MEETINGS SCHEDULED FOR JULY

Location:

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

THURSDAY, JULY 24, 2014

Regular Board Meeting
State Street Conference Room – First Floor
1:00 p.m.

NOTE: The information and requests for approval contained in this packet of materials are being presented by Minnesota Housing staff to the Minnesota Housing Board of Directors for its consideration on Thursday, July 24, 2014.

Items requiring approval are neither effective nor final until voted on and approved by the Minnesota Housing Board.

The Agency may conduct a meeting by telephone or other electronic means, provided the conditions of Minn. Stat. §462A.041 are met. In accordance with Minn. Stat. §462A.041, the Agency shall, to the extent practical, allow a person to monitor the meeting electronically and may require the person making a connection to pay for documented marginal costs that the Agency incurs as a result of the additional connection.
AGENDA
Minnesota Housing Finance Agency
Board Meeting
Thursday, July 24, 2014
1:00 p.m.

State Street Conference Room – First Floor
400 Sibley Street, St. Paul, Minnesota 55101

1. Call to Order
2. Roll Call
3. Agenda Review
4. Approval of Minutes
   A. Regular Meeting of June 19, 2014
5. Reports
   A. Chair
   B. Commissioner
   C. Committee Reports
      None.
6. Consent Agenda
   A. Modification, Affordable Rental Investment Fund (ARIF)
      - Central Neighborhood Apartments, Minneapolis, D2799
   B. Modification of Board Resolutions, Rental Rehabilitation Deferred Loan (RRDL) Pilot Program
   C. Commitment Extensions, Publicly Owned Housing Program (POHP)
7. Action Items
   A. Amendments to the 2014 Affordable Housing Plan (AHP)
   B. Selection/Commitment, Low and Moderate Income Rental (LMIR) and Flexible Financing for Capital Costs (FFCC) Programs
      - South Quarter, IV, Minneapolis (D7593)
   C. Housing Trust Fund (HTF) – Bridge to Stabilization Fund
   D. Originator Selections, Targeted Mortgage Opportunity Program
   E. Selections, Enhanced Financial Capacity Homeownership Initiative
8. Discussion Items
   A. Bridge to Success Program, Implementation Update
   B. Successor to HOME Homeowner Entry Loan Program (HOME HELP)
9. Informational Items
   A. Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2014
   B. Post-sale Report, Homeownership Finance Bonds, 2014 Series A
   C. Report of Complaints Received by Agency or Chief Risk Officer
10. Other Business
11. Adjournment
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1. **Call to Order.**
   Chair Johnson called to order the regular meeting of the Board of the Minnesota Housing Finance Agency at 1:04 p.m.

2. **Roll Call.**

   Minnesota Housing staff present: Tal Anderson, Paula Beck, Jim Cegla, Chuck Commerford, Mike Haley, Bill Kapphahn, Kurt Keena, Kasey Kier, Diana Lund, Carrie Marsh, Eric Mattson, Tonja Orr, John Patterson, Devon Pohlman, Paula Rindels, Joel Salzer, Becky Schack, Barb Sporlein, Will Thompson, Rob Tietz, Mary Tingerthal, Ted Tulashie, Xia Yang.

   Others present: Cory Hoeppner, Derek McGreal, RBC Capital Markets; Michelle Adams, Kutak Rock; George Garnett, Summit Academy OIC; Chip Halbach, Minnesota Housing Partnership; Paul Rebolhloz, Wells Fargo; Tom O’Hern, Office of the State Attorney General.

3. **Agenda Review**
   Chair Ken Johnson announced that the agenda had been revised to include an additional action item seeking the modification of existing board resolutions.

4. **Approval of the Minutes.**
   A. **Regular Meeting of May 22, 2014**
      Auditor Otto moved approval of the minutes as written. Mr. Joe Johnson seconded the motion. Motion carries 5-0.
   B. **Special Meeting of June 5, 2014**
      Auditor Otto moved approval of the minutes as written. John DeCramer seconded the motion. Motion carries 5-0.

5. **Reports**
   A. **Chair**
      Chair Ken Johnson announced that George Garnett had been appointed to replace Steve Johnson, whose term expired in January, 2014. Mr. Garnett was invited to introduce himself and stated that he was excited about the opportunity to serve. Mr. Garnett shared that he is currently the director of strategic development for Summit Academy OIC and that he has an extensive history and background in community development and affordable housing in both the Twin Cities and Duluth.

      Chair Johnson shared that, at the end of the month, Frank Fallon of RBC Capital Markets would retire. Chair Johnson stated that Mr. Fallon has had a long career in investment banking in Minnesota and in other areas and that Mr. Fallon had worked with both Chair Johnson and Ms. Bostrom since 1981. On behalf of the board as well as the residents of the units Mr. Fallon has helped make possible, Chair Johnson thanked Mr. Fallon for his contributions to affordable housing. Mr. Fallon stated that it had been a pleasure to work with Minnesota Housing and expressed his thanks for the opportunity to be part of the team for 38 years. Mr. Fallon stated...
that he has been continually impressed with the quality of public employees in the state of Minnesota and their commitment, dedication and hard work.

B. Commissioner

Commissioner Tingerthal began her report by stating there were no new employee introductions this month, but there would be in July. Commissioner Tingerthal stated that the pace of things slows down during the summer at most places, but the opposite is true in Minnesota, with projects selected two years ago in the ribbon cutting stage and those selected one year ago in the groundbreaking stage. Last week marked the deadline for Multifamily RFP applications and the Single Family RFP deadline was earlier this week. For this year’s RFP, applicants were encouraged to submit dual applications for 9% credits and for 4% credits and housing infrastructure bonds. This method allows the Agency maximum flexibility in how it matches resources with selected projects. Commissioner Tingerthal complimented Kayla Schuchman and Diana Lund for having the process underway within a day and recognized the great work on the technology side that allowed for faster application processing than in the past.

Commissioner Tingerthal reported that she had attended a grand reopening of Concordia Arms, a seniors project in Maplewood whose renovation and preservation was completed using proceeds from 2012 Housing Infrastructure Bonds. The following day, she attended a groundbreaking for the Fort Snelling Veterans project. Two years following the allocation of the HIBs, all projects using the proceeds are underway. Commissioner Tingerthal applauded the staff and developers who worked so hard to bring good proposals and for taking seriously the resources that are entrusted to the Agency and putting them to work where they are needed. Commissioner Tingerthal also attended the ribbon cutting for the West Side Flats project, which is at the foot of the Wabasha Bridge in Saint Paul and is a largely market rate development with 36 affordable units. Tingerthal stated that the project is the first of three phases and perhaps offers the most stunning views of any Multifamily project in the Twin Cities. Commissioner Tingerthal encouraged members to take a look at the project if they have the opportunity.

