMES GREENWAY	Minneapolis	5.23	363,955	-	216,031	10/01/13	HAP	(A)	50	50
HOMESTEAD APTS (3)	Mankato	7.00	331,322	-	96,029	06/01/14	LMIR/HRS/236	05/01/14	120	120
HOMESTEAD APTS	Mankato	7.55	1,179,815	-	See above	05/01/30	LMIR/HRS	See above	See above	See above
HOPKINS VILLAGE (3)	Hopkins	7.12	1,869,104	-	1,177,652	09/01/24	LMIR/FHA/236	09/01/24	92	161
HOPKINS VILLAGE	Hopkins	5.20	713,503	-	See above	09/01/24	LMIR/FHA	See above	See above	See above
HOPKINS VILLAGE	Hopkins	5.20	288,565	-	See above	09/01/24	LMIR	See above	See above	See above
HUNTERS RIDGE	Minnetonka	6.50	1,823,257	-	684,790	08/01/21	HAP	09/04/20	25	123
INNSBRUCK	Rochester	5.23	259,337	-	177,312	10/01/13	HAP	10/15/12	40	40
KENTUCKY LANE	Crystal	7.29	2,505,130	-	142,506	12/01/31	LMIR/HRS	N/A	0	67
KIMBERLY MEADOWS	Plymouth	7.05	117,687	-	159,036	10/01/12	HAP	10/8/2011**	39	39
KINGSWAY ESTATES	LeSueur	5.23	142,379	-	48,659	10/01/13	HAP	10/26/12	24	24
LAKE CRYSTAL	Lake Crystal	7.25	725,478	-	501,069	03/01/21	HAP	06/12/19	43	43
LANESBORO HTS.	Elk River	5.23	183,123	-	220,986	10/01/13	HAP	09/28/12	30	30
LARSON COMMONS	Cloquet	6.52	2,514,486	-	301,955	06/01/37	HAP/HRS	03/07/20	85	85
LINCOLN CENTER	Chisholm	7.25	29,630	-	209,517	03/01/12	HAP	12/14/15	41	41
LORING TOWERS APARTMENTS (3)	Minneapolis	6.14	6,740,008	-	915,265	04/01/35	LMIR/HRS/236	(A)	186	230
LYNDALE GREEN	Minneapolis	2.50	2,630,000	-	20,176	07/01/12	BRIDGE	N/A	0	63
LYNDALE GREEN	Minneapolis	6.05	2,547,275	832,649	See above	03/01/52	HRS	N/A	See above	See above
MANITOU RIDGE (3)	White Bear Lake	6.63	3,476,534	-	286,839	03/01/33	LMIR/HRS/236	11/01/14	118	118
MAPLE GROVE ESTATES	Hermantown	5.23	228,902	-	202,677	11/01/13	HAP	09/16/12	48	48
MAPLE KNOLL	Maplewood	7.05	225,340	-	148,892	01/01/13	HAP	11/12/2011**	57	57
MAPLE RIDGE MANOR	Alexandria	0.00	566,941	-	407,631	11/01/20	HAP	07/31/18	40	40
MAPLE RIDGE MANOR	Alexandria	0.00	460,000	-	See above	11/01/21	AMP	See above	See above	See above
MARSHALL SQUARE APTS	Marshall	6.45	1,505,338	-	194,539	02/01/36	LMIR/HRS/HAP	08/24/25	89	90
MATTHEWS PARK	Minneapolis	7.50	241,199	-	202,702	12/01/17	HAP	09/28/16	24	24
MEDLEY PARK	Golden Valley	5.23	227,894	-	173,454	03/01/14	HAP	12/01/12	30	30
MERIDIAN APTS	Duluth	0.00	447,848	-	494,865	12/01/21	HAP	07/20/18	39	39
MILACA PARK	Milaca	0.00	1,322,828	-	295,407	03/01/22	HAP	11/14/20	71	71
MILL POND VIEW	Pelican Rapids	7.25	1,044,036	-	1,005,445	09/01/20	HAP	09/20/19	66	66
MILLIE BENEKE	Glencoe	0.00	346,208	-	204,397	08/01/19	HAP	08/07/18	41	41
MISSION OAKS	Plymouth	5.23	192,093	-	212,189	02/01/14	HAP	05/27/13	26	26
MORGAN PARK	Duluth	5.23	166,086	-	69,111	09/01/13	HAP	08/31/12	24	24
MOWER COUNTY	LeRoy	6.50	404,223	-	993,895	10/01/20	HAP	06/30/19	30	30
MUNGER TERRACE	Duluth	0.00	762,631	-	365,128	12/01/21	HAP	01/24/19	45	45
MUNGER TERRACE	Duluth	0.00	177,516	-	See above	12/01/21	HAP	See above	See above	See above
NEVADA SQUARE	Benson	7.25	656,219	-	273,444	04/01/20	HAP	03/30/19	40	40
NICOLLET TOWERS	Minneapolis	2.50	8,000,000	-	743,680	1/2/2013	BRIDGE	06/05/19	306	306
NORTH 44 fka TODD 27	Long Prairie	7.25	654,851	-	79,822	04/01/21	HAP	06/25/20	44	44
NORTH MORA	Mora	0.00	530,262	-	107,165	05/01/21	HAP	12/06/19	35	35
NORTH STAR	Roseau	7.25	692,148	-	404,113	02/01/20	HAP	05/14/19	51	51
NORTHWOOD COMMONS	Baudette	6.50	289,373	-	146,651	05/01/19	HAP	12/19/18	32	32
OAK HAVEN	Minneapolis	5.23	44,456	-	81,083	02/01/13	HAP	12/21/12	10	10

Footnotes and Program Type legend appear on the last page of this Appendix A.

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF DECEMBER 31, 2011

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
OAKLAND SQUARE	Minneapolis	7.05 %	135,334	-	79,807	07/01/16	HAP	11/30/14	31	31
OAKWOOD HOMES	Karlstad	7.25	201,052	-	29,676	12/01/21	HAP	03/12/20	45	45
OAKWOOD HOMES	Karlstad	0.00	265,798	-	See above	12/01/21	HAP	See above	See above	See above
OKABENA	Worthington	7.25	683,564	-	436,413	07/01/19	HAP	11/30/18	60	60
OTTERKILL GARDEN	Bagley	7.50	258,400	-	291,895	02/01/18	HAP	05/01/17	30	30
PARK HAVEN	Brooklyn Park	8.02	1,690,796	-	768,682	01/01/25	LMIR/FHA/236	02/01/13	163	174
PARK HAVEN (3)	Brooklyn Park	4.30	97,171	-	See above	01/01/13	LMIR/FHA	See above	See above	See above
PARK MANOR	Detroit Lakes	7.25	1,404,727	-	1,502,220	08/01/20	HAP	05/18/19	97	97
PARK VIEW TERRACE-M	Moorhead	7.50	1,051,109	-	1,209,020	12/01/17	HAP	05/15/17	120	121
PENNEL PARK APARTMENTS	Duluth	6.20	2,729,056	-	250,423	07/01/35	LMIR/HRS	05/31/24	100	101
PINE RIDGE	Grand Rapids	5.75	829,827	-	590,757	11/01/18	HAP	02/15/18	60	100
PRINCETON	Princeton	7.25	642,714	-	425,426	04/01/20	HAP	04/12/19	48	48
RIPPLE RIVER	Aitkin	7.05	158,046	-	81,153	07/01/13	HAP	11/30/31	32	32
RIVER BEND	Fergus Falls	7.25	190,033	-	897,733	08/01/12	HAP	10/30/30	100	100
RIVERSIDE MANOR	Dawson	0.00	353,818	-	103,008	09/01/20	HAP	11/30/19	24	24
RIVERTOWN COMMONS	Stillwater	6.15	3,352,923	-	156,321	03/01/38	LMIR/HRS	04/03/20	96	96
RIVERVIEW APTS	Appleton	6.50	359,742	-	342,732	12/01/19	HAP	10/13/18	37	37
RIVERVIEW MANOR	Floodwood	7.25	447,246	-	262,473	01/01/20	HAP	04/13/19	35	35
ROSEMOUNT PLAZA	Rosemount	5.23	293,374	-	330,938	12/01/13	HAP	01/21/13	39	39
ROSEMOUNT TOWNHOUSES	Rosemount	1.00	471,244	-	62,225	10/01/21	LMIR	01/20/13	28	28
ROSEVILLE SENIORS	Roseville	6.50	1,274,444	-	722,598	02/01/19	HAP	09/21/18	125	127
RUSH RIVERVIEW	Rush City	5.23	144,734	-	158,640	10/01/13	HAP	11/30/12	24	24
SOUTHVIEW TERRACE	Hibbing	6.75	1,206,828	-	151,918	06/01/18	HAP	08/01/17	43	144
STONE CREEK TH fka ROCK MANOR	Luverne	5.23	198,288	-	34,163	02/01/14	HAP	10/27/12	24	24
SUNRISE ESTATES	Jackson	0.00	167,518	-	230,355	12/01/14	HAP	12/11/12	40	40
SUNRISE ESTATES	Jackson	0.00	550,000	-	See above	01/01/22	AMP	See above	See above	See above
SUNRISE MANOR	Sleepy Eye	7.05	62,616	-	3,320	05/01/12	HAP	10/20/31	32	32
THE CROSSROADS fka SOUTH PARK MANOR	Dodge Center	0.00	686,136	-	25,394	05/01/22	HAP	09/12/20	37	37
THE CROSSROADS fka SOUTH PARK MANOR	Dodge Center	0.00	260,000	-	See above	05/01/22	AMP	See above	See above	See above
THIRTYONE HUND FOURTH AVENUE	Minneapolis	7.50	88,389	-	22,141	01/01/24	LMIR	N/A	0	10
TOWN SQUARE	East Grand Forks	7.25	1,502,994	-	387,264	12/01/21	HAP	10/08/19	81	81
VADNAIS HIGHLANDS	Vadnais Heights	6.60	1,612,018	-	197,977	03/01/34	LMIR/HRS/HAP	(A)	35	35
VALLEY VIEW MANOR	Ada	6.50	342,665	-	641,686	04/01/19	HAP	06/28/18	40	40
VALLEYVIEW COMMONS	Mahnomen	6.50	284,415	-	726,605	04/01/19	HAP	10/13/18	32	32
WALNUT PLACE	Rockford	7.05	37,015	-	146,769	04/01/12	HAP	08/03/12	30	30
WARROAD	Warroad	0.00	534,137	-	14,032	12/01/21	HAP	12/17/20	30	30
WASHINGTON SQUARE	White Bear Lake	7.25	1,203,674	-	532,085	03/01/21	HAP	05/24/19	81	81
WAYBURY APARTMENTS	Chaska	6.35	4,421,010	-	507,107	08/01/37	LMIR	10/01/13	111	114
WEST FALLS ESTATES	International Falls	7.25	77,769	-	241,063	04/01/12	HAP	01/07/16	80	80
WESTFALLS-R.W. FALL	Redwood Falls	7.05	120,424	-	297,708	11/01/12	HAP	12/31/12	40	40
WESTGATE	Gaylord	6.50	260,452	-	101,373	03/01/19	HAP	07/01/18	31	31
WESTGATE-HIBBING	Hibbing	7.50	781,498	-	47,983	12/01/17	HAP	11/24/16	30	100
WESTGATE-HIBBING	Hibbing	0.00	1,024,265	-	See above	See above	HAP	11/24/16	See above	See above
WESTGATE-NEW PRAGUE	New Prague	7.05	212,423	-	180,090	08/01/13	HAP	07/14/16	37	37
WHISPERING PINES	Caledonia	6.50	391,265	-	122,307	09/01/19	HAP	12/14/18	37	37
WHITTIER COOP	Minneapolis	0.00	559,603	-	35,171	12/01/21	AMP	(A)	45	45

Footnotes and Program Type legend appear on the last page of this Appendix A.

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF DECEMBER 31, 2011

MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY RENTAL HOUSING BONDS

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
WHITTIER COOP	Minneapolis	0.00 %	944,000	-	See above	12/01/21	AMP	See above	See above	See above
WILKINS TOWNHOMES	St. Paul	5.23	84,648	-	201,808	01/01/13	HAP	12/02/12	23	23
WOODCREST MANOR	Mora	7.25	650,727	-	93,426	08/01/21	HAP	03/07/20	42	42
WOODLAND GARDEN	Duluth	7.25	829,435	-	190,919	01/01/20	HAP	06/15/19	60	60
WOODLAND PARK APTS (3)	St. Cloud	7.29	1,326,608	-	137,535	12/01/31	LMIR/HRS/236	05/31/15	86	86
Subtotal			<u>\$ 141,762,361</u>	<u>\$ 1,029,004</u>	<u>\$ 38,526,689</u>				<u>6,647</u>	<u>7,704</u>

**DESCRIPTION OF MORTGAGE LOANS AND DEVELOPMENTS PREVIOUSLY FINANCED BY
RENTAL HOUSING BONDS AND PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION**

AS OF DECEMBER 31, 2011

MORTGAGE LOANS AND DEVELOPMENTS PLEDGED AS ADDITIONAL SECURITY UNDER THE RENTAL HOUSING BOND RESOLUTION

<u>Development Name</u>	<u>Location</u>	<u>Mortgage Loan Interest Rate</u>	<u>Outstanding Mortgage Loan Balance (1)</u>	<u>Undisbursed Mortgage Amount</u>	<u>Development Reserves (2)</u>	<u>Mortgage Note Maturity</u>	<u>Program Type</u>	<u>Subsidy Expiration</u>	<u>No. of Subsidized Units</u>	<u>Total No. of Units</u>
116,118,120 S HOLMES	Shakopee	9.50 %	\$ 74,235	\$ -	\$ 5,183	03/01/19	ARM	N/A	0	7
380-400 W LARPENTEUR	St. Paul	9.75	279,116	-	126,871	11/01/21	ARM	N/A	0	34
924 WASHINGTON	Bemidji	9.50	36,540	-	10,547	08/01/19	ARM	N/A	0	8
CARRIAGE HOUSE	Moorhead	6.50	610,164	-	89,098	07/01/21	MR	N/A	0	36
CHESTER TERRACE	Duluth	5.00	315,587	-	173,272	03/01/19	ARM	N/A	0	43
CLIFTON	Shakopee	7.25	1,108,923	-	45,629	03/01/21	HAP	11/19/19	56	56
DELANCEY & SELBY STONE APTS. Fka 700-716	St. Paul	5.50	142,089	-	113,578	11/01/18	ARM	N/A	0	38
DELTON MANOR (3)	Bemidji	6.75	298,269	-	184,333	12/01/16	236	08/01/15	60	60
HERITAGE PARK	Minneapolis	6.50	3,777,287	-	680,442	11/01/43	LMIR	N/A	0	112
HYLANDS	Rochester	7.25	2,223,094	-	347,733	11/01/21	HAP	06/02/20	100	100
LIBERTY PLAZA	St. Paul	6.50	4,723,458	-	1,054,132	02/01/34	LMIR/HRS	09/30/14	78	173
MESABA VILLAS (3)	Duluth	6.75	191,934	-	289,972	12/01/16	236	12/01/16	27	27
MILWAUKEE AVE (3)	Minneapolis	6.75	84,256	-	99,074	12/01/16	236	06/01/15	12	12
NORTH RIDGE ESTATES	No. Mankato	7.50	621,169	-	50,554	07/01/22	MR	N/A	0	30
NORTHWOOD APTS. (3)	Glencoe	6.75	217,080	-	5,649	12/01/16	236	06/01/15	31	39
OAK GLEN OF EDINA	Edina	5.75	5,433,822	-	138,331	11/01/32	LMIR	06/30/13	26	64
PARK PLAZA St. fka 830 13th STREET	St. Cloud	8.50	690,369	-	9,261	02/01/21	ARM	N/A	0	48
PASSAGES (4)	Minneapolis	5.00	218,244	-	74,649	09/01/21	MR	N/A	0	17
QUEENS LANE APT	Anoka	3.50	5,630	-	291,550	01/01/12	LMIR	N/A	0	44
SIBLEY COVE	Maplewood	5.72	4,192,097	-	218,219	08/01/34	LMIR	07/01/33	40	80
SLATER SQUARE	Minneapolis	5.00	1,129,787	-	247,775	11/01/36	MR	N/A	0	163
SLATER SQUARE	Minneapolis	5.00	710,274	-	See above	11/01/36	MR	See above	See above	See above
THREE LINKS (3)	Northfield	6.75	365,182	-	115,391	12/01/16	236	08/01/15	32	80
VIKING TERRACE (3)	Worthington	6.75	334,150	-	145,227	12/01/16	236	08/01/15	40	60
VIRGINIA ROTARY (3)	Virginia	7.25	126,754	-	58,901	11/01/15	LMIR/FHA/236	11/01/15	19	31
WASHINGTON CROSSING	Winona	5.75	1,662,219	-	130,902	01/01/36	LMIR/HRS	N/A	0	62
WATERFORD	Oakdale	7.09	183,922	-	47,062	10/01/13	HAP/FHA	(A)	31	31
WESTVIEW APARTMENTS	Forest Lake	6.50	2,634,371	-	327,529	06/01/33	LMIR	10/28/14	32	64
Subtotal			<u>\$ 32,390,021</u>	<u>\$ -</u>	<u>\$ 5,080,864</u>				<u>584</u>	<u>1,519</u>
Total			<u>\$ 174,152,382</u>	<u>\$ 1,029,004</u>	<u>\$ 43,607,553</u>				<u>7,231</u>	<u>9,223</u>

Footnotes and Program Type legend appear on the last page of this Appendix A.

**DESCRIPTION OF MORTGAGE LOANS INTENDED TO BE FINANCED WITH PROCEEDS FROM
THE RENTAL HOUSING BONDS 2012 SERIES A-1 AND A-2**

Development Name	Location	Estimated Mortgage Rate	Estimated Mortgage Amount	Estimated Development Reserves	Mortgage Note Maturity	Program Type	Subsidy Expiration	No. of Subsidized Units	Total No. of Units
Yorkdale	Edina	5.00%	\$4,175,000	\$367,803	6/1/2048	LMIR/HUD Risk Share	1/7/2019	90	90
		0.75%	\$4,790,000	-	7/1/2014	LMIR/ Bridge Loan			

Notes:

**HAP Contract had expired but had not yet been renewed.

(1) All loans can be prepaid subject to Agency approval.

(2) Amounts listed under the heading "reserves" are pledged by the project owner under the project regulatory agreement. The reserve can be applied for project purposes under the regulatory agreement, and are paid to the owner when the mortgage loan is paid or prepaid in full. The reserves are not pledged as security under the Bond Resolution. The real estate tax and insurance reserves are excluded.

(3) Refinancings of existing 236 projects: The original interest reduction payments have not been increased to cover the additional debt service and are for less than the maximum term of the mortgage.

(4) This loan was originated under the Market Rate program. After a November 2007 loan modification and assumption, however, the development became permanent supportive housing.

(A) Initial 20 year Section 8 contract expired, contracts renewed in one to five year increments.