Commissioner Tingerthal announced that George Garnett would join the Agency Board next month. Outgoing member Steve Johnson was disappointed he wasn’t able to join the board for his last meeting but he is in Chile. Mr. Johnson sends his thanks and shared that he very much enjoyed his time on the Board.

Commissioner Tingerthal shared that the Agency had a highly successful bond issue the previous week. The issue, which was approved at the special meeting on June 5, included a provision to include hedging costs in the structure. The Agency originally went out for $25 million in orders and pricing was strong enough that it was upsized to $38.5 million and the Agency achieved the 3% bond rate that it had hoped to achieve. Commissioner Tingerthal thanked and congratulated the finance team for an outstanding strategic move to bring a pass through transaction that puts assets back on the Agency’s balance sheet that can balance out TBA transactions.

C. Committee

None

6. Consent Agenda

A. Renewal, Operating Subsidy Grants, Ending Long Term Homelessness Initiative Fund (ELHIF) and Department of Human Services (DHS) Housing with Supports for Adults with Serious Mental Illness (HSASMI) Fund
B. Commitment, Low and Moderate Income Rental (LMIR) and Flexible For Capital Cost (FFCC) Programs - Hamline Station Mixed-Use, St. Paul, D7589

C. Funding Modification, Bridges Regional Treatment Center (RTC) Rental Assistance

MOTION: Mr. Joe Johnson moved approval of the consent agenda and the adoption of Resolutions No. MHFA 14-026 and MHFA 14-027. Mr. John DeCramer seconded the motion. Motion carries 5-0.

7. Action Items
   A. Board Policy Revisions
   Tom O’Hern presented the final policy revisions to the Board for its approval, stating that staff have determined that some policies are no longer needed and are recommending they be deleted. Mr. O’Hern also presented a new policy that is a condensation of a rather lengthy policy about fraud and misuse of funds. The former policy had been more procedure than policy.
   
   MOTION: Ms. Bostrom moved to delete the obsolete policies “Fiscal Notes Policy” and “Housing and Long-Term Care Group Living Policy” and to delete the “Reporting Non-Compliance with Agency Policy and Procedures” and adopt the successor policy “Reporting Fraud, Misuse of Funds or Unethical Conduct.” Mr. Joe Johnson seconded the motion. Motion carries 5-0.

   B. Modification of Board Resolutions
   Diana Lund presented this request to amend existing resolutions in order to address end loans. With the revisions, loans have 20 months to enter closing or an end loan commitment. If entering into an end loan commitments, those end loans must be closed within 18 months of commitment.
   
   MOTION: Mr. Joe Johnson moved approval of the amendments and adoption of Resolutions No. MHFA 14-028, 14-029 and 14-30. Ms. Bostrom seconded the motion. Motion carries 5-0.

8. Discussion Items
   A. Fiscal 2015 Administrative Budget
   Barb Sporlein reviewed the Agency’s FY15 administrative budget with the Board. Ms. Sporlein stated that the administrative budget represents the level of funding necessary to support the Affordable Housing Plan. Ms. Sporlein stated that the FY15 budget has an increase of 16.2% over FY14 and that the increase is primarily due to payroll and information technology. For payroll increases, the Agency is instructed by Minnesota Management and Budget how much to budget. The increase covers larger retirement plan contributions, cost of living increases and salary range progressions as well as increasing insurance costs and anticipated increased separation expenses. For technology spending, the Agency has budgeted for new loan origination software, increasing the functionality of the website, data warehousing, a customer management tool and business intelligence software.

   Ms. Sporlein also stated that there is an increase in full time equivalent positions and these positions will be in the areas in which we are expanding our activities, such as multifamily first mortgage lending. The Agency has also dedicated staff resources to the Multifamily re-engineering initiative and there is a need to backfill some positions as a result of this project. Ms. Sporlein stated that the overall administrative expense is 3.6%. Discussion item; no action needed

   B. Agency Strategy for Containing Multifamily Development Costs
   Mr. John Patterson presented information on the Agency’s approach to cost containment, stating that it is a three pronged approach, using the predictive cost model, tax credit scoring and, recently, the MN Challenge to Lower the Cost of Affordable Housing. Mr. Patterson stated that the Agency had sent questionnaires to developers inquiring if they had pursued points for cost containment and responses received indicated that eight developers did pursue cost...
containment and four did not. Mr. Patterson added that this is year two of the cost containment initiative and staff will see if more developers pursue those points. Mr. Patterson also shared information about the MN Challenge competition, stating that the winning proposal will address cost containment at the local government level by pursuing common regulatory practices and eliminating unnecessary or inefficient regulations. Agency staff will also investigate the possibility of implementing some concepts that were not selected. Mr. Patterson finished his presentation by stating that cost containment continues to be an ongoing conversation and the Agency will continue to evaluate effectiveness and seek new ways to reduce costs. Discussion item, no action needed

C. Federal Securities Law Review and Updates; Board Responsibilities

Paula Rindels presented the board with a securities regulation review. Ms. Rindels stated that, with respect to responsibilities of board members, there had not been any new pronouncements that expand responsibilities and a recent correction to the rules has determined that appointed board members are not municipal advisors when acting in their roles as board members.

Ms. Rindels stated that staff continues to submit a substantially final draft preliminary statement before each bond issue and that there have not been any structural changes to those official statements.

Ms. Rindels shared that secondary market disclosure is a major topic at the moment and that information had been provided to the board regarding the Securities Exchange Commission (SEC) focusing on various disclosure issues. Ms. Rindels added that there have been frequent requests to the legislature to put additional disclosure burden on municipalities, such as following the rules of the Government Accounting Standards Board, which the Agency already follows. Ms. Rindels provided an overview of enforcement actions related to material misstatements and shared that the SEC recently issued its first monetary penalty against a municipal issuer for failure to comply with continuing disclosure obligations. Ms. Rindels shared detailed information with the board regarding incentives for disclosing as much as possible and self-reporting of disclosure failures. Discussion item, no action needed.