***Program Type Legend**

236 = Section 236 Interest Reduction Payment Program
AMP = Asset Management Program
ARM = Apartment Renovation Mortgage Program
FHA = FHA Insured
HAP = Section 8 Housing Assistance Payment Program (Uninsured Developments)
HRS = FHA Risk Share Insurance
LMIR = Low And Moderate Income Rental Program
MR = Market Rate Loan Program

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE AGENCY
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

MINNESOTA HOUSING FINANCE AGENCY

Annual Financial Report as of and for the year ended June 30, 2011

TABLE OF CONTENTS

	<u>Page #</u>
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	30-58
III. SUPPLEMENTARY INFORMATION (UNAUDITED)	
General Reserve and Bond Funds, Five Year Financial Summary	61
Fund Financial Statements:	
Statement of Net Assets — General Reserve and Bond Funds	62-63
Statement of Revenues, Expenses and Changes in Net Assets — General Reserve and Bond Funds	64-65
Statement of Cash Flows — General Reserve and Bond Funds	66-69
Other Information	70

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

As Minnesota Housing celebrates the 40th anniversary of its formation, the Agency has achieved strong financial and programmatic results in a year when national and state housing markets continue to be weak. Focusing on the fundamentals of our business lines, we have achieved these results with three key items reflecting positive change from the previous year: reducing homeownership loan delinquencies, with a resulting significant reduction in loan loss expense for the first time in three years; reducing risk exposure by increasing reliance on mortgage-backed securities; and generating greater loan production in a difficult economy. Our strong financial performance paired with reduced risk exposure to whole loans has also made it possible to transfer \$13.9 million to our Housing Affordability Fund for use in program funding during the next year.

These results have been achieved as the Agency saw a leadership change during the fiscal year. Last November, Minnesota elected a new Governor for the first time in eight years, and Governor Mark Dayton appointed me as the new Commissioner of Minnesota Housing in January. This has given me the opportunity to return to the Agency where I began my professional career in 1976. After 10 years at the Agency, I spent the intervening period in leadership roles in the financial services industry, working in the private mortgage banking sector and for national non-profit financial intermediaries. Governor Dayton also appointed Ken Johnson, a seasoned public finance professional, as the Agency's new Board Chair.

Several major trends in the financial marketplace provided the backdrop for the Agency's programmatic results.

- During the previous two fiscal years, Minnesota Housing was able to maintain a high level of program activity in a tough economy through the administration of programs that were part of the Federal stimulus program. These programs provided a helpful bridge for housing developers during a time when more traditional finance programs, especially the Low Income Housing Tax Credit, were not functioning effectively in the marketplace. Investors have now returned to the Tax Credit market as the stimulus programs are winding down.
- During a time of historically low interest rates for home mortgages, Minnesota Housing has been able to offer competitively priced mortgages for first time home buyers through careful debt management practices and use of the U.S. Treasury Department's New Issue Bond Program. This program was even more effective because of the Agency's earlier successful shift from holding whole loans to holding mortgage-backed securities, reducing the level of risk on its balance sheet. As investors have shown a preference for bonds backed by mortgage-backed securities, the Agency has enjoyed superior executions on its bond sales.
- As mortgage loan delinquencies and foreclosures nationally have remained stubbornly high, Minnesota Housing saw its delinquency rates fall during the last three months of the fiscal year. This is in part due to a decision by the Agency to proactively offer loan modifications to those borrowers with the financial capacity to maintain their mortgages with lower monthly payments.
- Minnesota Housing received strong bi-partisan support for continued state appropriations, taking only a modest 6.3% reduction from the previous biennium, despite a \$5 billion State budget deficit.

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

- Made commitments for 2,184 new home mortgages for first time homebuyers, of which 23% were for borrowers from emerging markets.
- Closed on 106 loans for multifamily properties, providing or preserving affordable rental units for more than 4,700 low and moderate income households.
- Made significant progress in committing resources to support housing units for individuals and families that have suffered from long-term homelessness, reaching the 3,582-unit mark towards the State's goal of producing 4,000 such units by the year 2015.
- Received a renewed contract from the Department of Housing and Urban Development (HUD) to manage rental assistance payments for more than 35,000 rental housing units under the Performance-Based Contract Administration program, after successfully competing in HUD's competitive bid process for this program.
- Continued a strong commitment to foreclosure prevention, winning an allocation of more than \$3 mil-

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

lion in counseling resources under the National Foreclosure Mitigation Counseling program that will allow us to assist an estimated 7,937 households. Minnesota Housing also received a significant award under a new federal program – the Emergency Homeowners Loan Program – that will help unemployed and underemployed homeowners to make their mortgage payments for up to 2 years or until they find new employment.

Minnesota Housing also took important steps during the year to ensure the strength of its financial, technology and risk management infrastructure:

- Engaged its financial advisor to conduct a Capital Adequacy assessment, with strong results.
- Made significant investments in technology support for both its single-family mortgage-backed securities platform and its multifamily asset management platform. These are the first steps in a program that will result in significant process improvements over the next 2 to 3 years.
- Engaged seasoned professionals for two new positions – a Chief Risk Officer who reports directly to the Board of Directors and a Senior Credit Officer who reports directly to the Chief Financial Officer.

We are proud that Minnesota Housing stands as a strong financial partner for the lenders, developers and counseling organizations that provide affordable housing opportunities for Minnesotans. Our financial and organizational strength will allow us to achieve our mission – financing and advancing affordable housing opportunities for low and moderate income Minnesotans to enhance quality of life and foster strong communities – for many years to come.



Mary Tingerthal, Commissioner
Minnesota Housing
August 24, 2011

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 Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2011, 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 2010 financial statements and, in our report dated August 25, 2010, 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, 2011, 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.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
August 24, 2011

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, 2010. 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 2011 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, 2011. 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 2011 (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 2011.

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 2011 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)

interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2011 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.

Discussion of Individual Funds (continued)

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. The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

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.

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. 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.

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 have been issued for a rental project under construction. The mortgage loan had closed but had yet to be funded as of the end of fiscal year 2011.

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.

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 Multifamily 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

MINNESOTA HOUSING FINANCE AGENCY

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

General Overview (continued)

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 the Single Family, Residential Housing Finance, and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. 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, 2011	As of June 30, 2010	Change
Assets	Cash and Investments	\$1,449,604	\$1,403,723	\$ 45,881
	Loans receivable, Net	2,065,339	2,268,115	(202,776)
	Interest Receivable	17,601	18,838	(1,237)
	Total Assets	3,614,326	3,785,148	(170,822)
Liabilities	Bonds Payable	2,555,414	2,704,507	(149,093)
	Interest Payable	46,799	48,211	(1,412)
	Accounts Payable and Other Liabilities	17,062	21,582	(4,520)
	Funds Held for Others	96,996	87,425	9,571
	Total Liabilities	2,750,720	2,900,100	(149,380)
Net Assets	Restricted by Bond Resolution	281,199	278,195	3,004
	Restricted by Covenant	469,496	476,902	(7,406)
	Restricted by Law	111,466	128,320	(16,854)
	Total Net Assets	863,606	885,048	(21,442)

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

		Agency-wide Total		
		Fiscal 2011	Fiscal 2010	Change
Revenues	Interest Earned	\$151,328	\$155,845	\$ (4,517)
	Appropriations Received	303,615	284,483	19,132
	Fees and Reimbursements	18,855	17,769	1,086
	Total Revenues (1)	491,613	486,313	5,300
Expenses	Interest Expense	97,189	101,516	(4,327)
	Appropriations Disbursed	286,572	270,185	16,387
	Fees and Reimbursements	6,203	6,725	(522)
	Payroll, Gen. & Admin.	32,753	32,263	490
	Loan Loss/Value Adjust's	71,089	56,486	14,603
	Total Expenses (1)	513,055	486,984	26,071
Revenues over (under) Expenses		(21,442)	(671)	(20,771)
Beginning Net Assets		885,048	885,719	(671)
Ending Net Assets		863,606	885,048	(21,442)

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
As of June 30, 2011			As of		As of		Change
Excluding Pool 3	Pool 3	Total	June 30, 2010	Change	June 30, 2011	June 30, 2010	
\$1,324,968	\$ 28,687	\$1,353,655	\$1,302,496	\$ 51,159	\$ 95,949	\$101,227	\$ (5,278)
2,004,893	25,558	2,030,451	2,232,189	(201,738)	34,888	35,926	(1,038)
17,017	348	17,365	18,501	(1,136)	236	337	(101)
3,427,030	54,593	3,481,623	3,642,506	(160,883)	132,703	142,642	(9,939)
2,555,414	-	2,555,414	2,704,507	(149,093)	-	-	-
46,799	-	46,799	48,211	(1,412)	-	-	-
14,922	97	15,019	15,045	(26)	2,043	6,537	(4,494)
78,206	-	78,206	80,301	(2,095)	18,790	7,124	11,666
2,743,392	(13,909)	2,729,483	2,885,778	(156,295)	21,237	14,322	6,915
281,199	-	281,199	278,195	3,004	-	-	-
400,994	68,502	469,496	476,902	(7,406)	-	-	-
-	-	-	-	-	111,466	128,320	(16,854)
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2011			Fiscal 2010		Fiscal 2010		Change
Excluding Pool 3	Pool 3	Total	Fiscal 2010	Change	Fiscal 2011	Fiscal 2010	
\$147,917	\$ 1,545	\$149,462	\$ 153,283	\$ (3,821)	\$ 1,866	\$ 2,562	\$ (696)
-	-	-	-	-	303,615	284,483	19,132
15,222	(1,013)	14,209	13,920	289	4,646	3,849	797
180,471	350	180,821	193,930	(13,109)	310,792	292,383	18,409
97,189	-	97,189	101,516	(4,327)	-	-	-
-	-	-	-	-	286,572	270,185	16,387
23,147	1,045	24,192	24,332	(140)	64	72	(8)
23,432	3,782	27,214	27,260	(46)	5,539	5,003	536
22,398	14,416	36,814	34,933	1,881	34,275	21,553	12,722
166,166	19,243	185,409	188,041	(2,632)	327,646	298,943	28,703
14,305	(18,893)	(4,588)	5,889	(10,477)	(16,854)	(6,560)	(10,294)
683,233	73,495	756,728	750,839	5,889	128,320	134,880	(6,560)
683,638	68,502	752,140	756,728	(4,588)	111,466	128,320	(16,854)

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 2011 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 9% to \$2,030.5 million at June 30, 2011 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 2011 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 which was only partially offset by a decrease in the homeownership loan delinquency rates as displayed in the following delinquency data. 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 increased due to increased total loan delinquency rates (as displayed in the following delinquency data) and because of an increase in the reserve for inactive loans, which are excluded from the delinquency data. 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 for the multifamily portfolio was relatively unchanged during fiscal year 2011. 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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
Current and less than 60 days past due	15,299	92.0%	16,732	90.8%
60-89 days past due	310	1.9%	414	2.2%
90-119 days past due	149	0.9%	232	1.3%
120+ days past due and foreclosures ⁽¹⁾	<u>862</u>	5.2%	<u>1,057</u>	5.7%
Total count	16,620		18,435	
Total past due ⁽¹⁾	1,321	8.0%	1,703	9.2%

- (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, 2011		June 30, 2010	
Current and less than 60 days past due	8,798	97.2%	9,133	97.4%
60-89 days past due	57	0.6%	76	0.8%
90-119 days past due	38	0.4%	48	0.5%
120+ days past due	164	1.8%	123	1.3%
Total count	9,057		9,380	
Total past due	259	2.8%	247	2.6%

The 60+ day delinquency rate as of June 30, 2011 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately three percentage points the delinquency rates of similar loan data available as of March 31, 2011 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.

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 decreased 32% to \$7.761 million at June 30, 2011 as a result of a decrease in the claim amount per loan.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. Real estate owned increased 2% to \$24.604 million at June 30, 2011 as a result of increased foreclosures within the homeownership portfolio.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2011, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2011, being less than 1.62% 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 increased 4% to \$1,353.7 million at June 30, 2011. The increase is principally a result of two items. First, loans receivable decreased \$201.7 million during fiscal year 2011 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 \$149.1 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 6% to \$17.365 million at June 30, 2011. The decrease is a result of a decrease in interest receivable on loans due to the reduction in the amount of outstanding loans.

Bonds payable, net is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable decreased 6% to \$2,555.4 million at June 30, 2011 because scheduled redemptions and early bond redemptions of existing debt outpaced new bonding issuance.

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)

The companion category of interest payable decreased 3% to \$46.799 million at June 30, 2011 primarily due to a decrease in bonds payable, net during fiscal year 2011.

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 3% to \$78.206 million at June 30, 2011 as multifamily escrows decreased.

Accounts payable and other liabilities were virtually unchanged at \$15.019 million at June 30, 2011. 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 \$1.408 million; and yield compliance liability, which increased \$1.080 million. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability. Other accounts payable items increased a net \$0.302 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 decreased 1% to \$752.140 million at June 30, 2011. If Pool 3 net expense were excluded, net assets would have increased 2%.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds decreased 178% from fiscal year 2010 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 decreased 2%. Total expenses, excluding Pool 3, decreased 6% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2011. Combined interest revenues of General Reserve and bond funds from loans and investments decreased 2% to \$149.462 million compared to the prior fiscal year. Loan interest revenue decreased 10% in fiscal year 2011 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. Investment interest revenue increased 59% in fiscal year 2011 because program mortgage-backed securities were purchased for the first time by the Homeownership Finance bond resolution and because of increased warehousing of mortgage-backed securities in Pool 2.

Administrative reimbursements to General Reserve from bond funds were \$18.053 million in fiscal year 2011 compared to \$17.769 million during the prior fiscal year. The increase is a result of an increase in the total assets of the bond funds upon which the administrative reimbursement is calculated. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$2.680 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2011 compared to \$3.979 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal year 2011. Investment earnings within the State Appropriated fund were insufficient to reimburse \$5.182 million of cumulative overhead expense.

Other fee income to General Reserve and bond funds of \$11.529 million increased by \$1.588 million compared to the prior fiscal year. The primary components are fees earned from the federal low income

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)

housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs. During fiscal year 2011 the Agency received \$0.691 million as a result of a penalty that was independently calculated and imposed on a former guaranteed investment contract bidder by the United States Department of Justice.

Minnesota Housing recorded \$0.903 million of unrealized losses on investment securities during fiscal year 2011, compared to \$9.048 million of unrealized gains during the prior year, a decrease of \$9.951 million.

Interest expense of the bond funds decreased 4% to \$97.189 million compared to the prior year as a result of a lower amount of outstanding debt during fiscal year 2011.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds decreased by 1% to \$24.192 million compared to the prior fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$18.053 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 \$17.716 million decreased 1% from the prior year. Other general operating expense in General Reserve and bond funds increased 1% to \$9.498 million compared to the prior fiscal year. Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased 53% to \$14.387 million. The increase related to increased disbursements of deferred subordinated multifamily loans.

Provision for loan loss expense in the bond funds decreased \$3.103 million or 12% to \$22.427 million. The provision for loan loss expense for the homeownership loan portfolio decreased \$4.585 million because new delinquencies (upon which a portion of the provision for loan loss expense is calculated as an estimate) were less than the prior fiscal year. The provision for loan loss expense for the home improvement loan portfolio increased \$0.265 million as a result of the slight increase in loan delinquency rates. The provision for loan loss expense for the homeownership down payment assistance loan portfolio decreased \$0.155 million. The provision for loan loss expense for the multifamily loan portfolio increased \$1.372 million mainly due to newly originated first mortgage loans. The Agency's practice is to assign a general loss provision for newly originated multifamily loans. 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 Investment Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2011, \$10.029 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 Housing Endowment Fund (Pool 1) requirement are transferred periodically to the Housing Investment Fund (Pool 2) for use in housing programs. Pool 2 also recorded a \$13.900 million contribution to Pool 3 to be used for highly subsidized housing programs. Revenues over expenses plus non-operating transfers in the Housing Investment Fund (Pool 2) may be transferred periodically, with approval of the Board, to the Housing Affordability Fund (Pool 3) for use in more highly subsidized housing programs. Board investment guidelines establishes required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$14.256 million in bond sale contributions, as follows: Homeownership Finance bond fund \$13.066 million, Multifamily Housing bond fund \$0.549 million, and Rental Housing bond resolution \$0.641 million.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, decreased \$10.477 million to \$(4.588) 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 102% to \$13.991 million.

Total combined net assets of General Reserve and bond funds decreased 1% to \$752.140 million as of June 30, 2011 as a result of expenses exceeding revenues for fiscal year 2011. The net assets of each individual bond fund increased, except for Residential Housing Finance, as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. After the \$10.029 million transfer of Pool 1 excesses to Pool 2, the net assets of General Reserve decreased \$2.240 million mainly as a result of a

MINNESOTA HOUSING FINANCE AGENCY

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

\$2.029 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, and a \$0.186 million decrease 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, 2011 combined balance decreased 5% to \$95,949 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, 2011 State Appropriated fund net loans receivable decreased 3% to \$34.888 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, 2011 decreased 30% to \$0.236 million primarily as a result of lower interest rates on investments.

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, 2011 was \$2.043 million compared to \$6.537 million at June 30, 2010. The decrease in accounts payable and other liabilities is largely attributable to Section 1602/Exchange program funds received by the Agency at the end of fiscal year 2010 which were then paid to the ultimate recipients of those funds during fiscal year 2011.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. At June 30, 2011 the combined net interfund payable was \$0.404 million.

At June 30, 2011 the balance of funds held for others was \$18.790 million. In October 2009 and 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 provide capital funding for permanent supportive housing in seven 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 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 \$18.493 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 \$0.297 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 \$111.466 million as of June 30, 2011, reflecting combined revenues less than disbursements and expenses during fiscal year 2011.

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

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 increased from \$284.483 million in fiscal year 2010 to \$303.615 million at in fiscal year 2011. Federal appropriations received increased by \$12.065 million, mostly due to increased funding in fiscal year 2011 for Section 8 contract administration, the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/ Exchange Program. These increases were partially offset by a decrease in HOME program funds. State appropriations received increased by \$3.637 million, mainly due to appropriations received for debt service and other expenses for the nonprofit housing bonds.

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 34% to \$1.585 million for fiscal year 2011.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.281 million as relatively few loans bear interest.

Fees earned and other income in the amount of \$2.175 million were recorded in the State Appropriated fund during fiscal year 2011. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of \$3.667 million were recorded in the Federal Appropriation fund in fiscal year 2011. 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 losses of \$0.531 million were recorded at June 30, 2011 compared to \$0.641 million unrealized losses at June 30, 2010.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 44% to \$1.196 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 2011 investment earnings in the State Appropriated fund were insufficient to reimburse \$5.182 million of overhead expenses incurred in General Reserve during this fiscal year and unreimbursed expenses for the last fiscal year. Combined appropriations disbursed increased 6% to \$286.572 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$29.656 million and federal appropriations disbursed of \$256.916 million.