9. Informational Items

A. Income and House Price Limit Changes, Home Mortgage Programs

Ms. Devon Pohlman shared with the board the adjusted income and purchase price limits, which had been adjusted to to match new data from the Internal Revenue Service and from the US Department of Housing and Urban Development. Ms. Pohlman stated that there is always a lag in the data being released and it is not a precise indicator of what is happening in the market. Ms. Pohlman also stated that the Agency’s market is focused on low- and moderate-income borrowers whose average purchases are much lower than the limits. Information item, no action needed.

10. Other Business

11. Adjournment.

The meeting was adjourned at 1:54 p.m.
AGENDA ITEM:  6.A.
MINNESOTA HOUSING BOARD MEETING
July, 24, 2014

ITEM:  Central Neighborhood Apartments, Minneapolis, D2799

CONTACT:  Anne Heitlinger, 651-296-9841
Anne.Heitlinger@state.mn.us

REQUEST:  
☑ Approval   □ Discussion   □ Information

TYPE(S):  
□ Administrative  □ Commitment(s)  ☑ Modification/Change  □ Policy  □ Selection(s)  □ Waiver(s)
□ Other:  __________________________

ACTION:  □ Motion  ☑ Resolution  □ No Action Required

SUMMARY REQUEST:  
Approve the modification of the $462,000 ARIF loan for Central Neighborhood Apartments (D2799). The modification includes forgiveness of $343,183 and assumption of $119,351. The loan will be assumed by a non-single asset entity, PPL DECC, LLC, and therefore the portion of the loan to be assumed will become recourse. When the development is re-syndicated, the $119,351 will be paid off.

FISCAL IMPACT:  
None

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

ATTACHMENT(S):  
• Background
• Resolution
Background:

On September 11, 2001, Minnesota Housing made an Affordable Rental Investment Fund (ARIF) loan of $462,000 to Project for Pride in Living (PPL) for renovation of its Central Neighborhood development. The Central Neighborhood development is comprised of 12 units in five scattered site buildings for large families in south Minneapolis. The ARIF loan terms are 0% interest, due on September 1, 2031. It appears that at the time the loan was made, the loan to value ratio would have been greater than 100%, as the existing debt on the property at that time was $832,000, and an additional CPED loan for $235,000 was made a year earlier.

Currently, the debt of the Central Neighborhood Apartments is $841,276, resulting in a total loan to value ratio of 286%. The current debt in excess of 100% of the property’s value must be eliminated in order to bring in a new limited partner into a re-syndication.

PPL is now in the process of restructuring the existing debt on the Central Neighborhood Apartments to combine it with four other developments. The current amount of debt on the four developments is more than twice the value of the properties, at $6,300,000. This combination will create efficiency and scale in a new future tax credit transaction.

The proposed new development will aggregate 51 units in four separately owned developments into one new limited partnership. The proposed new development will undergo significant rehabilitation, an average of $94,000 per unit.

Recommendation

Staff recommends approving the modification for the following reasons:

- The request meets two of the Agency’s criteria for consideration of debt forgiveness: the total debt on the property exceeds its value, and the debt restructuring is part of a larger stabilization effort;
- The loan to value ratio was greater than 100% at the time the loan was made in 2001; therefore, there wasn’t a reasonable expectation of full repayment when the loan matured;
- The $119,351 to be repaid upon re-syndication is comparable to the present value of full repayment in 2031.
MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-
RESOLUTION APPROVING MODIFICATION OF MORTGAGE LOAN TERMS
AFFORDABLE RENTAL INVESTMENT FUND (ARIF) PROGRAM LOAN
FOR CENTRAL NEIGHBORHOOD APARTMENTS (D2799)

WHEREAS, Central Neighborhood Apartments, a multiple-unit housing development that is
occupied by persons and families of low and moderate income, was selected to receive ARIF funding
under the October 1999 and April 2000 Super Request for Proposals; and,

WHEREAS, the Agency subsequently provided an ARIF loan in the amount of $462,000; and,

WHEREAS, the owner of Central Neighborhood Apartments desires to restructure the debt on the
property and combine it with that of four other properties; and,

WHEREAS, the restructuring will create efficiencies and scale in a future tax credit transaction that will
allow for the stabilization of all five properties.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to modify the terms of the existing loan
documents, in a form acceptable to its attorneys and in compliance with applicable statutes and
regulations, as follows:

1. Of the existing loan amount of $462,000, $343,183 will be forgiven.

2. The remaining $119,817 will be assumed by PPL DECC, LLC, at which time the loan will be
   made recourse to the LLC.

Adopted this 24th day of July, 2014.

_______________________________________
CHAIRMAN
ITEM: Modification of Board Resolutions, Rental Rehabilitation Deferred Loan (RRDL) Pilot Program

CONTACT: Susan Haugen 651-296-9848
susan.haugen@state.mn.us

REQUEST:
✓ Approval  □ Discussion  □ Information

TYPE(S):
□ Administrative  □ Commitment(s)  ✓ Modification/Change  □ Policy  □ Selection(s)  □ Waiver(s)
□ Other: ____________________________

ACTION:
✓ Motion  ✓ Resolution  □ No Action Required

SUMMARY REQUEST:
Staff is requesting that certain deadlines for RRDL loans be extended to be commensurate with the revised pilot program end date and to conform with standard timelines for Multifamily deferred loans.

FISCAL IMPACT:
None

MEETING AGENCY PRIORITIES:
□ Promote and support successful homeownership  ✓ Preserve federally-subsidized rental housing
✓ Address specific and critical needs in rental housing markets  □ Prevent and end homelessness
□ Prevent foreclosures and support community recovery  □ Strengthening Organizational Capacity

ATTACHMENT(S):
• Background
• Resolutions
BACKGROUND:
The Board approved the Rental Rehabilitation Deferred Loan Pilot Program at its February, 2012 meeting. The Board adopted Resolution No. MHFA 12-010 and MHFA 12-078 approving Program Model and Project Specific applications at its February 23, 2012 and December 20, 2012 meetings, respectively.

The RRDL pilot program did not initially have the anticipated participation rate and program guidelines were subsequently adjusted based on administrator and property owner feedback. On December 19, 2013, the Board approved an extension of the pilot program to September 20, 2015.

At this time, staff is requesting extensions to the deadlines for loan commitments that appear in Resolutions No. MHFA 12-010 and MHFA 12-078 to be aligned with the revised pilot program end date.