Increased 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 increased 62% to \$32.544 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 increased 3% to \$1.872 million at June 30, 2011. Other general operating expenses in the Federal Appropriation fund of \$3.667 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 \$16.854 million at June 30, 2011. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

MINNESOTA HOUSING FINANCE AGENCY

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

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2011 long-term bonds totaling \$2,202.1 million and short-term bonds totaling \$350.9 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, 2011, 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 2011 fiscal year, Minnesota Housing issued 11 series of bonds and notes aggregating \$1,391.1 million, compared to the issuance of eight series totaling \$1,384.9 million the previous fiscal year. Aided by the United States Treasury's New Issue Bond Program, long-term debt issuance to finance mortgage lending was more robust in fiscal year 2011 than it was in recent recessionary years. 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 \$1,484.9 million in principal payments and \$97.2 million of interest payments were made during fiscal year 2011. Of the total principal payments, \$1,294.9 million retired short-term debt and \$144.6 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.)

The Agency also had outstanding at June 30, 2011 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, 2011 Minnesota Housing's issuer 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.

MINNESOTA HOUSING FINANCE AGENCY

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

Significant Factors That May Affect Financial Condition and/or Operations

Legislative Actions

Following protracted negotiations, the Governor and legislature agreed on a package of measures to address the state's \$5 billion deficit. As part of the package, state appropriations to the agency were reduced by 6.3%, for a base biennial budget of \$76.096 million. The base for the previous biennium was \$82 million. The reduction was slightly larger than that proposed by the Governor, but was less than either of the House or Senate bills.

Federal Stimulus Funds

As part of the Housing and Economic Recovery Act 2008 (HERA), Congress established the Neighborhood Stabilization Program (NSP) and the U.S. Treasury sponsored New Issue Bond Program (NIBP). Congress has funded the NSP program three times: once through HERA, once through the American Recovery and Reinvestment Act of 2009 (ARRA), and a third time through the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). HERA and Dodd-Frank NSP funds were allocated among states and communities on a formula basis. The Governor designated Minnesota Housing as the administrator of the \$38.8 million HERA and the \$5 million Dodd-Frank allocations to the state, of which it has disbursed \$30.7 million. Minnesota Housing has used both state appropriations and Agency resources to assist with efforts to remediate neighborhoods in the state hardest hit by the foreclosure crisis.

NIBP has provided competitive bond interest rates in an otherwise difficult bond market. The program is scheduled to end December 31, 2011.

ARRA included two funding programs to assist housing tax credit projects that were stalled due to the unfavorable tax credit market. The Agency administers \$28.4 million under the Tax Credit Assistance program (TCAP) and over \$62 million under the Section 1602/Exchange Program.

100% of the TCAP grant amount has been committed to projects and 99.98% has been expended; 100% of the Section 1602/Exchange funds have been committed to projects and 92.3% has been disbursed.

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. Loan delinquencies and foreclosures were lower in fiscal year 2011 for the homeownership portfolio and slightly higher for the home improvement portfolios 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.

The Agency transitioned to a mortgage-backed securities business model during fiscal year 2010. This model was adopted to minimize losses on future homeownership lending.

Liquidity Facilities for Variable Rate Bonds

Standby liquidity facilities for certain variable rate bonds are scheduled to expire in calendar year 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 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361)

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Net Assets (in thousands)****As of June 30, 2011 (with comparative totals as of June 30, 2010)**

		Agency-wide Total as of June 30, 2011	Agency-wide Total as of June 30, 2010
Assets	Cash and cash equivalents	\$ 527,605	\$ 646,706
	Investments- program mortgage-backed securities	356,227	\$33,686
	Investment securities- other	565,772	723,331
	Loans receivable, net	2,065,339	2,268,115
	Interest receivable on loans	14,142	16,287
	Interest receivable on investments	3,459	2,551
	Deferred loss on interest rate swap agreements	30,815	37,077
	FHA/VA insurance claims, net	7,761	11,407
	Real estate owned, net	24,604	24,026
	Unamortized bond issuance costs	13,307	12,927
	Capital assets, net	1,445	1,631
	Other assets	3,850	7,404
	Total assets	<u>\$3,614,326</u>	<u>\$3,785,148</u>
Liabilities	Bonds payable, net	\$2,555,414	\$2,704,507
	Interest payable	46,799	48,211
	Interest rate swap agreements	30,815	37,077
	Deferred revenue- service release fees	3,634	1,298
	Accounts payable and other liabilities	17,062	21,582
	Funds held for others	96,996	87,425
	Total liabilities	<u>2,750,720</u>	<u>2,900,100</u>
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	281,199	278,195
	Restricted by covenant	469,496	476,902
	Restricted by law	111,466	128,320
	Invested in capital assets	1,445	1,631
	Total net assets	<u>863,606</u>	<u>885,048</u>
	Total liabilities and net assets	<u>\$3,614,326</u>	<u>\$3,785,148</u>

See accompanying notes to financial statements.

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2011 (with comparative totals as of June 30, 2010)**

		Agency-wide Total for the Year Ended <u>June 30, 2011</u>	Agency-wide Total for the Year Ended <u>June 30, 2010</u>
Revenues	Interest earned on loans	\$123,823	\$137,118
	Interest earned on investments- program mortgage-backed securities	7,814	702
	Interest earned on investments- other	19,691	18,025
	Appropriations received	303,615	284,483
	Administrative reimbursement	1,484	1,849
	Fees earned and other income	17,371	15,920
	Unrealized gains on investments	<u>(1,434)</u>	<u>8,407</u>
	Total revenues	<u>472,364</u>	<u>466,504</u>
Expenses	Interest	97,189	101,516
	Loan administration and trustee fees	6,203	6,725
	Salaries and benefits	17,716	17,815
	Other general operating	15,037	14,448
	Appropriations disbursed	286,572	270,185
	Reduction in carrying value of certain low interest rate deferred loans	46,931	29,441
	Provision for loan losses	<u>24,158</u>	<u>27,045</u>
	Total expenses	<u>493,806</u>	<u>467,175</u>
	Change in net assets	(21,442)	(671)
	Total net assets, beginning of year	<u>885,048</u>	<u>885,719</u>
Net Assets	Total net assets, end of year	<u><u>\$863,606</u></u>	<u><u>\$885,048</u></u>

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Net Assets (in thousands)

Proprietary Funds

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	\$ 57,539	\$ 45,721	\$ 223,081	\$ 38,088
	Investments- program mortgage-backed securities	-	-	33,002	-
	Investment securities- other	45,318	40,757	425,165	11,537
	Loans receivable, net	-	171,839	1,741,123	117,871
	Interest receivable on loans	-	944	12,271	860
	Interest receivable on investments	257	694	976	108
	Deferred loss on interest rate swap agreements	-	-	30,815	-
	FHA/VA insurance claims, net	-	-	6,747	1,014
	Real estate owned, net	-	-	23,804	800
	Unamortized bond issuance costs	-	1,752	8,564	631
	Capital assets, net	1,445	-	-	-
	Other assets	1,320	5	162	721
	Total assets	<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,505,710</u>	<u>\$171,630</u>
Liabilities	Bonds payable, net	\$ -	\$157,692	\$1,883,409	\$ 97,505
	Interest payable	-	3,063	37,701	2,525
	Interest rate swap agreements	-	-	30,815	-
	Deferred revenue- service release fees	-	-	3,634	-
	Accounts payable and other liabilities	5,481	5,801	3,223	462
	Interfund payable (receivable)	879	(1)	(1,347)	63
	Funds held for others	77,590	-	616	-
	Total liabilities	<u>83,950</u>	<u>166,555</u>	<u>1,958,051</u>	<u>100,555</u>
Commitments and contingencies					
Net Assets	Restricted by bond resolution	-	95,157	98,647	71,075
	Restricted by covenant	20,484	-	449,012	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,445	-	-	-
	Total net assets	<u>21,929</u>	<u>95,157</u>	<u>547,659</u>	<u>71,075</u>
Total liabilities and net assets		<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,505,710</u>	<u>\$171,630</u>

See accompanying notes to financial statements

Bond Funds		Appropriated Funds			
Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2011	Total as of June 30, 2010
\$ 93,735	\$15,523	\$ 52,042	\$ 1,876	\$ 527,605	\$ 646,706
323,225	-	-	-	356,227	33,686
486	478	32,968	9,063	565,772	723,331
-	(382)	34,888	-	2,065,339	2,268,115
-	54	13	-	14,142	16,287
1,197	4	190	33	3,459	2,551
-	-	-	-	30,815	37,077
-	-	-	-	7,761	11,407
-	-	-	-	24,604	24,026
2,195	165	-	-	13,307	12,927
-	-	-	-	1,445	1,631
12	-	-	1,630	3,850	7,404
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$120,101</u>	<u>\$12,602</u>	<u>\$3,614,326</u>	<u>\$3,785,148</u>
\$401,808	\$15,000	\$ -	\$ -	\$2,555,414	\$2,704,507
3,472	38	-	-	46,799	48,211
-	-	-	-	30,815	37,077
-	-	-	-	3,634	1,298
52	-	268	1,775	17,062	21,582
2	-	39	365	-	-
-	-	18,493	297	96,996	87,425
<u>405,334</u>	<u>15,038</u>	<u>18,800</u>	<u>2,437</u>	<u>2,750,720</u>	<u>2,900,100</u>
15,516	804	-	-	281,199	278,195
-	-	-	-	469,496	476,902
-	-	101,301	10,165	111,466	128,320
-	-	-	-	1,445	1,631
<u>15,516</u>	<u>804</u>	<u>101,301</u>	<u>10,165</u>	<u>863,606</u>	<u>885,048</u>
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$120,101</u>	<u>\$12,602</u>	<u>\$3,614,326</u>	<u>\$3,785,148</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, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Revenues	Interest earned on loans	\$ -	\$10,055	\$105,346
	Interest earned on investments- program mortgage-backed securities	-	-	1,321
	Interest earned on investments- other	292	2,045	13,129
	Appropriations received	-	-	-
	Administrative reimbursement	20,733	-	-
	Fees earned and other income	10,289	616	621
	Unrealized gains (losses) on investments	(95)	(859)	389
	Total revenues	31,219	11,857	120,806
Expenses	Interest	-	7,736	79,411
	Loan administration and trustee fees	-	141	5,539
	Administrative reimbursement	-	1,555	14,829
	Salaries and benefits	17,716	-	-
	Other general operating	5,714	-	3,784
	Appropriations disbursed	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	964	13,423
	Provision for loan losses	-	138	21,952
Total expenses		23,430	10,534	138,938
Revenues over (under) expenses		7,789	1,323	(18,132)
Other changes	Non-operating transfer of assets between funds	(10,029)	641	(4,227)
	Change in net assets	(2,240)	1,964	(22,359)
Net Assets	Total net assets, beginning of year	24,169	93,193	570,018
	Total net assets, end of year	\$21,929	\$95,157	\$547,659

See accompanying notes to financial statements.

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 7,787	\$ -	\$354	\$ 281	\$ -	\$123,823	\$137,118
-	6,493	-	-	-	7,814	702
2,349	274	17	1,248	337	19,691	18,025
-	-	-	47,801	255,814	303,615	284,483
-	-	-	-	-	20,733	21,658
-	-	3	2,175	3,667	17,371	15,920
(565)	224	3	(350)	(181)	(1,434)	8,407
9,571	6,991	377	51,155	259,637	491,613	486,313
5,539	4,304	199	-	-	97,189	101,516
405	55	(1)	64	-	6,203	6,725
1,069	568	32	1,196	-	19,249	19,809
-	-	-	-	-	17,716	17,815
-	-	-	1,872	3,667	15,037	14,448
-	-	-	29,656	256,916	286,572	270,185
-	-	-	32,544	-	46,931	29,441
337	-	-	1,731	-	24,158	27,045
7,350	4,927	230	67,063	260,583	513,055	486,984
2,221	2,064	147	(15,908)	(946)	(21,442)	(671)
-	13,066	549	-	-	-	-
2,221	15,130	696	(15,908)	(946)	(21,442)	(671)
68,854	386	108	117,209	11,111	885,048	885,719
<u>\$71,075</u>	<u>\$15,516</u>	<u>\$804</u>	<u>\$101,301</u>	<u>\$10,165</u>	<u>\$863,606</u>	<u>\$885,048</u>

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$21,046	\$ 155,398
	Investment in loans/loan modifications and program mortgage-backed securities	-	(14,440)	(74,043)
	Interest received on loans and program mortgage-backed securities	-	10,997	101,893
	Other operating	-	-	(3,686)
	Fees and other income received	10,231	616	4,256
	Salaries, benefits and vendor payments	(21,918)	(145)	(7,220)
	Appropriations received	-	-	-
	Appropriations disbursed	-	-	-
	Administrative reimbursement from funds	21,026	(1,555)	(14,829)
	Deposits into funds held for others	31,942	-	-
	Disbursements made from funds held for others	(35,135)	-	-
	Interfund transfers and other assets	(1,155)	(1)	153
	Net cash provided (used) by operating activities	4,991	16,518	161,922
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	23,125	1,939,445
	Principal repayment on bonds and notes	-	(15,880)	(2,217,165)
	Interest paid on bonds and notes	-	(7,106)	(82,654)
	Financing costs paid related to bonds issued	-	(430)	(839)
	Interest paid/received between funds	-	-	(482)
	Principal paid/received between funds	-	-	-
	Premium paid on redemption of bonds	-	-	-
	Agency contribution to program funds	-	641	(3,957)
	Transfer of cash between funds	(11,057)	-	11,057
	Net cash provided (used) by noncapital financing activities	(11,057)	350	(354,595)
Cash flows from investing activities	Investment in real estate owned	-	-	(4,387)
	Interest received on investments	1,524	2,164	11,833
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	71,074
	Proceeds from maturity, sale or transfer of investment securities	25,000	28,135	1,772,099
	Purchase of investment securities	(15,053)	(37,703)	(1,645,898)
	Purchase of loans between funds	-	-	1,856
	Net cash provided (used) by investing activities	11,471	(7,404)	206,577
Net increase (decrease) in cash and cash equivalents		5,405	9,464	13,904
Cash and cash equivalents:	Beginning of year	52,134	36,257	209,177
	End of year	\$ 57,539	\$45,721	\$ 223,081

See accompanying notes to financial statements

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 14,328	\$ 3,175	\$ -	\$ 3,462	\$ -	\$ 197,409	\$ 168,347
(109)	(316,300)	382	(34,755)	-	(439,265)	(164,519)
7,332	6,896	300	282	-	127,700	130,382
-	-	-	(1,874)	(3,667)	(9,227)	(4,862)
-	-	3	2,175	3,667	20,948	14,247
(414)	(75)	(3)	(64)	-	(29,839)	(29,754)
-	-	-	47,801	259,341	307,142	284,336
-	-	-	(30,399)	(260,806)	(291,205)	(270,969)
(1,069)	(568)	(32)	(1,430)	-	1,543	2,087
-	-	-	21,879	-	53,821	42,670
-	-	-	(10,215)	-	(45,350)	(39,987)
(19)	-	-	25	-	(997)	(1,179)
20,049	(306,872)	650	(3,113)	(1,465)	(107,320)	130,799
-	141,613	-	-	-	2,104,183	1,440,910
(18,900)	-	-	-	-	(2,251,945)	(1,208,085)
(5,768)	(959)	(167)	-	-	(96,654)	(100,549)
-	(2,053)	(60)	-	-	(3,382)	(2,650)
482	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	2,767	549	-	-	-	-
-	-	-	-	-	-	-
(24,186)	141,368	322	-	-	(247,798)	129,626
(677)	-	-	-	-	(5,064)	(3,557)
2,134	(923)	13	1,332	203	18,280	17,171
5,655	-	-	-	-	76,729	64,797
6,872	-	-	60,085	10,498	1,902,689	1,362,531
(13,393)	(476)	(475)	(32,789)	(10,830)	(1,756,617)	(1,465,447)
-	-	-	(1,856)	-	-	-
591	(1,399)	(462)	26,772	(129)	236,017	(24,505)
(3,546)	(166,903)	510	23,659	(1,594)	(119,101)	235,920
41,634	260,638	15,013	28,383	3,470	646,706	410,786
<u>\$ 38,088</u>	<u>\$ 93,735</u>	<u>\$ 15,523</u>	<u>\$ 52,042</u>	<u>\$ 1,876</u>	<u>\$ 527,605</u>	<u>\$ 646,706</u>

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

Year ended June 30, 2011 (with comparative totals as of June 30, 2010)

		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	\$ 7,789	\$ 1,323	\$ (18,132)
	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	-	(62)	1,248
	Depreciation	1,540	-	-
	Realized losses (gains) on sale of securities, net	(5)	77	183
	Unrealized losses (gains) on securities, net	95	859	(389)
	Provision for loan losses	-	138	21,952
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	964	13,423
	Capitalized interest on loans and real estate owned	-	(105)	(7,965)
	Interest earned on investments	(287)	(2,251)	(12,404)
	Interest expense on bonds and notes	-	7,736	79,411
	Changes in assets and liabilities:			
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	6,606	81,355
	Decrease (increase) in interest receivable on loans	-	29	1,943
	Increase (decrease) in arbitrage rebate liability	-	1,209	(908)
	Increase (decrease) in accounts payable	(24)	(2)	2,097
	Increase (decrease) in interfund payable, affecting operating activities only	285	(1)	(17)
	Increase (decrease) in funds held for others	(3,193)	-	-
	Other	(1,209)	(2)	125
	Total	(2,798)	15,195	180,054
Net cash provided (used) by operating activities		\$ 4,991	\$ 16,518	\$ 161,922

See accompanying notes to financial statements

Bond Funds			Appropriated Funds		Total for the Year Ended June 30, 2011	Total for the Year Ended June 30, 2010
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated		
\$ 2,221	\$ 2,064	\$ 147	\$ (15,908)	\$ (946)	\$ (21,442)	\$ (671)
(175)	403	-	-	-	1,414	690
-	-	-	-	-	1,540	2,590
(271)	-	-	(30)	(153)	(199)	469
565	(224)	(3)	350	181	1,434	(8,407)
337	-	-	1,731	-	24,158	27,045
-	-	-	32,544	-	46,931	29,442
(506)	-	-	-	-	(8,576)	(6,724)
(2,164)	(274)	(17)	(1,218)	(185)	(18,800)	(18,504)
5,539	4,304	199	-	-	97,189	101,515
14,219	(313,125)	382	(31,293)	-	(241,856)	3,828
226	-	(54)	1	-	2,145	(1,038)
86	-	-	-	-	387	126
(6)	(20)	(4)	(745)	(3,836)	(2,540)	2,987
(19)	-	-	(209)	(48)	(9)	-
-	-	-	11,664	-	8,471	2,682
(3)	-	-	-	3,522	2,433	(5,231)
17,828	(308,936)	503	12,795	(519)	(85,878)	131,470
\$ 20,049	\$ (306,872)	\$ 650	\$ (3,113)	\$ (1,465)	\$ (107,320)	\$ 130,799

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011

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 and certain mortgage-backed securities warehoused for a Minnesota local governmental housing and redevelopment authority, funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Nature of Business and Fund Structure (continued)

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 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 2011 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, 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 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 2011 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. The Agency generally expects to issue bonds for homeownership programs under Homeownership Finance. Loans in Single Family are secured by first mortgages on real property.