Staff also requests approval of an additional parameter to each resolution to specify a date by which loans must close relative to their commitment date. This additional parameter is aligned with requirements for other Multifamily deferred loan programs. This request is part of an effort to achieve consistency in loan commitment and closing timelines across all Multifamily deferred loan programs.
RESOLUTION NO. MHFA 14-

RESOLUTION AMENDING RESOLUTION NO. MHFA 12-010
APPROVING SELECTION/AUTHORIZATION TO CLOSE LOANS/GRANTS

WHEREAS, the Minnesota Housing Finance Agency (Minnesota Housing) at its February 23rd, 2012 meeting adopted Resolution No. MHFA 12-010 approving the selection and authorizing the closing of certain loans under the Rental Rehabilitation Deferred Loan (RRDL) Program; and

WHEREAS, additional time is required for administrators to process Program Model loans under the RRDL Program.

NOW THEREFORE, BE IT RESOLVED:

THAT, paragraph number 2 of Resolution No. MHFA 12-010 is amended as follows:

For Program Model applications, the issuance of an administrative assistance agreement in form and substance acceptable to Minnesota Housing staff with the execution of the administrative assistance agreement within 90 days of the adoption date of this Resolution; the commitment of all funds to individual developments by the pilot program end date of September 20, 2015 or any revised pilot program end date as subsequently approved by the Board; and the closing of all loans within 24 months of the adoption date of this resolution each loan within 18 months of the individual loan commitment date.

All other conditions of the Resolution No. MHFA 12-010 remain in effect.

Adopted this 24th day of July, 2014.

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

RESOLUTION NO. MHFA 14-
RESOLUTION AMENDING RESOLUTION NO. MHFA 12-078
APPROVING SELECTION/AUTHORIZATION TO CLOSE LOANS/GRANTS

WHEREAS, the Minnesota Housing Finance Agency (Minnesota Housing) at its December 20, 2012 meeting adopted Resolution No. MHFA 12-078 approving the selection and authorizing the closing of certain loans under the Rental Rehabilitation Deferred Loan (RRDL) Program; and

WHEREAS, additional time is required to commit and close Program Model loans for developments selected by local administrator and for Project Specific developments being processed as end loans under the RRDL Program.

NOW THEREFORE, BE IT RESOLVED:

THAT, Resolution No. MHFA 12-078 is amended as follows:

2. For Program Model application:
   Southeast Minnesota Multi-County Housing Redevelopment Authority
   An administrative assistance agreement in the amount of $800,000 subject to:
   Its form and substance acceptable to Minnesota Housing staff, execution of the administrative assistance agreement within 90 days of the adoption date of this Resolution, and closing of all loans within 24 months from the adoption date of this Resolution the commitment of all funds to individual developments by the pilot program end date of September 20, 2015 or any subsequent revised pilot program end date as approved by the Board; and

3. For Project Specific applications:
   River’s Edge Apartments, Mazeppa, a loan in the amount of $300,000, subject to a loan commitment in form and substance acceptable to Minnesota Housing staff and the closing of the loan within 20 months from the adoption date of this Resolution the commitment of all funds to individual developments by the pilot program end date of September 20, 2015 or any subsequent revised pilot program end date as approved by the Board.
   Grand Marais Apartments, Grand Marais, a loan in the amount of $300,000, subject to a loan commitment in form and substance acceptable to Minnesota Housing staff and the closing of the loan within 20 months from the adoption date of this Resolution the commitment of all funds to individual developments by the pilot program end date of September 20, 2015 or any subsequent revised pilot program end date as approved by the Board.

5. Each loan must be closed within 18 months of its respective loan commitment date.

All other conditions of the Resolution No. MHFA 12-078 remain in effect.

   Adopted this 24th day of July, 2014.

___________________________________
CHAIRMAN
ITEM: Commitment Extensions, Publically Owned Housing Program (POHP)

CONTACT: Emily Strong, 651-296-3631 Joel Salzer, 651-296-9828
Emily.strong@state.mn.us joel.salzer@state.mn.us

REQUEST: □ Approval □ Discussion □ Information

TYPE(S):
□ Administrative □ Commitment(s) □ Modification/Change □ Policy □ Selection(s) □ Waiver(s)
□ Other: ________________________________

ACTION: □ Motion □ Resolution □ No Action Required

SUMMARY REQUEST:
The Board commitment expired July 15, 2014 for the properties listed below. Staff requests an approval of a three month extension to the required date of closing which was one of the conditions of the Board commitment.

FISCAL IMPACT:
The properties will be funded with 2012 General Obligation (G.O.) bond proceeds. These G.O. bonds have already been awarded to Minnesota Housing; therefore no fiscal impact will be realized as a result of this request.

MEETING AGENCY PRIORITIES:
□ Promote and support successful homeownership □ Preserve federally-subsidized rental housing
□ Address specific and critical needs in rental housing markets □ Prevent and end homelessness
□ Prevent foreclosures and support community recovery □ Strengthening Organizational Capacity

ATTACHMENT(S):
• Background
• Resolution
Background:

At its November 15, 2012 meeting the Minnesota Housing Board approved a resolution committing funds for these properties using General Obligation bond proceeds (as administered through POHP). The resolution required the loans close no later than July 15, 2014. Unfortunately, it is not feasible to close on three of the loans by that date:

1. Pine Mill Court, D5976
2. Lyndale Manor, D 7619
3. Staples High-rise, D7622

These properties were financed using end loans, and until construction is completed for all three properties, additional time is necessary to complete the loan process. The three properties are fully expected to close within the next three months.
RESOLUTION NO. MHFA-

RESOLUTION APPROVING CLOSING DATE EXTENSIONS (PUBLICLY OWNED HOUSING PROGRAM)

WHEREAS, the Board has previously authorized the issuance of loan commitments for the developments under Resolution No. MHFA 12-072; and

WHEREAS, it was a condition of the Board approving the commitments that the loans be closed by July 15, 2014; and

WHEREAS three of the loans are being processed as end loans and staff needs additional time is to complete the process.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board confirms the renewal of said commitments subject to the following revision:

Extend the loan closing date for the following developments to October 31, 2014:

   Pine Mill Court, D5976
   Lyndale Manor, D 7619
   Staples High-rise, D7622

Except for the extended closing dates, all other conditions of MHFA Resolution No. 12-072 remain unchanged and in effect.