The Single Family 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.

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. 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 this fiscal year by bonds issued under this resolution.

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 have been issued for a rental housing project that is under construction. The mortgage loan had closed but had yet to be funded as of the end of fiscal year 2011.

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-

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Nature of Business and Fund Structure (continued)

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

Summary of Significant Accounting Policies

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.

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 June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides amendments for the following: National Council on Governmental Accounting Statement No. 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences; Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans; Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans; Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools; Statement No. 40, Deposit and Investment Risk Disclosures; and Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. The provisions of GASB Statement No. 59 are effective for the Agency's fiscal year ended June 30, 2011. The adoption of this statement did not affect the Agency's 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,

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation are recorded as funds held for others. Also, unrealized loss on investments on mortgage-backed securities warehoused for a Minnesota local governmental housing and redevelopment authority is recorded as a deferred loss. 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 or discounts and fees.

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

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, 2011.

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

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 2011. 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

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.

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal year 2011 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 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

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.

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 2010 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 \$1.487 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$19.249 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 Credits 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Summary of Significant Accounting Policies (continued)

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 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 2011 were \$78.1 million and \$4.2 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.

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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

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, 2011 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve Account	\$ -	\$ -	\$57,539	\$ -	\$ 57,539
Federal Appropriated Accounts	-	1,568	308	-	1,876
State Appropriated Accounts	142	18,411	33,489	-	52,042
Rental Housing	5	23,580	-	22,136	45,721
Residential Housing Finance	1,245	117,900	-	103,936	223,081
Single Family	231	4,492	-	33,365	38,088
Homeownership Finance	-	93,735	-	-	93,735
Multifamily Housing	-	15,523	-	-	15,523
Combined Totals	<u>\$1,623</u>	<u>\$275,209</u>	<u>\$91,336</u>	<u>\$159,437</u>	<u>\$527,605</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.

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, 2011, all the investment agreement providers, or the investment agreement guarantors if more highly rated, had a Standard & Poor's long-term credit rating of "A+" or higher and a Moody's long-term credit rating of "A1" or higher, except for Depfa Bank PLC's Standard & Poor'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 (\$33.942 million) and Credit Agricole CIB (\$11.503 million) require downgrade to the ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating is "BBB" from Standard & Poor's and Credit Agricole CIB's ratings was downgraded by Standard and Poor's to "A+" during fiscal year 2011, the Agency reduced the carrying value of those agreements by \$0.612 million as of June 30, 2011.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

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

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2011 (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	\$ 45,238	\$ -	\$ 80	\$ 45,318
Federal Appropriated Accounts	8,990	-	73	9,063
State Appropriated Accounts	32,759	-	209	32,968
Rental Housing	40,839	-	(82)	40,757
Residential Housing Finance	421,872	31,680	4,615	458,167
Single Family Mortgage	11,511	-	26	11,537
Homeownership Finance	477	317,995	5,239	323,711
Multifamily Housing	475	-	3	478
Combined Totals	<u>\$562,161</u>	<u>\$349,675</u>	<u>\$10,163</u>	<u>\$921,999</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. Certificates of deposit pledged as collateral for certain limited obligation notes with the Federal Home Loan Bank of Des Moines are held by the Federal Home Loan Bank of Des Moines in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities by their lowest Standard & Poor's/Moody's rating. U.S. Treasury securities are not classified because they are not considered to have credit risk. Investment securities' credit rating categories (without qualifiers) at June 30, 2011 were (in thousands):

Credit Ratings of Investment Securities			
Type	Par Value	AAA/Aaa	AA/Aa
Certificates of deposit	\$265,870	\$265,870	\$ —
U.S. Agencies	603,755	603,755	—
Municipals	24,090	—	24,090
Agency-wide Totals	<u>\$893,715</u>	<u>\$869,625</u>	<u>\$ 24,090</u>
U.S. Treasuries	10,983		
Agency-wide Totals	<u>\$904,698</u>		

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Cash, Cash Equivalents and Investment Securities (continued)

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 \$3.613 million and net discounts of \$1.249 million), along with the weighted average maturities (in years) as of June 30, 2011, 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	\$ 1,623	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Certificates of deposit	\$ 265,870	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial paper	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Money market fund	\$ 275,209	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
State investment pool	\$ 91,336	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment agreements	\$ 159,437	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
US Agencies	\$ 603,755	1.7	13.2	24.0	13.6	29.1	14.8	2.3	14.6
US Treasuries	\$ 10,983	0.0	0.0	8.7	5.6	0.0	0.0	0.0	6.4
Municipals	\$ 24,090	0.0	0.0	0.0	0.0	0.0	0.0	13.7	0.0
Corporate notes	\$ 5,200	0.0	0.0	0.0	0.0	0.0	0.0	1.1	0.0
Agency-wide Totals	<u>\$1,437,503</u>								
Weighted Average Maturity		0.7	6.3	5.9	3.1	22.4	0.4	1.8	9.8

Investments in any one issuer, excluding \$.406 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, 2011 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank of Des Moines, certificates of deposit	\$265,870
Federal National Mortgage Association, U.S. Agencies	103,868

The Agency maintained certain deposits and investments throughout fiscal year 2011 that were subject to custodial credit risk. As of June 30, 2011, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including \$275,209 in a money market fund and \$91,336 in the State investment pool)	\$ 368,168
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	994,087
Agency-wide Total	<u>\$1,362,255</u>

Net realized gain on sale of investment securities of \$0.199 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 and insurance reserves. The required balances at June 30, 2011 were as follows (in thousands):

Funds	Amount
Multifamily Housing Bonds	\$ 479
Rental Housing	19,493
Residential Housing Finance	48,162
Single Family Mortgage	6,375
Combined Totals	<u>\$74,509</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Loans Receivable, Net

Loans receivable, net at June 30, 2011 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	180,456	(7,249)	(1,368)	171,839
Residential Housing Finance	1,774,876	(34,505)	752	1,741,123
Single Family	119,701	(1,077)	(753)	117,871
Multifamily Housing	-	-	(382)	(382)
State Appropriated	36,224	(1,336)	-	34,888
Federal Appropriated	-	-	-	-
Agency-wide Totals	<u>\$2,111,257</u>	<u>\$(44,167)</u>	<u>\$(1,751)</u>	<u>\$2,065,339</u>

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. The majority of the loans in the Single Family fund and 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. Losses on mortgage loans in the Single Family fund are also secured by an insurance reserve fund established under the bond resolution.

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 2011 the unpaid principal amount of loans with such characteristics aggregated \$9.588 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), \$0.944 million in Rental Housing and \$34.843 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans receivable, net and gross in Residential Housing Finance at June 30, 2011 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	\$1,408,913	\$1,420,589
Other homeownership loans, generally secured by a second mortgage	1,918	1,988
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	111,670	114,506
Homeownership, first mortgage loans	35,067	36,700
Multifamily, first mortgage loans	157,996	174,438
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, generally secured by a second mortgage	25,559	26,655
Residential Housing Finance Totals	<u>\$1,741,123</u>	<u>\$1,774,876</u>

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Other Assets

Other assets, including receivables, at June 30, 2011 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	\$1,310	\$ 10	\$1,320
Rental Housing	—	5	5
Residential Housing Finance	—	162	162
Single Family	—	721	721
Homeownership Finance	—	12	12
Multifamily Housing	—	—	—
State Appropriated	—	—	—
Federal Appropriated	1,630	—	1,630
Agency-wide Totals	<u>\$2,940</u>	<u>\$910</u>	<u>\$3,850</u>

**Bonds Payable,
Net**

Bonds payable, net at June 30, 2011 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	\$ 159,200	\$ -	\$(1,508)	\$ 157,692
Residential Housing Finance	1,881,285	2,503	(379)	1,883,409
Single Family	97,505	-	-	97,505
Homeownership Finance	399,990	1,818	-	401,808
Multifamily Housing	15,000	-	-	15,000
Totals	<u>\$2,552,980</u>	<u>\$4,321</u>	<u>\$(1,887)</u>	<u>\$2,555,414</u>

Summary of bond activity from June 30, 2010 to June 30, 2011 (in thousands):

Funds	June 30, 2010 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2011 Bonds Outstanding, at Par
Rental Housing	\$ 151,955	\$ 23,125	\$ 15,880	\$ 159,200
Residential Housing Finance	2,103,005	1,228,445	1,450,165	1,881,285
Single Family	116,405	-	18,900	97,505
Homeownership Finance	260,490	139,500	-	399,990
Multifamily Housing	15,000	-	-	15,000
Totals	<u>\$ 2,646,855</u>	<u>\$ 1,391,070</u>	<u>\$ 1,484,945</u>	<u>\$ 2,552,980</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Bonds Payable,
Net
(continued)**

Bonds payable at June 30, 2011 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
<u>Rental Housing Bonds</u>				
1995 Series C-2	5.85% to 5.95%	2015	\$ 38,210	\$ 3,490
1995 Series D	5.80% to 6.00%	2022	234,590	8,245
1997 Series A	5.45% to 5.875%	2028	4,750	3,655
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	2,290
1998 Series C	4.85% to 5.20%	2029	2,865	2,220
1999 Series A	4.75% to 5.10%	2024	4,275	2,980
1999 Series B	5.60% to 6.15%	2025	3,160	1,890
2000 Series A	5.65% to 6.15%	2030	9,290	5,220
2000 Series B	5.90%	2031	5,150	4,125
2001 Series A	4.50% to 5.35%	2033	4,800	4,115
2002 Series A	3.65% to 4.05%	2014	27,630	10,430
2003 Series A	4.55% to 4.95%	2045	12,770	11,875
2003 Series B	4.15% to 5.08%	2031	1,945	1,680
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,875
2004 Series A	3.60% to 5.00%	2035	9,345	7,470
2004 Series B	4.00% to 4.85%	2035	3,215	2,920
2004 Series C	3.45% to 4.40%	2022	80,000	37,015
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,590
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,420
2006 Series B	4.89%	2037	5,020	4,755
2006 Series C-1	4.96%	2037	2,860	2,705
2007 Series A-1	4.65%	2038	3,775	3,605
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
2010 Series B	1.75%	2013	8,000	8,000
2011 Series A	0.5% to 5.45%	2041	8,890	8,890
			496,895	159,200
<u>Residential Housing Finance Bonds</u>				
2002 Series A	4.75% to 5.30%	2019	\$ 14,035	\$ 3,190
2002 Series B	5.00% to 5.65%	2033	59,650	11,160
2002 Series A-1	4.20% to 4.90%	2019	6,860	3,955
2002 Series B-1	4.30% to 5.35%	2033	25,760	11,130
2002 Series E	4.30% to 5.00%	2020	12,805	7,060
2002 Series F	4.45% to 5.40%	2032	52,195	19,040
2002 Series H	4.93%	2012	20,000	10,000
2003 Series A	3.25% to 4.30%	2034	40,000	13,200
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	4.30% to 5.25%	2020	25,000	6,970
2003 Series J	Variable	2033	25,000	20,480
2004 Series A	3.20% to 4.25%	2018	22,480	18,465
2004 Series B	3.60% to 5.00%	2033	94,620	39,850

continued

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2004 Series C	4.70%	2035	\$ 14,970	\$ 12,445
2004 Series E-1	4.10% to 4.60%	2016	5,110	3,360
2004 Series E-2	4.40% to 4.60%	2016	6,475	4,255
2004 Series F-1	4.40% to 4.50%	2012	4,600	220
2004 Series F-2	4.40% to 5.25%	2034	36,160	19,045
2004 Series G	Variable	2032	50,000	36,690
2005 Series A	3.75% to 4.125%	2018	14,575	7,575
2005 Series B	4.75% to 5.00%	2035	20,425	13,760
2005 Series C	Variable	2035	25,000	18,915
2005 Series G	4.25% to 4.30%	2018	8,950	7,875
2005 Series H	4.00% to 5.00%	2036	51,050	32,190
2005 Series I	Variable	2036	40,000	30,365
2005 Series J	3.625% to 4.00%	2015	11,890	10,880
2005 Series K	3.95% to 4.40%	2028	41,950	26,310
2005 Series L	4.75% to 5.00%	2036	48,165	33,895
2005 Series M	Variable	2036	60,000	44,765
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	4.15% to 5.00%	2036	65,490	47,935
2006 Series A	3.60% to 4.00%	2016	13,150	7,585
2006 Series B	4.60% to 5.00%	2037	43,515	33,020
2006 Series C	Variable	2037	28,335	24,075
2006 Series F	3.85% to 4.25%	2016	11,015	5,805
2006 Series G	4.85% to 5.50%	2037	58,985	51,155
2006 Series H	5.85%	2036	15,000	5,790
2006 Series I	4.20% to 5.75%	2038	95,000	73,590
2006 Series J	6.00% to 6.51%	2038	45,000	34,820
2006 Series L	3.60% to 3.95%	2016	6,740	4,765
2006 Series M	4.625% to 5.75%	2037	35,260	34,025
2006 Series N	5.27% to 5.76%	2037	18,000	11,965
2007 Series C	3.70% to 3.95%	2017	12,515	9,455
2007 Series D	4.60% to 5.50%	2038	62,485	53,795
2007 Series E	Variable	2038	25,000	19,035
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	4.00% to 5.50%	2038	100,270	83,365
2007 Series J	Variable	2038	37,500	29,260
2007 Series L	4.10% to 5.50%	2048	105,000	91,160
2007 Series M	6.345%	2038	70,000	61,135
2007 Series P	3.50% to 3.90%	2017	4,305	4,035
2007 Series Q	3.90% to 5.50%	2038	42,365	37,495
2007 Series R	4.51% to 4.76%	2013	2,840	1,415
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	31,425

continued

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
Residential Housing Finance Bonds (continued)				
2008 Series A	3.00% to 4.65%	2023	\$ 25,090	\$ 19,705
2008 Series B	5.50% to 5.65%	2033	34,910	31,695
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	2.35% to 5.20%	2023	26,795	22,085
2009 Series B	5.00% to 5.90%	2038	33,205	28,185
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	1.25% to 4.00%	2020	19,830	17,490
2009 Series E	2.05% to 5.10%	2040	103,960	100,860
2009 Series F	Variable	2031	34,120	31,530
			<u>2,191,280</u>	<u>1,615,415</u>
Limited Obligation Notes				
Series 2011 B	0.15%	2011	53,000	53,000
Series 2011 B	0.21%	2011	212,870	212,870
			<u>265,870</u>	<u>265,870</u>
Single Family Mortgage Bonds				
1994 Series E	5.60% to 5.90%	2025	31,820	9,775
1996 Series A	6.375%	2028	34,480	1,960
1996 Series C	6.10%	2015	12,345	390
1996 Series D	6.00%	2017	23,580	440
1996 Series E	6.25%	2023	14,495	790
1996 Series F	6.30%	2028	18,275	990
1997 Series D	5.80% to 5.85%	2021	15,885	1,860
1997 Series E	5.90%	2029	23,495	1,590
1998 Series F-1	5.45%	2017	10,650	540
1998 Series G-1	5.60%	2022	6,150	815
1998 Series H-1	5.65%	2031	14,885	1,975
1998 Series F-2	5.70%	2017	11,385	1,360
1998 Series G-2	6.00%	2022	6,605	1,910
1998 Series H-2	6.05%	2031	15,965	4,640
1999 Series H	5.30% to 5.80%	2021	16,350	2,740
1999 Series I	6.05%	2031	34,700	3,285
1999 Series J	5.00%	2017	4,745	1,640
1999 Series K	4.50% to 5.35%	2033	44,515	13,150
2000 Series F	Variable	2031	20,000	5,360
2000 Series G	4.50% to 5.40%	2025	39,990	11,435
2000 Series H	5.50%	2023	32,475	7,345
2001 Series A	5.35% to 5.45%	2022	14,570	4,560
2001 Series B	5.00% to 5.675%	2030	34,855	5,195
2001 Series E	3.55% to 4.90%	2035	23,000	13,760
			<u>505,215</u>	<u>97,505</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2011 Bonds Outstanding, at Par
<u>Homeownership Finance Bonds</u>				
2009 Series A	Variable	2011	\$ 260,490	\$ 84,990
2009 Series A-1	3.01%	2041	108,000	108,000
2009 Series A-2	3.55%	2041	67,500	67,500
2010 Series A	0.45% to 4.25%	2028	72,000	72,000
2011 Series A	0.50% to 1.25%	2013	3,740	3,740
2011 Series B	1.25% to 4.50%	2031	63,760	63,760
			<u>575,490</u>	<u>399,990</u>
<u>Multifamily Housing Bonds</u>				
Series 2009	3.01%	2051	15,000	15,000
			<u>15,000</u>	<u>15,000</u>
Combined Totals			<u>\$4,049,750</u>	<u>\$2,552,980</u>

The final maturities of the Homeownership Finance Bonds, 2009 Series A are listed in the foregoing table as 2011, because the conditions for release of proceeds of these bonds under the Treasury Department's New Issue Bond Program had not been met as of June 30, 2011. If the conditions for release of proceeds are satisfied, the bonds will bear interest at a long-term rate and amortize over a term ending on July 1, 2041.

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, 2011, are as follows (in thousands):

Fiscal Year	Rental Housing		Residential Housing Finance	
	Principal	Interest	Principal	Interest
2012	\$ 12,015	\$ 7,218	\$ 297,705	\$ 59,780
2013	21,815	6,686	42,390	58,126
2014	12,725	6,056	34,390	56,676
2015	7,280	5,543	36,960	55,379
2016	7,405	5,215	37,370	53,968
2017-2021	34,590	20,755	201,440	247,877
2021-2026	18,635	14,066	254,955	207,629
2027-2031	17,590	9,251	346,365	153,369
2032-2036	12,980	5,310	391,075	87,288
2037-2041	9,425	2,599	217,645	18,384
2042-2046	4,210	662	13,085	1,247
2047-2051	530	25	7,905	185
2051-2056	-	-	-	-
Total	<u>\$159,200</u>	<u>\$83,386</u>	<u>\$1,881,285</u>	<u>\$999,908</u>

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Bonds Payable,
Net
(continued)

Fiscal Year	Single Family		Homeownership Finance	
	Principal	Interest	Principal	Interest
2012	\$ 3,255	\$ 5,029	\$ 4,270	\$ 8,564
2013	3,335	4,864	90,660	10,415
2014	3,660	4,683	5,765	10,355
2015	4,005	4,485	5,885	10,276
2016	3,930	4,271	6,040	10,170
2017-2021	24,180	17,787	33,445	48,279
2021-2026	24,750	11,081	41,765	41,615
2027-2031	23,350	4,882	53,810	31,615
2032-2036	7,040	695	69,270	20,815
2037-2041	-	-	84,060	8,343
2042-2046	-	-	5,020	82
2047-2051	-	-	-	-
2051-2056	-	-	-	-
Totals	<u>\$97,505</u>	<u>\$57,777</u>	<u>\$399,990</u>	<u>\$200,529</u>

Fiscal Year	Multifamily Housing		Combined Totals	
	Principal	Interest	Principal	Interest
2012	\$ -	\$ 451	\$ 317,245	\$ 81,042
2013	110	450	158,310	80,541
2014	230	445	56,770	78,215
2015	230	438	54,360	76,121
2016	230	431	54,975	74,055
2017-2021	1,200	2,048	294,855	336,746
2021-2026	1,200	1,867	341,305	276,258
2027-2031	1,640	1,663	442,755	200,780
2032-2036	1,800	1,396	482,165	115,504
2037-2041	2,310	1,093	313,440	30,419
2042-2046	2,670	724	24,985	2,715
2047-2051	3,200	282	11,635	492
2051-2056	180	1	180	1
	<u>\$15,000</u>	<u>\$11,289</u>	<u>\$2,552,980</u>	<u>\$1,352,889</u>

Principal due on limited obligation notes is reflected in the table above based on the maturity date of the notes. This presentation does not alter the expectation that these notes will be redeemed in whole or in part from proceeds of refunding bonds or notes issued on or before the maturity date. Limited obligation notes are secured by certificates of deposit which are included in Investment Securities in the statement of net assets.

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, 2011 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Bonds Payable,
Net
(continued)**

Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2011 continue for the term of the bonds. Interest payments on this series of bonds will vary with the one-month LIBOR rate.

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 resolutions contain covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2011, 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.

Call notices were issued on or before June 30, 2011 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, 2011. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2011. 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, 2011, 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, 2011 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 Residential Housing Finance Bonds 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, 2011, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming interest rates remain the same for the term of the bonds, are as follows (in thousands). As interest rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2012	\$ 11,515	\$ 688	\$14,813	\$ 27,016
2013	815	379	14,105	15,299
2014	1,125	377	13,350	14,852
2015	1,440	374	12,591	14,405
2016	4,195	371	11,768	16,334
2017-2021	35,775	1,753	48,255	85,783
2022-2026	70,775	1,524	34,656	106,955
2027-2031	106,540	1,158	23,959	131,657
2032-2036	118,830	671	14,316	133,817
2037-2041	44,825	199	3,388	48,412
2042-2045	9,110	81	1,052	10,243
2042-2045	5,570	13	164	5,747

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (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 three counterparties thereto as of June 30, 2011, are contained in the three 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: UBS AG

Moody's Aa3 (negative outlook) / Standard & Poor's A+ (stable outlook)

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2003B	\$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (1,001)	\$ (345)
RHFB 2003J	20,480	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(1,816)	(394)
RHFB 2005C	18,915	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,150)	(226)
RHFB 2006C	24,075	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(1,955)	(286)
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA** Index plus 0.06% per annum	(713)	(125)
RHFB 2007T (Taxable)	31,425	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(2,588)	(600)
Counterparty	<u>\$ 138,870</u>					<u>\$ (9,223)</u>	<u>\$ (1,976)</u>

Counterparty: Royal Bank of Canada

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

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2004G	\$ 36,690	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	\$ (2,899)	\$ (725)
RHFB 2007E (Taxable)	19,035	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(1,868)	(445)
RHFB 2007J (Taxable)	29,260	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(2,825)	(653)
RHFB 2008C (Taxable)	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(3,543)	(879)
RHFB 2009C (Taxable)	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(4,679)	(879)
RHFB 2009F	31,530	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA** plus 0.80% per annum	(976)	85
Counterparty	<u>\$196,515</u>					<u>\$ (16,790)</u>	<u>\$ (3,494)</u>

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Interest Rate Swaps (continued)

Counterparty: Citibank, N.A.

Moody's A1 (negative watch) / Standard & Poor's A+ (negative outlook)

Associated Bond Series	Notional Amount as of June 30, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2011	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2011
RHFB 2005I	\$ 30,365	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus .28% per annum	\$ (2,045)	\$ (356)
RHFB 2005M	44,765	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(2,757)	(439)
Counterparty	<u>\$ 75,130</u>					<u>\$ (4,802)</u>	<u>\$ (795)</u>
Combined Totals	<u>\$410,515</u>					<u>\$ (30,815)</u>	<u>\$ (6,528)</u>

(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. Fair values exclude accrued interest.

* London Inter-Bank Offered Rate

** Securities Industry and Financial Markets Association Municipal Swap Index

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, 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, 2011, the Agency did not have a net credit risk exposure to any of its three 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 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, 2011, 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.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Interest Rate Swaps (continued)

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, 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, 2011, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.08% to 0.09% per annum while the variable interest rate on the associated swaps ranged from 0.17% to 0.45% per annum. As of June 30, 2011, the interest rate on the Agency's variable rate taxable debt ranged from 0.19% to 0.24% per annum while the variable interest rate on the corresponding swaps was 0.19% 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.

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, 2011, \$30.5 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, 2011, \$33.130 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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Accounts Payable
and Other
Liabilities**

Accounts payable and other liabilities at June 30, 2011 consisted of the following (in thousands):

Funds	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	\$ —	\$3,342	\$ 2,139	\$ 5,481
Rental Housing	5,784	—	17	5,801
Residential Housing Finance	2,415	—	808	3,223
Single Family	434	—	28	462
Homeownership Finance	—	—	52	52
Multifamily Housing	—	—	—	—
State Appropriated	—	—	268	268
Federal Appropriated	—	—	1,775	1,775
Agency-wide Totals	<u>\$8,633</u>	<u>\$3,342</u>	<u>\$5,087</u>	<u>\$17,062</u>

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is \$5.784 million, in Residential Housing Finance is \$1.724 million and in Single Family is \$0.434 million, for a total of \$7.942 million.

**Interfund
Balances**

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2011 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	\$ —	\$—	\$—	\$—	\$—	\$—	\$176	\$365	\$541
Rental Housing	—	—	—	—	1	—	—	—	1
Residential Housing Finance	1,420	—	—	—	—	—	—	—	1,420
Single Family	—	—	—	—	1	—	—	—	1
Homeownership Finance Bonds	—	—	—	—	—	—	—	—	0
Multifamily Housing Bonds	—	—	—	—	—	—	—	—	0
State Appropriated	—	—	73	64	—	—	—	—	137
Federal Appropriated	—	—	—	—	—	—	—	—	0
Agency-wide Totals	<u>\$1,420</u>	<u>\$ 0</u>	<u>\$73</u>	<u>\$64</u>	<u>\$ 2</u>	<u>\$ 0</u>	<u>\$176</u>	<u>\$365</u>	<u>\$2,100</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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Interfund
Transfers**

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2011 consisted of the following (in thousands)

		Transfer from								
		General	Rental	Residential	Single	Home-	Multifamily	State	Federal	
Funds	Reserve	Housing	Housing	Finance	Family	ownership	Housing	Appropriated	Appropriated	Total
Transfer to	General Reserve	\$—	\$1,555	\$14,829	\$1,069	\$568	\$32	\$1,427	\$1,547	\$21,027
	Rental Housing	—	—	—	—	—	—	—	—	\$0
	Residential Housing Finance	—	—	—	—	—	—	1,859	—	1,859
	Single Family	—	—	482	—	—	—	—	—	482
	Homeownership Finance	—	—	—	—	—	—	—	—	\$0
	Multifamily Housing	—	—	—	—	—	—	—	—	\$0
	State Appropriated	—	—	17	19	—	—	—	—	36
	Federal Appropriated	—	250	—	—	—	—	—	—	250
	Agency-wide Totals	\$ 0	\$1,805	\$15,328	\$1,088	\$568	\$32	\$3,286	\$1,547	\$23,654

Interfund transfers recorded in Interfund Payable (Receivable) were made to move 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 \$1.856 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; 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, 2011, consisted of the following (in thousands):

		Transfer from										
		General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total		
Transfer to	Funds											
	General Reserve	\$	—	\$—	\$	—	\$—	\$—	\$—	\$—	\$	0
	Rental Housing		—	—		641	—	—	—	—		641
	Residential Housing Finance		10,029	—	—	—	—	—	—	—		10,029
	Single Family		—	—	—	—	—	—	—	—		0
	Homeownership Finance Bonds		—	—	—	13,066	—	—	—	—		13,066
	Multifamily Housing Bonds		—	—	—	549	—	—	—	—		549
	State Appropriated		—	—	—	—	—	—	—	—		\$0
	Federal Appropriated		—	—	—	—	—	—	—	—		\$0
	Agency-wide Totals		\$10,029	\$0	\$14,256	\$	0	\$	0	\$	0	\$24,285

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.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Net Assets

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 \$469.496 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 \$683.233 million as of June 30, 2010 and are \$683.638 million as of June 30, 2011.

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, 2011 (in thousands):

	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	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	\$ 20,484	\$ —	\$—	\$ 20,484
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	(70)	70	—
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	\$ 20,484	\$(70)	\$70	\$ 20,484

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

Net Assets
(continued)

	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Net Assets — Restricted By Covenant				
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 (\$13,900 for fiscal year 2011). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	379,101	—	—	379,101
Unrealized depreciation in fair market value of investments	—	1,409	—	1,409
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	379,101	1,409	—	380,510
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.	67,993	—	—	67,993
Unrealized appreciation in fair market value of investments	—	509	—	509
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	67,993	509	—	68,502
Agency-wide Total	<u>\$467,578</u>	<u>\$1,848</u>	<u>\$70</u>	<u>\$469,496</u>

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The \$10.165 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2011 are restricted by federal requirements that control the use of the funds. The \$101.301 million of net assets restricted by law in the State Appropriated fund as of June 30, 2011 are restricted by the state laws appropriating such funds.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

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, 2011 was \$775 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
07/01/10	\$8,960,391	\$10,264,071	\$1,303,680	87.30%	\$2,327,398	56.01%
07/01/09	9,030,401	10,512,760	1,482,359	85.90%	2,329,499	63.63%
07/01/08	9,013,456	9,994,602	981,146	90.18%	2,256,528	43.48%

Schedule of Employer Contributions (dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
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%
2008	11.76%	2,256,528	99,280	166,088	96,746	58.25%

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Defined Benefit Pension Plan (continued)

The information presented was as of July 1, 2010, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2010, 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.

Other Postemployment Benefits

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 other postemployment benefits (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 \$151 thousand for fiscal year 2010. The NOO was recorded as an expense and a corresponding liability by the Agency. The Agency recorded an additional \$50 thousand for fiscal year 2011 increasing the NOO to \$201 thousand.

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, 2008, 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.

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
07/01/06	\$0	\$564,809	\$564,809	0.0%	\$1,961,643	28.79%
07/01/08	0	664,452	664,452	0.0	1,891,300	35.13
06/30/10	0	693,297	693,297	0.0	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
06/30/09	\$65,480	\$24,055	36.74%	\$ 73,127
06/30/10	67,663	28,343	41.89	112,447
06/30/11	66,526	34,208	51.42	144,765
06/30/12	70,195	46,519	66.27	168,441

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2011 (continued)

**Other
Postemployment
Benefits
(continued)**

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
				ARC				
Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interests on NOO	Adjustment with Interest (h) / (e) * 1.0475	Amortization Factor	Annual OPEB Cost (a) + (c) - (d)	Change in NOO (f) - (b)	NOO Balance LY + (g)
06/30/09	65,200	24,055	1,506	1,226	27.0839*	65,480	41,425	73,127
06/30/10	67,018	28,343	3,474	2,828	27.0839*	67,663	39,320	112,447
06/30/11	65,534	34,208	5,341	4,349	27.0839*	66,526	32,318	144,765
06/30/12	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.

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	\$ 4,781,597
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, 2011, 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	9,285
Multifamily Finance	15,000
Residential Housing Finance	113,648
Single Family	—
Homeownership Finance	119,344
State Appropriated	66,864
Federal Appropriated	29,774
Agency-wide Totals	<u>\$353,915</u>

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2011 (continued)

Commitments (continued)

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 May 2012 and for parking through February 2012, totalling \$1.133 million. Combined office facilities and parking lease expense for fiscal year 2011 was \$1.204 million.

On June 30, 2011 the Agency had in place a \$32.2 million revolving line of credit with the Federal Home Loan Bank of Des Moines collateralized with \$36.1 million of mortgage-backed securities, all of which reside in Pool 2. The advances taken during fiscal year 2011 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2011, is summarized as follows (in thousands):

<u>Beginning Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending Balance</u>
\$56,000	\$711,000	\$767,000	\$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.

Subsequent Events

The Agency called for redemption subsequent to June 30, 2011 the following bonds (in thousands):

<u>Program</u>	<u>Redemption Date</u>	<u>Par</u>
Residential Housing Finance	July 1, 2011	\$75,465,000
Single Family	July 1, 2011	8,885,000
Homeownership Finance	July 1, 2011	245,000
Rental Housing	July 7, 2011	1,930,000
Rental Housing	July 18, 2011	260,000
Rental Housing	August 1, 2011	1,330,000

On May 26, 2011 the Board of the Agency adopted a series resolution authorizing the issuance of \$8.310 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2011 Series C (Mortgage-Backed Securities Program) were delivered on July 20, 2011.

On May 26, 2011 the Board of the Agency adopted a series resolution authorizing the issuance of \$33.690 million bonds for the purpose of providing funds for certain of the Agency's homeownership programs. The Homeownership Finance Bonds, 2011 Series D (Mortgage-Backed Securities Program) were delivered on July 20, 2011.

Subsequent to June 30, 2011 the U.S. Sovereign rating was downgraded by Standard & Poor's to "AA+" and placed on negative outlook. Moody's also assigned the U.S. Sovereign "Aaa" rating a negative outlook but has not downgraded the rating as of the date of this report.

(This page left blank intentionally)

(This page left blank intentionally)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2007 – 2011

		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Loan Receivable, net (as of June 30)	Multifamily programs	\$ 348,974	\$ 346,509	\$ 348,563	\$ 334,565	\$329,452
	Homeownership programs	1,588,871	1,899,313	1,934,766	1,780,911	1,589,329
	Home Improvement programs	121,977	115,452	108,893	116,713	111,670
	Total	<u>\$2,059,822</u>	<u>\$2,361,274</u>	<u>\$2,392,222</u>	<u>\$2,232,189</u>	<u>\$2,030,451</u>
Mortgage-backed securities net, at par (as of June 30)	Program mortgage-backed securities	\$ -	\$ -	\$ -	\$ 32,321	\$ 49,676
	Warehoused mortgaged-backed securities	-	-	-	107,330	49,688
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,651</u>	<u>\$ 99,364</u>
Bonds Payable, net (as of June 30)	Multifamily programs	\$ 191,691	\$ 178,431	\$ 162,288	\$ 165,085	\$ 72,692
	Homeownership programs	2,187,297	2,217,945	2,296,445	2,524,422	2,372,722
	Home Improvement programs	20,000	15,000	15,000	15,000	10,000
	Total	<u>\$2,398,988</u>	<u>\$2,411,376</u>	<u>\$2,473,733</u>	<u>\$2,704,507</u>	<u>\$2,555,414</u>
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	\$ 19,306	\$ 30,169	\$ 41,897	\$ 20,874	\$ 33,956
	Homeownership programs	424,436	436,263	207,050	55,891	31,372
	Program and warehoused mortgage-backed securities	-	-	-	140,992	288,580
	Home Improvement programs	29,456	19,883	17,977	32,299	22,780
	Total	<u>\$ 473,198</u>	<u>\$ 486,315</u>	<u>\$ 266,924</u>	<u>\$ 250,056</u>	<u>\$ 376,688</u>
Net Assets (as of June 30)	Total Net Assets*	\$ 750,990	\$ 662,124	\$ 68,242	\$ 683,233	\$ 683,638
	Percent of total assets*	22.8%	19.9%	20.2%	19.1%	19.9%
	Revenues over Expenses	\$ 31,103	\$ 35,352	\$ 6,118	\$ 14,991	\$ 14,305

Notes:

*Excludes Pool 3 except for 2007

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
As of June 30, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
		Residential			
		Housing			
		Finance			
		General	Rental	Excluding	Single
		Reserve	Housing	Pool 3	Family
Assets	Cash and cash equivalents	\$ 57,539	\$ 45,721	\$ 219,159	\$ 38,088
	Investments- program mortgage-backed securities	-	-	33,002	-
	Investment securities- other	45,318	40,757	400,400	11,537
	Loans receivable, net	-	171,839	1,715,565	117,871
	Interest receivable on loans	-	944	12,195	860
	Interest receivable on investments	257	694	704	108
	Deferred loss on interest rate swap agreements	-	-	30,815	-
	FHA/VA insurance claims, net	-	-	6,747	1,014
	Real estate owned, net	-	-	23,804	800
	Unamortized bond issuance costs	-	1,752	8,564	631
	Capital assets, net	1,445	-	-	-
	Other assets	1,320	5	162	721
	Total assets	<u>105,879</u>	<u>261,712</u>	<u>2,451,117</u>	<u>171,630</u>
Liabilities	Bonds payable, net	\$ -	\$157,692	\$1,883,409	\$ 97,505
	Interest payable	-	3,063	37,701	2,525
	Interest rate swap agreements	-	-	30,815	-
	Deferred revenue- service release fees	-	-	3,634	-
	Accounts payable and other liabilities	5,481	5,801	3,126	462
	Interfund payable (receivable)	879	(1)	12,659	63
	Funds held for others	77,590	-	616	-
	Total liabilities	<u>83,950</u>	<u>166,555</u>	<u>1,971,960</u>	<u>100,555</u>
Commitments and contingencies					
Net Assets	Restricted by bond resolution	-	95,157	98,647	71,075
	Restricted by covenant	20,484	-	380,510	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,445	-	-	-
	Total net assets	<u>21,929</u>	<u>95,157</u>	<u>479,157</u>	<u>71,075</u>
	Total liabilities and net assets	<u>\$105,879</u>	<u>\$261,712</u>	<u>\$2,451,117</u>	<u>\$171,630</u>