Adopted this 24th day of July, 2014

_______________________________________
CHAIRMAN
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AGENDA ITEM: 7.A.
MINNESOTA HOUSING BOARD MEETING
July 24, 2014

ITEM: Amendments to the 2014 Affordable Housing Plan (AHP): Deferred Payment Loans, Monthly Payment Loans, Homeownership Capacity Initiative, Home Improvement Loans, Housing Trust Fund Rent Assistance, HOME HARP, HOME HELP, Rental Rehabilitation Loans, and Strategic Priority Contingency Fund

CONTACT: John Patterson, 651-296-0763
john.patterson@state.mn.us

REQUEST: ✔ Approval □ Discussion □ Information

TYPE(S): □ Administrative □ Commitment(s) ✔ Modification/Change □ Policy □ Selection(s) □ Waiver(s) □ Other:

ACTION: ✔ Motion □ Resolution □ No Action Required

SUMMARY REQUEST:

With strong program production, staff is requesting that the Board approve additional funding under the 2014 AHP for several programs.

FISCAL IMPACT:

As shown in Table 1 on the next page, the changes will increase net funding by $5.8 million under the 2014 AHP.

MEETING AGENCY PRIORITIES:

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

ATTACHMENT(S):

• Summary of Recommended Amendments
SUMMARY OF RECOMMENDED AMENDMENTS

With respect to program production, Minnesota Housing has had a strong year, especially in recent months. As a result, staff is requesting additional funds under the 2014 AHP for several programs, as outlined in Table 1.

Table 1: Summary of 2014 AHP Funding Changes

<table>
<thead>
<tr>
<th>Program</th>
<th>Current AHP Allocation</th>
<th>Revised AHP Allocation</th>
<th>Change</th>
<th>Funding Source</th>
</tr>
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<tr>
<td>Deferred Payment Loans*</td>
<td>$1,241,685</td>
<td>$1,741,685</td>
<td>$500,000</td>
<td>Pool 3</td>
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<tr>
<td>Monthly Payment Loans**</td>
<td>$7,700,000</td>
<td>$9,700,000</td>
<td>$2,000,000</td>
<td>Pool 2</td>
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<tr>
<td>Homeownership Capacity Initiative</td>
<td>$500,000</td>
<td>$650,000</td>
<td>$150,000</td>
<td>Pool 3</td>
</tr>
<tr>
<td>Home Improvement Loans</td>
<td>$13,500,000</td>
<td>$16,500,000</td>
<td>$3,000,000</td>
<td>Pool 2</td>
</tr>
<tr>
<td>Home Improvement Loans</td>
<td>$330,000</td>
<td>$405,000</td>
<td>$75,000</td>
<td>Pool 3</td>
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<tr>
<td>Housing Trust Fund Rent Assistance***</td>
<td>$3,583,054</td>
<td>$4,283,054</td>
<td>$700,000</td>
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<td>HOME HARP***</td>
<td>$11,181,292</td>
<td>$11,781,292</td>
<td>$600,000</td>
<td>Federal</td>
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<tr>
<td>HOME HELP</td>
<td>$3,400,000</td>
<td>$2,800,000</td>
<td>($600,000)</td>
<td>Federal</td>
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<tr>
<td>Rental Rehabilitation Loan***</td>
<td>$100,000</td>
<td>$200,000</td>
<td>$100,000</td>
<td>Pool 2</td>
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<tr>
<td>Strategic Priority Contingency Fund***</td>
<td>$1,200,000</td>
<td>$475,000</td>
<td>($725,000)</td>
<td>Pool 3</td>
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<td>Total Change</td>
<td>$42,736,031</td>
<td>$48,536,031</td>
<td>$5,800,000</td>
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</tr>
</tbody>
</table>

* This line item applies to just the Pool 3 portion of the Deferred Payment Loan program.
** Staff recently increased funding for the Monthly Payment Loan program from $7.0 million to $7.7 million using its delegated authority, which allows staff to increase Pool 2 program funding by up to 10%. The program also needs an additional $2,000,000.
***The current AHP allocation reflects figures revised from the amount that the Board originally allocated when the 2014 AHP was approved in September of 2013. These changes were reported to the Board in May as part of the Second Quarter AHP Progress Report. Additional funding adjustments are now needed.

Of the $5.8 million net increase, $5.1 million comes from Pool 2, which is a less scarce resource and has sufficient funds to cover the increase. The remaining $700,000 increase in 2014 funding involves shifting funds originally allocated to 2015 to 2014. The other changes involve transfers of funds already budgeted under the 2014 AHP, including $600,000 of HOME funds from HOME HELP to HOME HARP and $725,000 of Pool 3 funds from the Strategic Priority Contingency Funds to three programs.

Deferred Payment Loans (DPL) - $500,000 contingency increase

Staff is requesting the authority to transfer up to $500,000 from the Strategic Priority Contingency Fund to the Deferred Payment Loan program, which provides down-payment and closing cost assistance to homebuyers as a deferred loan. Demand for DPL has increased significantly in recent months:

1. Overall demand for down-payment and closing-cost assistance is higher this year than last year, with 75% to 79% of Start Up borrowers receiving assistance in the last quarter.
2. After modest declines in home mortgage production the first half of the year, first-lien production has increased significantly this spring, with the strongest June since 2007 ($56 million in loan commitments).
3. The DPL program modifications (higher loan and income limits) adopted by the Board in March have worked – restoring production levels, particularly for borrowers in the $40,000 to $45,000 income range.

With the strong demand, the DPL program may run out of funds by September 30, 2014. Staff will only transfer funds if they are needed.
In addition, to this $500,000 requested increase in Pool 3 funds, staff recently used its delegated authority to increase the state appropriation portion of the DPL budget by $1,232,295 from $2,758,315 to $3,990,610. The additional funds came from three sources: (1) higher than expected loan repayments, (2) 2013 loan commitments that cancelled in 2014, and (3) a revision in the uncommitted funding balance that carried forward from 2013 to 2014. The Board has delegated staff the authority to adjust program budgets when funding from state appropriations changes through these types of revisions.

If the Board approves the $500,000 contingency increase in Pool 3 funding, the DPL program will have up to $5.7 million in 2014 program funds – the $4.0 million original allocation, $1.2 million in revised state funding, and up to $500,000 in additional Pool 3 funding.

**Monthly Payment Loans (MPL) - $2,000,000 increase**

Staff is requesting an additional $2.0 million of Pool 2 funds for the Monthly Payment Loan (MPL) program, which also provides down-payment and closing cost assistance, but as an amortizing loan with monthly payments. Just like the DPL program, demand for the MPL is higher than projected with increased first-lien production and higher than expected use of down-payment and closing cost assistance.

In June, staff used its delegated authority to increase MPL’s Pool 2 funding by 10% from $7.0 million to $7.7 million, which is the maximum allowed without an AHP amendment approved by the Board. The $2.0 million requested here is in addition to the $700,000 increase already implemented.