Bond Funds		General Reserve & Bond Funds Excluding Pool 3 Total as of June 30, 2011	General Reserve & Bond Funds Excluding Pool 3 Total as of June 30, 2010	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total as of June 30, 2011	General Reserve & Bond Funds Total as of June 30, 2010
Homeownership Finance	Multifamily Housing					
\$93,735	\$15,523	\$ 469,765	\$ 610,246	\$ 3,922	\$ 473,687	\$ 614,853
323,225	-	356,227	33,686	-	356,227	33,686
486	478	498,976	608,474	24,765	523,741	653,957
-	(382)	2,004,893	2,208,963	25,558	2,030,451	2,232,189
-	54	14,053	16,195	76	14,129	16,273
1,197	4	2,964	2,067	272	3,236	2,228
-	-	30,815	37,077	-	30,815	37,077
-	-	7,761	11,407	-	7,761	11,407
-	-	24,604	24,026	-	24,604	24,026
2,195	165	13,307	12,927	-	13,307	12,927
-	-	1,445	1,631	-	1,445	1,631
12	-	2,220	2,249	-	2,220	2,252
<u>420,850</u>	<u>15,842</u>	<u>3,427,030</u>	<u>3,568,948</u>	<u>54,593</u>	<u>3,481,623</u>	<u>3,642,506</u>
\$401,808	\$15,000	\$2,555,414	\$2,704,507	\$ -	\$2,555,414	\$2,704,507
3,472	38	46,799	48,211	-	46,799	48,211
-	-	30,815	37,077	-	30,815	37,077
-	-	3,634	1,298	-	3,634	1,298
52	-	14,922	14,970	97	15,019	15,045
2	-	13,602	(649)	(14,006)	(404)	(661)
-	-	78,206	80,301	-	78,206	80,301
<u>405,334</u>	<u>15,038</u>	<u>2,743,392</u>	<u>2,885,715</u>	<u>(13,909)</u>	<u>2,729,483</u>	<u>2,885,778</u>
15,516	804	281,199	278,195	-	281,199	278,195
-	-	400,994	403,407	68,502	469,496	476,902
-	-	-	-	-	-	-
-	-	1,445	1,631	-	1,445	1,631
<u>15,516</u>	<u>804</u>	<u>683,638</u>	<u>683,233</u>	<u>68,502</u>	<u>752,140</u>	<u>756,728</u>
<u>\$420,850</u>	<u>\$15,842</u>	<u>\$3,427,030</u>	<u>\$3,568,948</u>	<u>\$ 54,593</u>	<u>\$3,481,623</u>	<u>\$3,642,506</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, 2011 (with comparative totals as of June 30, 2010)

		Bond Funds			
				Residential Housing Finance Excluding Pool 3	Single Family
		General Reserve	Rental Housing		
Revenues	Interest earned on loans	\$ -	\$10,055	\$104,968	\$ 7,787
	Interest earned on investments-program mortgage-backed securities	-	-	1,321	-
	Interest earned on investments- other	292	2,045	11,962	2,349
	Administrative reimbursement	20,733	-	-	-
	Fees earned and other income	10,289	616	599	-
	Unrealized gains (losses) on Investments	(95)	(859)	1,606	(565)
	Total revenues	31,219	11,857	120,456	9,571
Expenses	Interest	-	7,736	79,411	5,539
	Loan administration and trustee fees	-	141	5,529	405
	Administrative reimbursement	-	1,555	13,794	1,069
	Salaries and benefits	17,716	-	-	-
	Other general operating	5,714	-	2	-
	Reduction in carrying value of certain low interest rate deferred loans	-	964	31	-
	Provision for loan losses	-	138	20,928	337
	Total expenses	23,430	10,534	119,695	7,350
	Revenues over (under) expenses	7,789	1,323	761	2,221
Other changes	Non-operating transfer of assets between funds	(10,029)	641	(18,127)	-
	Change in net assets	(2,240)	1,964	(17,366)	2,221
Net Assets	Total net assets, beginning of year	24,169	93,193	496,523	68,854
	Total net assets, end of year	\$21,929	\$95,157	\$479,157	\$71,075

Bond Funds		General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total for the Year Ended June 30, 2011	General Reserve & Bond Funds Total for the Year Ended June 30, 2010
Homeownership Finance	Multifamily Housing					
\$ -	\$354	\$123,164	\$136,622	\$ 378	\$123,542	\$136,945
6,493	-	7,814	702	-	7,814	702
274	17	16,939	14,673	1,167	18,106	15,636
-	-	20,733	21,658	-	20,733	21,658
-	3	11,507	9,803	22	11,529	9,941
224	3	314	8,068	(1,217)	(903)	9,048
6,991	377	180,471	191,526	350	180,821	193,930
4,304	199	97,189	101,516	-	97,189	101,516
55	(1)	6,129	6,646	10	6,139	6,653
568	32	17,018	16,653	1,035	18,053	17,679
-	-	17,716	17,815	-	17,716	17,815
-	-	5,716	8,847	3,782	9,498	9,445
-	-	-	-	-	-	-
-	-	995	748	13,392	14,387	9,403
-	-	21,403	24,310	1,024	22,427	25,530
4,927	230	166,166	176,535	19,243	185,409	188,041
2,064	147	14,305	14,991	(18,893)	(4,588)	5,889
13,066	549	(13,900)	-	13,900	-	-
15,130	696	405	14,991	(4,993)	(4,588)	5,889
386	108	683,233	668,242	73,495	756,728	750,839
\$15,516	\$804	\$683,638	\$683,233	\$68,502	\$752,140	\$756,728

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 the year ended June 30, 2010)

		Bond Funds			
				Residential Housing Finance	
		General Reserve	Rental Housing	Excluding Pool 3	Single Family
Cash flows from operating activities	Principal repayments on loans and program mortgage-backed securities	\$ -	\$21,046	\$ 153,719	\$ 14,328
	Investment in loans and program mortgage-backed securities	-	(14,440)	(53,636)	(109)
	Interest received on loans and program mortgage-backed securities	-	10,997	101,539	7,332
	Other operating	-	-	(2)	-
	Fees and other income received	10,231	616	4,234	-
	Salaries, benefits and vendor payments	(21,918)	(145)	(7,134)	(414)
	Administrative reimbursement from funds	21,026	(1,555)	(13,794)	(1,069)
	Deposits into funds held for others	31,942	-	-	-
	Disbursements made from funds held for others	(35,135)	-	-	-
	Interfund transfers and other assets	(1,155)	(1)	94	(19)
	Net cash provided (used) by operating activities	4,991	16,518	185,020	20,049
Cash flows from noncapital financing activities	Proceeds from sale of bonds and notes	-	23,125	1,939,445	-
	Principal repayment on bonds and notes	-	(15,880)	(2,217,165)	(18,900)
	Interest paid on bonds and notes	-	(7,106)	(82,654)	(5,768)
	Financing costs paid related to bonds issued	-	(430)	(839)	-
	Interest paid/received between funds	-	-	(482)	482
	Agency contribution to program funds	-	641	(3,957)	-
	Transfer of cash between funds	(11,057)	-	11,057	-
	Net cash provided (used) by noncapital financing activities	(11,057)	350	(354,595)	(24,186)
Cash flows from investing activities	Investment in real estate owned	-	-	(4,387)	(677)
	Interest received on investments	1,524	2,164	10,653	2,134
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	71,074	5,655
	Proceeds from maturity, sale or transfer of investment securities	25,000	28,135	1,720,323	6,872
	Purchase of investment securities	(15,053)	(37,703)	(1,613,499)	(13,393)
	Purchase of loans between funds	-	-	-	-
	Net cash provided (used) by investing activities	11,471	(7,404)	184,164	591
	Net increase (decrease) in cash and cash equivalents	5,405	9,464	14,589	(3,546)
Cash and cash equivalents	Beginning of year	52,134	36,257	204,570	41,634
	End of year	\$57,539	\$45,721	\$ 219,159	\$38,088

Bond Funds		General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Year Ended June 30, 2011	General Reserve & Bond Funds Year Ended June 30, 2010
Homeownership Finance	Multifamily Housing				
\$ 3,175	\$ -	\$ 192,268	\$ 1,679	\$ 193,947	\$ 165,140
(316,300)	382	(384,103)	(20,407)	(404,510)	(141,854)
6,896	300	127,064	354	127,418	130,209
-	-	(2)	(3,684)	(3,686)	(3,038)
-	3	15,084	22	15,106	11,200
(75)	(3)	(29,689)	(86)	(29,775)	(29,682)
(568)	(32)	4,008	(1,035)	2,973	3,413
-	-	31,942	-	31,942	29,480
-	-	(35,135)	-	(35,135)	(31,551)
-	-	(1,081)	59	(1,022)	(1,275)
(306,872)	650	(79,644)	(23,098)	(102,742)	132,042
141,613	-	2,104,183	-	2,104,183	1,440,910
-	-	(2,251,945)	-	(2,251,945)	(1,208,085)
(959)	(167)	(96,654)	-	(96,654)	(100,549)
(2,053)	(60)	(3,382)	-	(3,382)	(2,650)
-	-	-	-	-	-
2,767	549	-	-	-	-
-	-	-	-	-	-
141,368	322	(247,798)	-	(247,798)	129,626
-	-	(5,064)	-	(5,064)	(3,557)
(923)	13	15,565	1,180	16,745	14,429
-	-	76,729	-	76,729	64,797
-	-	1,780,330	51,776	1,832,106	1,315,711
(476)	(475)	(1,680,599)	(32,399)	(1,712,998)	(1,408,702)
-	-	-	1,856	1,856	2,096
(1,399)	(462)	186,961	22,413	209,374	(15,226)
(166,903)	510	(140,481)	(685)	(141,166)	246,442
260,638	15,013	610,246	4,607	614,853	368,411
\$ 93,735	\$15,523	\$ 469,765	\$ 3,922	\$ 473,687	\$ 614,853

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information (Unaudited)

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

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

		Bond Funds			
		Residential Housing Finance			
		General Reserve	Rental Housing	Excluding Pool 3	Single Family
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities	Revenues over (under) expenses	\$7,789	\$1 ,323	\$ 761	\$ 2,221
	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	-	(62)	1,274	(175)
	Depreciation	1,540	-	-	-
	Realized losses (gains) on sale of securities, net	(5)	77	168	(271)
	Unrealized losses (gains) on securities, net	95	859	(1,606)	565
	Provision for loan losses	-	138	20,928	337
	Reduction in carrying value of certain low interest rate and/or deferred loans	-	964	31	-
	Capitalized interest on loans and real estate owned	-	(105)	(7,965)	(506)
	Interest earned on investments	(287)	(2,251)	(11,222)	(2,164)
	Interest expense on bonds and notes	-	7,736	79,411	5,539
	Changes in assets and liabilities:				
	Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds	-	6,606	100,083	14,219
	Decrease (increase) in interest receivable on loans	-	29	1,941	226
	Increase (decrease) in arbitrage rebate liability	-	1,209	(908)	86
	Increase (decrease) in accounts payable	(24)	(2)	2,075	(6)
	Increase (decrease) in interfund payable, affecting operating activities only	285	(1)	(73)	(19)
	Increase (decrease) in funds held for others	(3,193)	-	-	-
	Other	(1,209)	(2)	122	(3)
	Total	(2,798)	15,195	184,259	17,828
	Net cash provided (used) by operating activities	\$4,991	\$16,518	\$185,020	\$20,049

<u>Bond Funds</u>		General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2011	Residential Housing Finance Pool 3	General Reserve & Bond Funds Year Ended June 30, 2011	General Reserve & Bond Funds Year Ended June 30, 2010
Homeownership Finance	Multifamily Housing				
<u>\$ 2,064</u>	<u>\$147</u>	<u>\$ 14,305</u>	<u>\$(18,893)</u>	<u>\$ (4,588)</u>	<u>\$ 5,889</u>
403	-	1,440	(26)	1,414	690
-	-	1,540	-	1,540	2,590
-	-	(31)	15	(16)	469
(224)	(3)	(314)	1,217	903	(9,048)
-	-	21,403	1,024	22,427	25,530
-	-	995	13,392	14,387	9,404
-	-	(8,576)	-	(8,576)	(6,724)
(274)	(17)	(16,215)	(1,182)	(17,397)	(16,115)
4,304	199	97,189	-	97,189	101,515
(313,125)	382	(191,835)	(18,728)	(210,563)	23,286
-	(54)	2,142	2	2,144	(1,038)
-	-	387	-	387	126
(20)	(4)	2,019	22	2,041	(96)
-	-	192	56	248	(753)
-	-	(3,193)	-	(3,193)	(2,071)
-	-	(1,092)	3	(1,089)	(1,612)
<u>(308,936)</u>	<u>503</u>	<u>(93,949)</u>	<u>(4,205)</u>	<u>(98,154)</u>	<u>126,153</u>
<u><u>\$(306,872)</u></u>	<u><u>\$650</u></u>	<u><u>\$ (79,644)</u></u>	<u><u>\$(23,098)</u></u>	<u><u>\$(102,742)</u></u>	<u><u>\$132,042</u></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

Barbara Sanderson
Member

Michael Finch, Ph D
Member

Stephanie Klinzing
Member

Legal and Financial Services

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

Bond Counsel
Dorsey & Whitney LLP, Minneapolis

Financial Advisor
CSG Advisors Incorporated

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

Certified Public Accountants
LarsonAllen® 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.

(This page has been left blank intentionally.)

APPENDIX C

**CERTAIN FINANCIAL STATEMENTS OF THE AGENCY
(EXCLUDING STATE APPROPRIATED AND FEDERAL APPROPRIATED FUNDS)
AS OF DECEMBER 31, 2011
AND FOR THE SIX MONTHS THEN ENDED (UNAUDITED)**

As prepared by the Agency's Accounting Department

DISCLAIMER

The following information with respect to the General Reserve, Homeownership Finance, Multifamily Housing, Rental Housing, Residential Housing Finance ("RHFB") excluding Pool 3, Single Family, and RHFB Pool 3 (the "Funds") as of December 31, 2011 and for the six-month period then ended was prepared by the Agency, and, in the opinion of the Agency, includes all accounting adjustments necessary for a fair statement of the financial position and results of operations of these Funds as of December 31, 2011 and for the six-month period then ended, subject to year-end adjustments.

State and federal appropriated funds are excluded from this presentation because assets and revenues of these funds are not pledged or available to support bonds or other obligations of the Agency or its general obligation pledge in respect thereof.

Financial results for RHFB Pool 3 are reported separately from other Funds' results because the Agency has made no commitment to retain any net asset balance in that fund. This fund is not pledged to the payment of any debt obligations of the Agency but, to the extent net assets are available in this fund, they are generally available to pay any debt obligation of the Agency.

This presentation excludes management's discussion and analysis which is required by generally accepted accounting principles. This information has not been reviewed by independent auditors and is not accompanied by any opinion from them. The information in this Appendix C should be read in connection with the audited financial statements included in Appendix B, including the notes to those financial statements.

General Reserve & Bond Funds
Statement of Net Assets
as of
December 31, 2011
(unaudited)
(with comparative totals as of December 31, 2010)
(in thousands)

		Bond Funds								Fiscal 2012 General Reserve and Bond Funds Total As Of December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Total As Of December 31, 2010
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3			
Assets											
Cash and cash equivalents	\$ 93,748	\$ 43,066	\$ 203,330	\$ 36,835	\$ 76,273	\$ 5,592	\$ 458,844	\$ 4,283	\$ 463,127	\$ 555,001	
Investments-program mortgage-backed securities	-	-	33,416	-	524,283	-	557,699	-	557,699	223,743	
Investment securities-other	5,235	41,304	131,326	11,490	500	476	190,331	33,498	223,829	623,349	
Loans receivable, net	-	168,892	1,625,121	109,500	-	9,565	1,913,078	28,624	1,941,702	2,117,840	
Interest receivable on loans	-	911	11,933	772	-	55	13,671	70	13,741	15,687	
Interest receivable on investments	45	672	585	109	1,792	6	3,209	282	3,491	2,790	
Deferred loss on interest rate swap agreements	-	-	39,798	-	-	-	39,798	-	39,798	30,963	
FHA/VA insurance claims	-	-	7,713	2,117	-	-	9,830	-	9,830	9,577	
Real estate owned	-	-	19,769	752	-	-	20,521	-	20,521	23,253	
Unamortized bond issuance costs	-	1,633	7,933	562	3,775	163	14,066	-	14,066	13,199	
Capital assets, net	728	-	-	-	-	-	728	-	728	935	
Other assets	1,019	3	365	2	2	-	1,391	1	1,392	1,943	
Total assets	\$100,775	\$ 256,481	\$ 2,081,289	\$ 162,139	\$ 606,625	\$ 15,857	\$ 3,223,166	\$ 66,758	\$ 3,289,924	\$ 3,618,280	
Liabilities											
Bonds payable, net	\$ -	\$ 148,315	\$ 1,522,108	\$ 86,890	\$ 551,729	\$ 15,000	\$ 2,324,042	\$ -	\$ 2,324,042	\$ 2,689,083	
Interest payable	-	2,877	35,319	2,297	6,973	38	47,504	-	47,504	46,131	
Interest rate swap agreements	-	-	39,798	-	-	-	39,798	-	39,798	30,963	
Deferred revenue-service release fees	-	-	4,604	-	-	-	4,604	-	4,604	2,554	
Accounts payable and other liabilities	4,596	5,887	1,430	742	50	-	12,705	5	12,710	13,607	
Interfund payable (receivable)	1,554	(175)	(2,816)	52	329	-	(1,056)	(4)	(1,060)	4,421	
Funds held for others	74,363	-	-	-	-	-	74,363	-	74,363	81,023	
Total liabilities	80,513	156,904	1,600,443	89,981	559,081	15,038	2,501,960	1	2,501,961	2,867,782	
Commitments and contingencies											
Net Assets											
Restricted by bond resolution	-	99,577	85,480	72,158	47,544	819	305,578	-	305,578	283,680	
Restricted by covenant	19,534	-	395,366	-	-	-	414,900	66,757	481,657	465,883	
Invested in capital assets	728	-	-	-	-	-	728	-	728	935	
Total net assets	20,262	99,577	480,846	72,158	47,544	819	721,206	66,757	787,963	750,498	
Total liabilities and net assets	\$100,775	\$ 256,481	\$ 2,081,289	\$ 162,139	\$ 606,625	\$ 15,857	\$ 3,223,166	\$ 66,758	\$ 3,289,924	\$ 3,618,280	

General Reserve & Bond Funds
Statement of Revenues, Expenses and Changes in Net Assets
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds								Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3		
Revenues										
Interest earned on loans	\$ -	\$ 5,308	\$ 48,342	\$ 3,493	\$ -	\$ 328	\$ 57,471	\$ 330	\$ 57,801	\$ 62,735
Interest earned on investments-program mortgage-backed securities	-	-	301	-	9,004	-	9,305	-	9,305	2,142
Interest earned on investments-other	(11)	1,182	3,987	618	46	16	5,838	408	6,246	10,386
Administrative reimbursement	10,812	-	-	-	-	-	10,812	-	10,812	10,398
Fees earned and other income	4,413	266	403	-	-	-	5,082	2	5,084	5,386
Unrealized gains (losses) on securities	70	1,011	4,705	417	22,505	(2)	28,706	972	29,678	(2,263)
Total revenues	15,284	7,767	57,738	4,528	31,555	342	117,214	1,712	118,926	88,784
Expenses										
Interest	-	3,753	36,126	2,373	6,955	228	49,435	-	49,435	48,355
Loan administration and trustee fees	-	98	2,576	188	76	1	2,939	5	2,944	3,117
Administrative reimbursement	-	801	6,405	500	1,138	48	8,892	513	9,405	8,904
Salaries and benefits	8,557	-	-	-	-	-	8,557	-	8,557	8,808
Other general operating	3,029	-	-	-	-	-	3,029	955	3,984	4,739
Reduction in carrying value of certain low interest rate deferred loans	-	(26)	(713)	-	-	-	(739)	1,365	626	8,813
Provision for loan losses	-	(1,279)	8,611	384	-	50	7,766	386	8,152	12,278
Total expenses	11,586	3,347	53,005	3,445	8,169	327	79,879	3,224	83,103	95,014
Revenues over (under) expenses	3,698	4,420	4,733	1,083	23,386	15	37,335	(1,512)	35,823	(6,230)
Other changes										
Non-operating transfer of assets between funds	(5,365)	-	(3,044)	-	8,642	-	233	(233)	-	-
Change in net assets	(1,667)	4,420	1,689	1,083	32,028	15	37,568	(1,745)	35,823	(6,230)
Net Assets										
Total net assets, beginning of period	21,929	95,157	479,157	71,075	15,516	804	683,638	68,502	752,140	756,728
Total net assets, end of period	\$ 20,262	\$ 99,577	\$ 480,846	\$ 72,158	\$ 47,544	\$ 819	\$ 721,206	\$ 66,757	\$ 787,963	\$ 750,498