**Homeownership Capacity Initiative - $150,000 increase**

Staff is requesting an additional $150,000 of Pool 3 funds from the Strategic Priority Contingency Funds for the Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity), which finances comprehensive homeowner training that is targeted to households of color or Hispanic ethnicity. This is a new pilot program that was initially allocated $500,000. As staff evaluated and scored the request for proposal (RFP) applications that were submitted in late May, the selection committee found a number of viable proposals beyond what could be funded with the initial AHP allocation. As a result, staff is recommending additional funding, which will allow the Agency to fund a more robust set of organizations during this initial pilot phase and provide better program coverage to the targeted populations in both the Twin Cities metropolitan area and Greater Minnesota.

**Home Improvement Loans - $3,075,000 increase**

Staff is requesting an additional $3.0 million from Pool 2 for Fix Up loans and an additional $75,000 of Pool 3 funds from the Strategic Priority Contingency Funds to pay lender fees for the additional loans. The housing market in many areas of Minnesota has improved, allowing more homeowners to begin home improvement projects. The improved housing market, combined with the State Fair Initiative producing an extra $1,200,000 in Fix Up loan volume, resulted in a loan volume that has been higher than was projected. In addition, we have seen slight increases in production due to several new initiatives that were implemented during the year. Staff expects these initiatives to continue to increase loan volume.

**Housing Trust Fund Rent Assistance - $700,000 increase**

With the 2014-15 state appropriation, the Legislature increased the base budget for the Housing Trust Fund (HTF) by $1.4 million. Staff originally anticipated using $700,000 of the $1.4 million increase under the 2014 AHP and the other $700,000 in 2015. However, new rent assistance demonstration activities are
now ready to receive funding, and staff is requesting that the remaining $700,000 be made available
under the 2014 AHP, rather than the 2015 AHP.

**HOME HARP - $600,000 increase**

Staff is requesting that $600,000 of federal HOME funds under the HOME HELP down payment and closing
cost assistance program be transferred to the HOME HARP program to cover the additional funds needed
to meet current demand. HOME HARP funds rental preservation projects.

**HOME HELP - $600,000 decrease**

As explained in the previous section, Staff is requesting that $600,000 of HOME funds under the HOME
HELP program be transferred to the HOME HARP. HOME HELP provides down-payment and closing-cost
assistance to homebuyers with federal HOME funds. Staff estimates that these funds will not be needed
under the HOME HELP program during the 2014 AHP. While demand for two of Minnesota Housing’s
down-payment and closing-cost programs (DPL and MPL) increased significantly this year, demand for
HOME HELP is down due to federal requirement changes that have limited eligible properties.

**Rental Rehabilitation Loan (RRL) - $100,000 increase**

As a result of historical underutilization of this program, the agency chose to discontinue offering new RRL
funds under the 2014 AHP. However, several lenders indicated they have potential customers already
engaged and anticipated a small volume of loan closings. Consequently, in December 2013, the Board
amended the 2014 AHP to include $100,000 of Pool 2 funds to purchase these loans. Staff has since
learned that the total volume for these loans may exceed $100,000. Consequently, staff is requesting that
an additional $100,000 be made available under the 2014 AHP.

**Strategic Priority Contingency Fund - $725,000 decrease**

Minnesota Housing created the Strategic Priority Contingency Fund to address requests for additional Pool
3 funding that may occur over the course of an AHP. All the Pool 3 funding increases outlined in the
previous sections will come from the Contingency Fund:

- $500,000 for the Deferred Payment Loan program,
- $150,000 for the Homeownership Capacity Initiative, and
- $75,000 for Home Improvement Loans.

The Board has already budgeted the $725,000 of Pool 3 funds in the 2014 AHP through the Contingency
Fund. This amendment just transfers the funds from the Contingency Fund to the three programs.
ITEM: South Quarter, IV, Minneapolis (D7593)

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

REQUEST:
- Approval
- Discussion
- Information

TYPE(S):
- Commitment(s)
- Modification/Change
- Policy
- Selection(s)
- Waiver(s)
- Other: _______________________

ACTION:
- Motion
- Resolution
- No Action Required

SUMMARY REQUEST:
Agency staff has completed the underwriting and technical review of the proposed development and recommends the adoption of a resolution authorizing the commitment of a Low and Moderate Income Rental (LMIR) program end loan in the amount of $7,425,000 and a Flexible Financing for Capital Costs (FFCC) program end loan in the amount of $764,603, both subject to the review and approval of the Mortgagor, and the terms and conditions of the Agency mortgage loan commitment.

FISCAL IMPACT:
In the 2014 amended Affordable Housing Plan (AHP), the Board allocated $51 million in new activity for the LMIR program which includes $21 million from the Housing Investment Fund (Pool 2) and $30 million for LMIR and LMIR Bridge Loan activity through tax-exempt bonding. The AHP also allocated $4.5 million in new activity under the FFCC program (funded through the Housing Affordability Fund – Pool 3). Funding for these loans fall within the approved budget and the loan will be made at an interest rate and terms consistent with what is described in the AHP. Additionally, the loans will generate $343,275 in fee income (origination fee and construction oversight fee) as well as interest earnings which will help offset Agency operating costs.

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

ATTACHMENT(S):
- Background
- Development Summary
- Resolution
BACKGROUND:

South Quarter IV was selected by Minnesota Housing in October 2012 for a $1,500,000 deferred loan under the Economic Development Housing Challenge (EDHC) loan program. Along with the loan approval, the Board approved the Total Development Cost (TDC) of $283,906 per unit, which was 34.16% above the Predictive Model (PM) estimate of $211,620 per unit. The TDC is now higher, as described below, but is offset by significant fundraising by the General Partner. Minnesota Housing subsequently awarded $85,000 in tax credits in the supplemental round in April 2013.

With the LMIR first mortgage and FFCC loan, this project will be fully funded and ready to start construction in the third quarter of 2014.
DEVELOPMENT SUMMARY

DEVELOPMENT: D7593
Name: South Quarter IV  App#: M16347
Address: Multiple building addresses
City: Minneapolis  County: Hennepin  Region: MHIG

MORTGAGOR:
Ownership Entity: Franklin Portland Gateway Phase IV LP
General Partner/Principals: AEON, Hope Communities, Inc.