General Reserve & Bond Funds
Statement of Cash Flows
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds								Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3	RHFB Pool 3		
Cash flows from operating activities:										
Principal repayments on loans and program mortgage-backed securities	\$ -	\$ 11,863	\$ 79,226	\$ 6,040	\$ 5,845	\$ -	\$ 102,974	\$ 759	\$ 103,733	\$ 109,977
Investment in loans and program mortgage-backed securities	-	(7,646)	(23,696)	(17)	(177,686)	(9,997)	(219,042)	(7,196)	(226,238)	(219,170)
Interest received on loans and program mortgage-backed securities	-	5,358	46,192	3,270	9,255	327	64,402	325	64,727	63,326
Other operating	-	-	-	-	-	-	-	(950)	(950)	(2,046)
Fees and other income received	4,714	266	5,007	-	-	-	9,987	2	9,989	7,983
Salaries, benefits and vendor payments	(11,217)	(97)	(6,511)	(186)	(81)	(1)	(18,093)	(102)	(18,195)	(16,453)
Administrative reimbursement from funds	9,803	(801)	(6,405)	(500)	(792)	(48)	1,257	(513)	744	1,516
Deposits into funds held for others	16,090	-	-	-	-	-	16,090	-	16,090	16,239
Disbursements made from funds held for others	(19,514)	-	-	-	-	-	(19,514)	-	(19,514)	(16,381)
Interfund transfers and other assets	(529)	(106)	161	534	(19)	-	41	101	142	(183)
Net cash provided (used) by operating activities	(653)	8,837	93,974	9,141	(163,478)	(9,719)	(61,898)	(7,574)	(69,472)	(55,192)
Cash flows from noncapital financing activities:										
Proceeds from sale of bonds and notes	-	-	25,000	-	152,127	-	177,127	-	177,127	1,367,871
Principal repayment on bonds and notes	-	(9,530)	(385,750)	(10,615)	(1,780)	-	(407,675)	-	(407,675)	(1,382,620)
Interest paid on bonds and notes	-	(3,667)	(37,924)	(2,532)	(3,551)	(226)	(47,900)	-	(47,900)	(49,494)
Financing costs paid related to bonds issued	-	-	(271)	-	(1,896)	-	(2,167)	-	(2,167)	(1,636)
Interest paid/received between funds	-	-	-	-	-	-	-	-	-	-
Agency contribution to program funds	-	-	(1,689)	-	1,689	-	-	-	-	-
Transfer of cash between funds	(3,746)	-	3,054	-	-	-	(692)	692	-	-
Net cash provided (used) by noncapital financing activities	(3,746)	(13,197)	(397,580)	(13,147)	146,589	(226)	(281,307)	692	(280,615)	(65,879)
Cash flows from investing activities:										
Investment in real estate owned	-	-	(3,533)	(420)	-	-	(3,953)	-	(3,953)	(2,951)
Interest received on investments	589	1,177	2,058	1,037	(572)	12	4,301	450	4,751	9,097
Proceeds from sale of mortgage insurance claims/real estate owned	-	-	38,426	1,654	-	-	40,080	-	40,080	37,397
Proceeds from maturity, sale or transfer of investment securities	40,019	35,572	502,383	10,287	499	12,977	601,737	20,462	622,199	996,902
Purchase of investment securities	-	(35,044)	(249,926)	(9,805)	(500)	(12,975)	(308,250)	(15,300)	(323,550)	(979,226)
Purchase of loans between funds	-	-	(1,631)	-	-	-	(1,631)	1,631	-	-
Net cash provided (used) by investing activities	40,608	1,705	287,777	2,753	(573)	14	332,284	7,243	339,527	61,219
Net increase (decrease) in cash and cash equivalents	36,209	(2,655)	(15,829)	(1,253)	(17,462)	(9,931)	(10,921)	361	(10,560)	(59,852)
Cash and cash equivalents:										
Beginning of period	57,539	45,721	219,159	38,088	93,735	15,523	469,765	3,922	473,687	614,853
End of period	\$ 93,748	\$ 43,066	\$ 203,330	\$ 36,835	\$ 76,273	\$ 5,592	\$ 458,844	\$ 4,283	\$ 463,127	\$ 555,001

General Reserve & Bond Funds
Statement of Cash Flows, continued
for the six months ended
December 31, 2011
(unaudited)
(with comparative totals for the six months ended December 31, 2010)
(in thousands)

	Bond Funds							Fiscal 2012 General Reserve and Bond Funds Six Months Ended December 31, 2011	Fiscal 2011 General Reserve and Bond Funds Six Months Ended December 31, 2010
	General Reserve	Rental Housing	RHFB Excluding Pool 3	Single Family	Homeownership Finance Bonds	Multifamily Housing Bonds	General Reserve and Bond Funds Excluding Pool 3		
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:									
Revenues over (under) expenses	\$ 3,698	\$ 4,420	\$ 4,733	\$ 1,083	\$ 23,386	\$ 15	\$ 37,335	\$ (1,512)	\$ 35,823
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:									
Amortization of (discounts) premiums and fees on loans and program mortgage-backed securities	-	(31)	515	(77)	251	-	658	(11)	647
Depreciation	688	-	-	-	-	-	688	-	688
Realized losses (gains) on securities, net	175	(57)	(302)	(26)	(23)	(2)	(235)	(7)	(242)
Unrealized (gains) losses on securities, net	(70)	(1,011)	(4,705)	(417)	(22,505)	2	(28,706)	(972)	(29,678)
Provision for loan losses	-	(1,279)	8,611	384	-	50	7,766	386	8,152
Reduction in carrying value of certain low interest rate and/or deferred loans	-	(26)	(713)	-	-	-	(739)	1,365	626
Capitalized interest on loans and real estate owned	-	-	(3,228)	(234)	-	-	(3,462)	-	(3,462)
Interest earned on investments	(164)	(1,162)	(3,564)	(1,030)	(23)	(14)	(5,957)	(401)	(6,358)
Interest expense on bonds and notes	-	3,753	36,126	2,373	6,955	228	49,435	-	49,435
Changes in assets and liabilities:									
Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds	-	4,217	55,530	6,023	(171,841)	(9,997)	(116,068)	(6,437)	(122,505)
Decrease (increase) in interest receivable on loans and program mortgage-backed securities	-	33	262	88	-	(1)	382	6	388
Increase (decrease) in arbitrage rebate liability	-	87	(121)	438	-	-	404	-	404
(Decrease) increase in accounts payable	(327)	(1)	646	14	(15)	-	317	(92)	225
(Decrease) increase in interfund payable, affecting operating activities only	(1,001)	(108)	44	(25)	327	-	(763)	102	(661)
(Decrease) increase in funds held for others	(3,424)	-	-	-	-	-	(3,424)	-	(3,424)
Other	(228)	2	140	547	10	-	471	(1)	470
Total	(4,351)	4,417	89,241	8,058	(186,864)	(9,734)	(99,233)	(6,062)	(105,295)
Net cash provided (used) by operating activities	\$ (653)	\$ 8,837	\$ 93,974	\$ 9,141	\$ (163,478)	\$ (9,719)	\$ (61,898)	\$ (7,574)	\$ (69,472)

**General Reserve & Bond Funds
Cash and Cash Equivalents
(unaudited)**

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates market value and comprise the following at December 31, 2011 (in thousands):

<u>Funds</u>	<u>Deposits</u>	<u>Money Market Funds</u>	<u>State Investment Pool</u>	<u>Investment Agreements</u>	<u>Combined Totals</u>
General Reserve	\$ -	\$ -	\$ 93,748	\$ -	\$ 93,748
Rental Housing	-	21,786	-	21,280	43,066
Residential Housing Finance	3,830	103,621	-	95,879	203,330
Single Family	385	4,718	-	31,732	36,835
Homeownership Finance	-	76,273	-	-	76,273
Multifamily Housing	-	5,592	-	-	5,592
Subtotal	4,215	211,990	93,748	148,891	458,844
RHFB Pool 3	21	4,262	-	-	4,283
Total	<u>\$ 4,236</u>	<u>\$ 216,252</u>	<u>\$ 93,748</u>	<u>\$ 148,891</u>	<u>\$ 463,127</u>

**General Reserve & Bond Funds
Investment Securities
(unaudited)**

Investment Securities

Investment securities (comprising US Treasuries, US Agencies, certificates of deposit, commercial paper, corporate notes and mortgage-backed securities*) are recorded at fair market value and were allocated to the following funds at December 31, 2011 (in thousands):

<u>Funds</u>	<u>Amortized Cost</u>	<u>Unrealized Appreciation in Fair Market Value</u>	<u>Estimated Fair Market Value</u>
General Reserve	\$ 5,019	\$ 216	\$ 5,235
Rental Housing	40,375	929	41,304
Residential Housing Finance	158,612	6,130	164,742
Single Family	11,047	443	11,490
Homeownership Finance	494,974	29,809	524,783
Multifamily Housing	475	1	476
Subtotal	710,502	37,528	748,030
RHFB Pool 3	32,017	1,481	33,498
Total	<u>\$ 742,519</u>	<u>\$ 39,009</u>	<u>\$ 781,528</u>

*Mortgage-Backed Securities Investments

Mortgage-backed securities (MBS) that are pledged as security for the payment of Agency bonds and are held in an acquisition account are presented as "Investments- program mortgage-backed securities" on the financial statements. The Agency may also hold non-program MBS which are included with "Investment securities-other." All investments, including program and non-program MBS, are reported at fair market value on the statement of net assets. The difference between the fair market value and the amortized cost is presented as "unrealized gains (losses) on securities" on the statement of revenues, expenses and changes in net assets, except as noted in the following paragraph.

The difference between the fair market value and amortized cost for MBS warehoused for the Dakota County Community Development Agency and the Minneapolis/St. Paul Housing Finance Board are not reflected in the Unrealized Gain/Loss income account. Instead, it is displayed as a liability in Funds Held for Others. This treatment reflects the agreement between the Agency and these two entities which states that the Agency will sell the MBS to them at par, not market value.

General Reserve & Bond Funds
Loans Receivable, net
unaudited

Loans Receivable, net

Loans receivable, net at December 31, 2011 consist of the following (in thousands):

<u>Funds</u>	Gross Loans Receivable	Allowance for Loan Losses	Unamortized (Discounts)/ Premiums	Loans Receivable, net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	178,986	(8,757)	(1,337)	168,892
Residential Housing Finance	1,656,299	(31,135)	(43)	1,625,121
Single Family	111,205	(1,029)	(676)	109,500
Homeownership Finance	-	-	-	-
Multifamily Housing	9,997	(50)	(382)	9,565
Subtotal	1,956,487	(40,971)	(2,438)	1,913,078
RHFB Pool 3	144,411	(115,181)	(606)	28,624
Total	<u>\$ 2,100,898</u>	<u>\$ (156,152)</u>	<u>\$ (3,044)</u>	<u>\$ 1,941,702</u>

Included in the table above are certain loans residing in RHFB Pool 3 that are originated at interest rates ranging from 0% to 5% and repayment of which is deferred for up to 30 years. These loans are generally in either a second or lower mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination most are fully reserved resulting in a net carrying value of zero. As of December 31, 2011, the principal amount of loans with such characteristics aggregated \$126.206 million in RHFB Pool 3.

General Reserve & Bond Funds
Loans Receivable, net
unaudited

Loans Receivable, net (continued)

Change in Loan Loss Reserve Methodology

The Agency changed the loan loss reserve methodology for first lien multifamily mortgage loans for the fiscal year ending June 30, 2012. The previous methodology assigned a static fixed percentage loan loss reserve based upon the category of each loan (Section 236, bridge, etc.). The new methodology examines quarterly the financial risk loan-by-loan and assigns a loan loss reserve percentage based upon that risk. The effects of the changed methodology on the financial statements as of December 31, 2011 were as follows (in thousands):

<u>Funds</u>	<u>Previous Methodology- Allowance for Loan Loss</u>	<u>New Methodology- Allowance for Loan Loss</u>	<u>Decrease in Provision for Loan Loss Expense</u>
Residential Housing Finance- Pool 2	\$ 10,784	\$ 2,676	\$ 8,108
Rental Housing	11,103	9,781	1,322
Multifamily Housing Bonds	500	50	450
Total	<u>\$ 22,387</u>	<u>\$ 12,507</u>	<u>\$ 9,880</u>

General Reserve & Bond Funds
Bonds Payable, net
unaudited

Bonds Payable, net

Bonds payable, net at December 31, 2011 consist of the following (in thousands):

<u>Funds</u>	Par Bonds Outstanding	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
General Reserve	\$ -	\$ -	\$ -	\$ -
Rental Housing	149,670	-	(1,355)	148,315
Residential Housing Finance	1,520,535	1,975	(402)	1,522,108
Single Family	86,890	-	-	86,890
Homeownership Finance	547,895	3,834	-	551,729
Multifamily Housing	15,000	-	-	15,000
Subtotal	2,319,990	5,809	(1,757)	2,324,042
RHFB Pool 3	-	-	-	-
Total	<u>\$ 2,319,990</u>	<u>\$ 5,809</u>	<u>\$ (1,757)</u>	<u>\$ 2,324,042</u>

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 December 31, 2011. The fair values approximate the termination payments that would have been due had the swaps been terminated as of December 31, 2011. 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 December 31, 2011, 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 December 31, 2011 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.

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of December 31, 2011, are contained in the three 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.

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



Counterparty: UBS AG

Moody's Aa3 (negative outlook) / Standard & Poor's A (negative outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2003B	\$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	\$ (1,743)	\$ (742)
RHFB 2003J	19,770	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(2,397)	(581)
RHFB 2005C	17,825	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,236)	(86)
RHFB 2006C	23,185	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(2,305)	(349)
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA** Index plus 0.06% per annum	(1,713)	(1,000)
RHFB 2007T	26,955	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(3,170)	(582)
	<u>\$131,710</u>					<u>\$ (12,564)</u>	<u>\$ (3,340)</u>

General Reserve & Bond Funds

Interest Rate Swaps

(unaudited)

Counterparty: Royal Bank of Canada

Moody's Aa1 (stable outlook²) / Standard & Poor's AA- (stable outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	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	\$ (3,212)	\$ (313)
RHFB 2007E	17,615	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(2,002)	(134)
RHFB 2007J	27,070	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(3,107)	(282)
RHFB 2008C	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(5,347)	(1,804)
RHFB 2009C	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(6,793)	(2,114)
RHFB 2009F	27,510	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA** plus 0.80% per annum	(1,216)	(240)
	<u>\$186,535</u>					<u>\$ (21,677)</u>	<u>\$ (4,887)</u>

Counterparty: The Bank of New York Mellon

Moody's Aaa (negative outlook)³ / Standard & Poor's AA- (negative outlook)

Associated Bond Series	Notional Amount as of December 31, 2011	Effective Date	Swap Date	Maturity	Fixed Rate Payable	Variable Rate Receivable	Fair Value ¹ as of December 31, 2011	Increase (Decrease) in Fair Value since Fiscal Year Ended June 30, 2011
RHFB 2005I	\$ 28,505	June 2, 2005	January 1, 2036		3.570%	64% of 1 month LIBOR* plus 0.28% per annum	\$ (2,343)	\$ (298)
RHFB 2005M	41,725	August 4, 2005	January 1, 2036		3.337%	64% of 1 month LIBOR* plus 0.29% per annum	(3,214)	(458)
	<u>\$ 70,230</u>						<u>\$ (5,557)</u>	<u>\$ (756)</u>
Combined Totals	<u>\$388,475</u>						<u>\$ (39,798)</u>	<u>\$ (8,983)</u>

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 On February 15, 2012 Moody's changed the outlook for Royal Bank of Canada from stable outlook to negative watch.

³ On March 8, 2012 Moody's downgraded the rating of The Bank of New York Mellon to Aa1 and changed the outlook from negative to stable.

* 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 December 31, 2011, the Agency did not have a net credit risk exposure to any of its three 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 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 December 31, 2011, 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.

General Reserve & Bond Funds
Interest Rate Swaps
(unaudited)



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 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 December 31, 2011, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.09% to 0.18% per annum while the variable interest rate on the associated swaps ranged from 0.16% to 0.50% per annum. As of December 31, 2011, the interest rate on the Agency's variable rate taxable debt was 0.22% per annum while the variable interest rate on the corresponding swaps ranged from 0.27% to 0.30% 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.

APPENDIX D

SUMMARY OF CONTINUING DISCLOSURE UNDERTAKING

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

Purpose

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

Definitions

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

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

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

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

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

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

“*EMMA*” means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

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

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

1. Principal and interest payment delinquencies;
2. Nonpayment-related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;

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

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

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

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

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

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

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

Annual Financial Information Disclosure

The Agency shall disseminate the Annual Financial Information and the Audited Financial Statements (in the form and by the dates set forth below) for each fiscal year of the Agency, commencing with the fiscal year ending June 30, 2012, by one of the following methods: (i) the Agency may deliver such Annual Financial

Information and the Audited Financial Statements to the MSRB within 120 days of the completion of the Agency's fiscal year or (ii) delivery of an Official Statement of the Agency to the MSRB within 120 days of the completion of the Agency's fiscal year, but only to the extent such Official Statement includes such Annual Financial Information and Audited Financial Statements.

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

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

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

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

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

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

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

Listed Events Disclosure

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

Consequences of Failure of the Agency To Provide Information

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

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

Amendment; Waiver

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

- (i) The amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Agency or type of business conducted;
- (ii) This Disclosure Undertaking, as amended, or the provision, as waived, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (iii) The amendment or waiver does not materially impair the interests of the Bondholders of the Series Bonds, as determined either by parties unaffiliated with the Agency (such as the Trustee) or by an approving vote of the Bondholders of the Series Bonds holding a majority of the aggregate principal amount of the Series Bonds (excluding Series Bonds held by or on behalf of the Agency or its affiliates) pursuant to the terms of the Resolution at the time of the amendment; or
- (iv) The amendment or waiver is otherwise permitted by the Rule.