DEVELOPMENT TEAM:
General Contractor: Weis Builders Inc., Minneapolis
Architect: Meyer Scherer & Rockcastle Ltd (MS&R), Minneapolis
Attorney: Faegre, Baker, Daniels LLP, Minneapolis
Management Company: Aeon Management LLC, Minneapolis
Service Provider: RS Eden, Minneapolis

CURRENT FUNDING REQUEST/ PROGRAM and TERMS:

$ 7,425,000  LMIR First Mortgage
Funding Source: Hsg Investment Fund (Pool 2)
Interest Rate: 5.25%
MIP Rate: 0.45%
Term (Years): 30
Amortization (Years): 30

$ 764,603  Flexible Financing Cap Cost
Funding Source: Hsg Affordability Fund (Pool 3)
Interest Rate: 0.00% / 5.25%
Term (Years): 30
RENT GRID:

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<tr>
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<td>120</td>
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Under the LMIR program, 77 units will be affordable at or below 50% AMI with incomes up to 60% AMI, 13 will be income restricted to 100% AMI and 30 units will be unrestricted.
*22 units will have the benefit of Section 8 rental assistance and 12 units, serving LTH households will have the benefit GRH assistance.

NOTES:

Purpose:
South Quarter IV represents the fourth and final component of Aeon and Hope Community’s redevelopment of the land at the Franklin Boulevard and Portland Avenue intersection. It will add 90 new mixed-income, high performance apartment homes, and will transition Aeon’s existing 30-unit Pine Cliff Apartments into a more operationally efficient and energy-wise property. The new construction will feature two, four-story elevator buildings with underground and on-site parking. It will include efficiency, one-, two- and three-bedroom apartment homes. Pine Cliff Apartments is a fully occupied 2 1/2 story walk-up building with 30 one- and two-bedroom units.

Target Population:
Of the 120 total units, 64% will serve residents with incomes at or below 60% AMI, 11% will serve households earning up to 100% AMI and 25% will be unrestricted. Within the affordable apartment homes, 12 units will be for those experiencing long-term homelessness (LTH) and earning 30% or below AMI.

Project Feasibility:
The development is feasible as proposed. The LMIR loan is underwritten in-line with Agency standards and will be insured under the HUD Risk Share program. The FFCC loan is structured as a cash-flow loan with maturity co-terminus with the LMIR loan. Other Agency funding includes a $1.5 million of Economic Development and Housing Challenge (EDHC or Challenge) deferred loan. Agency funding will be leveraged by City of Minneapolis Affordable Housing Trust Fund (AHTF) $1.9 million, Hennepin County Transit...
Oriented Development (TOD) & Affordable Housing Incentive Fund (AHIF) of $724,000, Met Council Livable Community (LCDA) funds of $794,000 and Family Housing Fund $400,000 deferred loans. Over $1.4 million of Housing tax credits will generate over $14.5 million of equity with US Bank as syndicator. Other funds include nearly $4.3 of capital contributions from developer capital campaign, $600,000 rebates from sales tax and Xcel Energy and $950,000 of deferred developer fee. Finally, two existing Agency deferred loans (totaling $958,000) will be assumed along with City of Minneapolis loans of $427,000 and over $375,000 of reserves and interim income from the acquisition of Pine Cliff Apartments.

Development Team Capacity:
AEON was established in 1986 with a mission to create and sustain quality affordable homes that strengthen lives and communities. AEON has completed 28 developments, many with Agency participation. This developer is believed to have the necessary capacity to complete the development proposal and the necessary capacity to own and operate the proposed development.

Aeon Management, LLC was established in March 2008 and currently has 37 developments, with a total of 2,142 units. Their current portfolio consists of several supportive housing developments including those serving LTH households. Agency staff experience has been positive; management responds promptly to requests; professionally addresses issues whether marketing, tenant or operations related. Management rating is satisfactory.

Physical and Technical Review:
The architect, MS&R and Weiss Builders, Inc. have the capacity to complete this development. South Quarter will be a fusion of an existing 30-unit apartment building (Pine Cliff) and 90 units of new construction in two, four-story buildings with common underground parking (The Rose). Pine Cliff provides 18 one-bedroom and 12 two-bedroom units. Energy efficiency, water conservation, and durability upgrades at Pine Cliff will lower utility costs and create operational efficiencies. The Rose will provide eight 0-bedroom, eight 1-bedroom, 57 two-bedroom and 17 three-bedroom units. The Rose is designed to achieve a superior level of energy efficiency and sustainability.

The current TDC per unit of $297,912 is 40.8% above the Predictive Model estimate of $211,620. To mitigate the costs, the developer is contributing, via a General Partner loan funded with contributions raised through its capital campaign and other sources, over $4 million. Net of the GP loan, the TDC is within 25% of the Predictive Model estimate.

Market Feasibility:
As the last and final phase of the Franklin-Portland intersection, the South Quarter IV development completes Ventura Village Neighborhood’s revitalization efforts along Franklin Avenue, increasing density, expanding housing options, adding pedestrian-friendly features, and positioning Ventura Village as a thriving, diverse urban neighborhood. The development also aligns with city, county and state goals to increase affordable housing, de-concentrate poverty and provide transit-oriented design. This development is located in a top growth location, in close proximity to jobs and transit. The location has a high need for community stabilization and maintaining an aging housing stock.

Supportive Housing:
RS Eden will provide a Program Housing model for LTH disabled adults and their families who are willing to engage in supportive to stabilize their family’s health and wellness, live sober, access needed benefits and increase in self-sufficiency skills. Core Case Management services (Assessment, Monitoring, Coaching/Problem-solving, Linkage to area resources, Support and Crisis Planning) are offered to all participants onsite on a weekly basis, with services anticipated to decrease once a household has settled into housing. Referrals will come from metro shelters and transitional housing. RS Eden has experience serving the target population in a supportive housing setting.
**DEVELOPMENT COST SUMMARY** (estimated):

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<thead>
<tr>
<th>Description</th>
<th>Total</th>
<th>Per Unit</th>
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<tr>
<td><strong>Total Development Cost</strong></td>
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<td>$297,912</td>
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<td><strong>Acquisition or Refinance Cost</strong></td>
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<td><strong>Soft Costs (excluding Reserves)</strong></td>
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<td><strong>Reserves</strong></td>
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<td><strong>Total LMIR Mortgage</strong></td>
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<td><strong>First Mortgage Loan-to-Cost Ratio</strong></td>
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**Agency Deferred Loan Sources**