Termination of Undertaking

The Undertaking of the Agency shall be terminated hereunder when the Agency shall no longer have any legal liability for any obligation on or relating to the repayment of the Series Bonds. The Agency shall give notice to the MSRB in a timely manner and in Prescribed Form if this Section is applicable before the final stated maturity date 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 Bondholders and Beneficial Owners of the Series Bonds, and shall create no rights in any other person or entity.

Recordkeeping

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

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION

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

Resolution Constitutes Contract with Trustee and Bondholders

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

Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Association, Farmers Home Administration, Federal Home Loan Mortgage Corporation or Government National Mortgage Association, or any other agency or corporation which has been or may hereafter be created by or pursuant to an Act of the Congress of the United States as an agency or instrumentality thereof or sponsored thereby; (iv) direct and general obligations of any state within the United States or of any political subdivision of the State of Minnesota, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; (v) interest-bearing deposit accounts in savings and loan associations or in state, national or foreign banks (including the Trustee and any Paying Agent), provided that either said deposits are insured by the Federal Deposit Insurance Corporation or said deposits are secured by obligations described in clauses (i) through (iii) above, or at the time the purchase is made the debt obligations of the depository are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vi) bankers' acceptances drawn on and accepted by commercial banks whose debt obligations at the time the purchase is made are rated as high or higher than the Bonds by a nationally recognized bond rating agency; (vii) commercial paper issued by United States corporations or their Canadian subsidiaries rated at the time the purchase is made in the highest rating category for commercial paper by a nationally recognized bond rating agency and maturing in 270 days or less; (viii) repurchase agreements and reverse repurchase agreements 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 agreements are secured by obligations described in the preceding clauses (i) through (iii) of this sentence; (ix) guaranteed investment contracts or similar deposit agreements with insurance companies with a claims paying rating from a nationally recognized rating agency at the time the contract or agreement is made at least equal to the rating of the Bonds, or with other financial institutions or corporations provided, at the time the contract or agreement is made, the debt obligations of any such financial institution or corporation are rated as high or higher than the Bonds by a nationally recognized bond rating agency or such contracts or agreements are secured by obligations described in clauses (i) through (iii) above; (x) shares in an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933, or shares of a common trust fund established by a national banking association or a bank or trust company organized under the laws of any state with combined capital and surplus of at least \$50,000,000, under the supervision and regulation of the Comptroller of the Currency pursuant to 12 C.F.R. 9, or any successor regulation, and whose only investments are qualified investments described in clauses (i) through (iii) of this Section, (xi) notes, Bonds, debentures or other debt issued or guaranteed by domestic corporations, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency; and (xii) notes, Bonds, debentures or other debt issued by the World Bank or the Inter-American Development Bank, provided that at the time of purchase such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency.

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

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

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

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

Outstanding: a reference as of any particular time to all Bonds theretofore delivered except (i) any Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Agency or by any other Fiduciary, at or before that time, and (ii) any Bond for the payment or redemption of which either (a) money equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, or (b) Investment Obligations or money in the amounts, or the maturities and otherwise as

described and required under the provisions of paragraph (B) or (D) of Section 1201 of the Bond Resolution, has been deposited with one or more Fiduciaries in trust (whether upon or prior to the maturity or redemption date of the Bond) and except in the case of a Bond to be paid at maturity, of which notice of redemption has been given or provided for in accordance with Article VII therein, and (iii) any Bond in lieu of or in substitution for which another Bond has been delivered pursuant to Section 605, 607 or 906 of the Bond Resolution.

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

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

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

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

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

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

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

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

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

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

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

Authorization of Bonds

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

Other Obligations

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

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

Pledge of the Resolution

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

Custody and Application of Bond Proceeds

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

Note Accounts. Money in any Note Account shall be held by the Trustee and applied as directed by the applicable Series Resolution to the payment of Notes upon receipt of an Officer's Certificate identifying them by title, date of issuance and maturity or redemption, interest rate and the person to whom payment is to be made and the amount thereof. All interest and other income received from the deposit and investment of money in the Note Account pending application to the payment of Notes, unless otherwise directed by the applicable Series Resolution, shall be transferred as received to the Revenue Fund. Upon receipt of evidence satisfactory to the Trustee that such Notes have been paid and canceled, the Trustee shall transfer any balance remaining in the Note Account to the appropriate Project Account.

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

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

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

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

Mortgage Provisions and Conditions

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

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

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

Participation. The Agency may participate with another party or parties in the making of a Mortgage Loan for various purposes as set forth in the Resolution, if its mortgage lien and security interests, in proportion to its participation, is on a parity with or superior to that of all other parties, but the interest rate and time and rate of

amortization of that part of the Mortgage Loan made by the Agency and that made by others need not be equal. The Agency may make an additional Mortgage Loan in certain circumstances on a parity of lien with the Mortgage then held by the Agency or subordinate thereto (but not junior or subordinate to a mortgage held by any other party unless permitted by the Resolution).

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

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

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

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

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

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

- (a) obtained all governmental approvals required by law for the acquisition and construction of the Development;
- (b) obtained written approval by an Authorized Officer of final plans and specifications for the Development and provided, if required, assurance and documentation of a nature and in an amount sufficient in the opinion of an Authorized Officer, securing performance of the work in accordance therewith, provided that no disbursement of construction costs shall be made until such approval is given and such assurance furnished;
- (c) deposited with the Trustee or a Depository cash or an irrevocable letter of credit or other valuable consideration satisfactory to an Authorized Officer, in any amount by which the cost of the Development as estimated by the Agency exceeds the authorized amount of the Mortgage Loan.

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

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

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

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

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

Upon foreclosure of a Mortgage securing a Mortgage Loan, or upon acquisition of the Development in lieu of foreclosure of a Mortgage in default, and so long as the Agency shall have title to or be in possession of the Development, the Agency shall, as the case may be, construct, operate and administer such Development in the place and stead of the Mortgagor in such manner as the Agency reasonably determines is in the best interests of the Bondholders. In so doing, the Agency, to the extent it may have money available for such purpose, including any money on deposit in the Mortgage Loan Account relating to the Development, may complete the construction and development thereof if not already completed in such manner as the Agency reasonably determines is in the best interests of the Bondholders. From money provided by the Agency from the ownership and operation of the Development, to the extent such money is sufficient for the following purposes, the Agency shall first pay or make provision for payment of the costs and expenses of taxes, insurance, foreclosure fees, including appraisal and legal fees and similar expenses required to preserve or acquire unencumbered title to the Development, and after providing currently for these expenses shall pay the cost and expenses of operating the Development, including the repayments which the Mortgagor was obligated to pay pursuant to the terms and provisions of the Mortgage. The Trustee or other Depository of the Mortgage Loan Account established with respect to any Development foreclosed

or otherwise acquired by the Agency prior to its completion shall be authorized to pay to the Agency upon its requisition any amount on deposit in the Mortgage Loan Account, upon receipt of an Officer's Certificate that such amount is required to pay an item that would have been included in the cost of the Development had the Agency not acquired the same. If the Agency determines that completion of the Development is not in the best interests of the Bondholders, the remaining funds in any such Mortgage Loan Account shall be disposed of in the same manner as set forth in the Bond Resolution for funds remaining in a Mortgage Loan Account upon completion of a Development or cancellation of a commitment to make a Mortgage Loan for a Development.

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

- (a) the Agency may resell the Development to an eligible Mortgagor and make a Mortgage Loan with respect thereto as if such eligible Mortgagor were the original Mortgagor, subject to all of the terms, provisions, conditions and limitations contained in this section and "Program Covenants" below; or the Agency may sell the Development to a party other than an eligible Mortgagor;
- (b) the Agency shall not resell the Development for a price less than its fair market value as reasonably determined by the Agency through a solicitation of bids for the purchase of the Development or by an appraiser or other real estate consultant selected by the Agency and acceptable to the Trustee;
- (c) subsequent to such sale the Agency must remain in compliance with its Revenue Covenant under the Bond Resolution; and
- (d) all proceeds from the sale of any Development shall be considered a Recovery Payment and shall be deposited in the Suspense Account in the Redemption Fund.

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

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

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

Program Covenants—Revenue Covenant

The Agency shall from time to time, with all practical dispatch and in a sound economical manner consistent in all respects with the Act as then amended and in effect and with the provisions of the Bond Resolution, use and apply the proceeds of the Bonds, to the extent not required by the Bond Resolution for other Program purposes, to make Mortgage Loans pursuant to the Act and the Bond Resolution, and shall do all such acts and things as are necessary to receive and collect Revenues, Prepayments, Recovery Payments and Escrow Payments, consistent with sound practices and principles, and shall diligently enforce and take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of the Mortgage Loans. The Agency shall also take all steps, actions and proceedings reasonably necessary in the judgment of the Agency for the enforcement of all terms, covenants and conditions of Subordinate Mortgage Loans.

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

The Agency reserves the right:

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

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

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

Deposit of Revenues and Other Money

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

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

Revenue Fund

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

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

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

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

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

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

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

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

Bond Fund

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

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

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

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

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

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

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

Debt Service Reserve Fund

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

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

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

(d) The Agency shall at all times maintain the Debt Service Reserve Fund and will do and perform or cause to be done and performed each and every act and thing with respect to the Debt Service Reserve Fund provided to be done or performed by or on behalf of the Agency or the Trustee under the terms and provisions of Article IV of the Bond Resolution and of the Act.

(e) In order to better secure the Bonds and to make them more marketable and to maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, and in accordance with the provisions of Section 22, Subdivision 8 of the Act, the Agency shall cause the Chairperson, annually, on or before December 1 of each year, to make and deliver to the Governor of the State a certificate stating (a) the amount, if any, that is necessary to restore the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Requirement (but not exceeding the maximum amount of

principal and interest to become due and payable in any subsequent year on all Bonds and Notes which are then Outstanding and secured by the Debt Service Reserve Fund) and (b) the amount, if any, determined by the Agency to be needed in the then immediately ensuing fiscal year, with other funds pledged and estimated to be received into the Revenue Fund during that year, for the payment of the principal and interest due and payable in that year on all then Outstanding Bonds and Notes secured by the Debt Service Reserve Fund. All moneys received by the Agency from the State in accordance with the provisions of Section 22, Subdivision 8 of the Act pursuant to any such certification shall be paid to the Trustee for deposit in and credit to the Debt Service Reserve Fund or Revenue Fund, as provided in the Bond Resolution.

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

Expense Fund

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

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

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

Redemption Fund

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

(b) By Officer's Certificate the Agency may authorize the increase of any Mortgage Loan or the making of a new Mortgage Loan as contemplated above, and for that purpose may appropriate any money at the time available in or transferred to the Redemption Fund in accordance with the provisions of Article IV of the Bond Resolution to one or more designated Mortgage Loan Accounts for disbursement pursuant to Section 307 of the Bond Resolution. Upon the filing with the Trustee of the Officer's Certificate, the Trustee shall withdraw from the Redemption Fund and deposit the amount authorized in each Mortgage Loan Account designated in the Certificate.

(c) Upon receipt of the Officer's Certificate referred to in Section 702 of the Bond Resolution, the Trustee shall apply money in the Redemption Fund not otherwise applied in accordance with paragraphs (a) and (b) above to the purchase of Bonds designated in the Certificate at the most

advantageous price obtainable with due diligence. Bonds not so purchased may be redeemed at a Redemption Price determined by Series Resolution at the time and in the manner provided in Article VII of the Bond Resolution. Bonds shall not be purchased pursuant to this paragraph during the period of forty-five (45) days next preceding a redemption date from money to be applied to the redemption of Bonds on such date.

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

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

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

Escrow Accounts

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

General Reserve Account

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

Investment and Deposit of Funds

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

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

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

Additional Bonds

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

The Agency shall furnish to the Trustee:

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

(b) a Counsel's Opinion that:

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

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

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

(c) an Officer's Certificate stating:

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

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

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

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

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

The Trustee shall determine and certify:

- (a) that it has received the documents listed above; and
- (b) that the amount of Bond proceeds or other funds of the Agency to be deposited in the Debt Service Reserve Fund is sufficient to increase the amount in the Fund to the Debt Service Reserve Requirement effective after the issuance of the Bonds, as computed by the Trustee.

Hedge Agreements

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

Amendments of the Bond Resolution

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

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

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

However, no amendment shall permit a change in the terms of redemption or maturity of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or Accreted Value thereof or the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentage of the Holders the consent of which is required to effect any such amendment, without unanimous consent of the Bondholders.

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

Defeasance

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

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

Events of Default

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

Remedies

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

APPENDIX F

BOOK-ENTRY-ONLY SYSTEM

General

The Depository Trust Company, New York, New York (“DTC”), is to act as securities depository for each series of the Series Bonds. The ownership of one fully registered Series Bond for each maturity of a series of the Series Bonds in the aggregate principal amount of such maturity and series will be registered in the name of Cede & Co., DTC’s partnership nominee. *So long as Cede & Co. or another nominee designated by DTC is the registered owner of the Series Bonds, references herein to the Bondholders, Holders or registered owners of 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 one or more series of the Series Bonds is discontinued as described below.

To facilitate subsequent transfers, all Series Bonds deposited by Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or 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 of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Series Bonds of such series 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 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 Resolutions, payments made by or on behalf of the Agency to DTC or its nominee satisfy the Agency's obligations to the extent of the payments so made.

The above information contained in this section "Book-Entry-Only System" is based solely on information provided by DTC. No representation is made by the Agency or the Underwriter as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Agency, the Underwriter and the Trustee cannot and do not give any assurances that DTC, the Direct Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series Bonds (i) payments of principal of or interest and premium, if any, on the Series Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interest in Series Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with Direct Participants are on file with DTC.

Neither the Agency, the Underwriter nor the Trustee will have any responsibility or obligation to any Direct Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series Bonds; (2) the accuracy of any records maintained by DTC or any Direct Participant or Indirect Participant; (3) the payment by DTC or any Direct Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series Bonds; (4) the delivery by DTC or any Direct Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Resolutions to be given to Holders of Series Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of Series Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

Discontinuation of Book-Entry System

DTC may discontinue its book-entry services with respect to one or both series of 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 of such series are required to be delivered as described in the Resolutions. The Beneficial Owner, upon registration of such Series Bonds held in the Beneficial Owner's name, shall become the Bondholder.

The Agency may determine to discontinue the system of book entry transfers through DTC (or a successor securities depository) for one or both series of the Series Bonds. In such event, the Series Bonds of such series are to be delivered as described in the Resolutions.

APPENDIX G

FORM OF OPINION OF BOND COUNSEL

_____, 2012

Minnesota Housing Finance Agency
St. Paul, Minnesota 55101

Minnesota Housing Finance Agency
Rental Housing Bonds
2012 Series A-1
2012 Series A-2

Ladies and Gentlemen:

We have acted as bond counsel to the Minnesota Housing Finance Agency (the "Agency") in connection with the authorization, issuance and delivery by the Agency of its Rental Housing Bonds, 2012 Series A-1, in the aggregate principal amount of \$4,175,000 (the "2012 Series A-1 Bonds") and its Rental Housing Bonds, 2012 Series A-2, in the aggregate principal amount of \$4,790,000 (the "2012 Series A-2 Bonds" and, together with the 2012 Series A-1 Bonds, the "2012 Series A Bonds"), each series of which are issuable only as fully registered bonds of single maturities in denominations of \$5,000 or any integral multiple thereof.

The 2012 Series A Bonds are dated, mature on the dates, bear interest at the rates and are payable as provided in the Series Resolution referenced below. The 2012 Series A Bonds are subject to optional, mandatory and special redemption prior to maturity, including special redemption at par, as provided in the Series Resolution referenced below.

As bond counsel, we have examined certified copies of resolutions and proceedings of the Agency and other documents we considered necessary as the basis for this opinion, including the Agency's Bond Resolution adopted February 25, 1988, as amended and supplemented (the "Bond Resolution"), and the Series Resolution relating to the 2012 Series A Bonds adopted April 26, 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.

From such examination, and assuming continuing compliance by the Agency and the owner of the Development financed by the 2012 Series A Bonds with the covenants contained in the Bond Resolution, the Series Resolution and the loan documentation relating to the Development, it is our opinion that, under existing law as of the date hereof: (1) the Agency is a public body corporate and politic, having no taxing power, duly organized and existing under Minnesota Statutes, Chapter 462A, as amended; (2) the Bond Resolution and Series Resolution have been duly and validly adopted by the Agency and are valid and binding upon it in accordance with their terms, and create the valid pledge and security interest they purport to create with respect to the Mortgage Loans, Revenues, moneys, securities and other Funds held and to be set aside under the Bond Resolution and Series Resolution; (3) the 2012 Series A Bonds are duly and lawfully authorized to be issued and are valid and binding general obligations of the Agency in accordance with their terms, entitled to the benefits granted by and secured by the covenants contained in the Bond Resolution and Series Resolution, and are payable out of any of its moneys, assets or revenues, subject to the provisions of other resolutions or indentures now or hereafter pledging and appropriating particular moneys, assets, or revenues to other bonds or notes, and federal or state laws heretofore enacted

appropriating particular funds for a specified purpose, but the State of Minnesota is not liable thereon and the 2012 Series A Bonds are not a debt of the State; (4) in the Bond Resolution the Agency has created a Debt Service Reserve Fund for the security of the 2012 Series A Bonds and other bonds issued or to be issued under the Bond Resolution, to be maintained in an amount specified therein, and has agreed to certify annually to the Governor the sum, if any, necessary to restore the Fund to this amount for inclusion in the next budget submitted to the Legislature, and the Legislature is legally authorized, but is not legally obligated, to appropriate such amount to such Debt Service Reserve Fund; and (5) the interest payable on the 2012 Series A Bonds is not includable in gross income of owners thereof for federal income tax purposes or in taxable net income of individuals, trusts and estates for State of Minnesota income tax purposes, but such interest is includable in the income of corporations and financial institutions for purposes of the Minnesota franchise tax; provided, however, that we express no opinion as to the exclusion from federal gross income and Minnesota taxable net income of interest on any 2012 Series A Bond for any period during which such 2012 Series A Bond is held by a person who is a "substantial user" of the Development financed by the 2012 Series A Bonds or a "related person" thereto, as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Interest on the 2012 Series A Bonds will not be treated as an item of tax preference in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations, and will not be included in the calculation of adjusted current earnings for purposes of calculating the federal minimum alternative tax imposed on corporations. Interest on the 2012 Series A 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 A Bonds. All owners of 2012 Series A 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 A Bonds.

Noncompliance by the Agency or the owner of the Development financed by the 2012 Series A Bonds with their covenants in the Bond Resolution, Series Resolution or applicable loan documentation relating to the Development may result in inclusion of interest in federal gross income and Minnesota taxable net income retroactive to the date of issuance of the 2012 Series A Bonds.

The opinions expressed above are qualified only to the extent that the enforceability of the 2012 Series A Bonds, the Bond Resolution and the Series Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully yours,