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<td>Flexible Financing Cap Cost</td>
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<td>EDHC</td>
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<td><strong>Total Loan-to-Cost Ratio</strong></td>
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**Other Non-Agency Sources**

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<td>Syndication Proceeds</td>
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<td>Minneapolis AHTF</td>
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<td>General Partner Cash</td>
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<td>Hennepin County TOD &amp; AHIF</td>
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<td>Met Council LCDA</td>
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<td>Family Housing Fund</td>
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<td>Pine Cliff Assume/Reserves</td>
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<td>Nonprofit Housing Development Assistance</td>
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<td>GP Loan (Capital Campaign)</td>
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MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING MORTGAGE LOAN COMMITMENT
LOW AND MODERATE INCOME RENTAL (LMIR) AND
FLEXIBLE FINANCING FOR CAPITAL COST PROGRAMS

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

Name of Development:   South Quarter IV
Sponsors:    Aeon
             Hope Community, Inc.
Guarantors:    Aeon
              Hope Community, Inc.
Location of Development:  Minneapolis
Number of Units:   120
General Contractor:   Weis Builders, Inc., Minneapolis
Architect:    Meyer Scherer & Rockcastle Ltd (MS&R), Minneapolis
Amount of Development Cost:  $35,749,469
Amount of LMIR Mortgage:  $7,425,000
Amount of FFCC Loan: $764,603

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

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

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to issue a commitment to provide a permanent
mortgage loan to said applicant from the Housing Investment Fund (Pool 2) under the LMIR Program and
from the Housing Affordability Fund (Pool 3) under the FFCC Program for the indicated development,
upon the following terms and conditions:
1. The amount of the LMIR amortizing loan shall not exceed $7,425,000; and

2. The Closing of the LMIR loan (processed as an end loan) shall be on or before January 31, 2016 (which shall also be the LMIR Commitment Expiration Date); and

3. The interest rate on the permanent LMIR loan shall be 5.25 percent per annum plus 0.45 percent per annum HUD Risk Share Mortgage Insurance Premium, with monthly payments based on a 30 year amortization; and

4. The term of the permanent LMIR loan shall be 30 years; and

5. The amount of the FFCC loan shall not exceed $764,603; and

6. The Closing of the FFCC loan (processed as an end loan) shall be on or before January 31, 2016 (which shall also be the FFCC Commitment Expiration Date); and

7. Repayment of the FFCC loan shall be deferred at 0 percent for up to and including ten years, then, upon the earlier of payment in full of the deferred developer fee or after the tenth year, interest shall accrue at the rate of 5.25% per year with annual payments due from cash-flow, and

8. The maturity of the FFCC loan shall be co-terminus with the LMIR loan; and

9. Agency staff shall review and approve the Mortgagor; and

10. The Mortgagor shall execute an Agency Mortgage Loan Commitment with terms and conditions embodying the above in form and substance acceptable to Agency staff; and

11. Aeon and Hope Community, Inc. (or affiliate entities approved by the Agency) shall guarantee the mortgagor’s payment obligation regarding operating cost shortfalls and debt service until the property has achieved a 1.15 debt service coverage ratio (assuming stabilized expenses) for three successive months; and

12. Aeon and Hope Community, Inc. (or affiliate entities approved by the Agency) shall guarantee the mortgagor’s payment under LMIR Regulatory Agreement and LMIR Mortgage (other than principal and interest) with the Agency; and

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

Adopted this 24th day of July 2014.
ITEM:     Housing Trust Fund (HTF) – Bridge to Stabilization Fund

CONTACT:  Joel Salzer 651-296-9828
          joel.salzer@state.mn.us

REQUEST:  
          ✔ Approval  ✔ Discussion  ☐ Information

TYPE(S):  ☐ Administrative  ✔ Commitment(s)  ☐ Modification/Change  ☐ Policy  ✔ Selection(s)  ☐ Waiver(s)
          ☐ Other: _______________________

ACTION:   ✔ Motion  ✔ Resolution  ☐ No Action Required

SUMMARY REQUEST:
Staff requests the adoption of the attached Resolution authorizing $100,000 from the Housing Trust Fund (HTF) be granted to a fiscal agent (Family Housing Fund) to administer the Bridge to Stabilization fund initiative. This grant will help capitalize a $150,000 pool that will be used to help stabilize supportive housing units throughout the state.

FISCAL IMPACT:
The requested funds are HTF state appropriations received during the 2013 Legislative session. The HTF received a base budget increase of $1.4M, of which $100,000 is being requested for this selection and commitment. With approval of agenda item 7.A of this July 2014 Board meeting, this action and associated budget are consistent with the amended 2014 Affordable Housing Plan.

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

ATTACHMENT(S):
• Background
• Resolution
BACKGROUND:
Due to the unique nature of supportive housing and the complexities surrounding the preservation of such units, a group of local, state and federal funders created the Stewardship Council (SC) with the primary purpose to “preserve supportive housing projects serving homeless individuals, families, and youth through cooperative problem solving to address vital capital, service and operating needs.” Historically, the Stewardship Council has provided support though technical assistance, such as brokering relationships, organizational capacity enhancements, access to professional services, assistance in securing permanent funding resources, asset disposition planning and financial analysis.

The current supportive housing portfolio in Minnesota includes 307 projects, representing 10,000 units. Sixty-five percent of these units are located in the metro area with the remaining 35% in greater Minnesota. Since its inception in 2005, the Stewardship Council has worked with more than 35 developments, representing 1,300 units, to help stabilize and preserve this incredibly valuable housing stock.

To help advance the agency’s Strategic Priority to prevent and end homelessness, as well as to implement the State’s newly released “Heading Home: Minnesota’s Plan to Prevent and End Homelessness”, it’s critical to preserve and maintain the existing supportive housing stock throughout the estate. Since 2005, the Stewardship Council has developed various ways to identify developments in operational distress and provide expert technical assistance. However, it has not had immediate access to financial remedies, particularly ones that may resolve short-term crisis situations. As a result, the Stewardship Council may spend a significant amount of time seeking short-term resources, leaving less time and resources to address strategies to achieve long-term stabilization.

THE CONCEPT:
To address this inefficient use of time, staff is recommending to use a small percentage (7%) of the HTF’s base increase from the 2013 session (along with $50,000 from the Greater Minnesota Housing Fund and the Family Housing Fund) to create this Bridge to Stabilization fund. This initiative will demonstrate the effectiveness of having access to a small pool of funds to resolve the immediate crisis, thereby allowing more time for Stewardship Council to help develop strategies so that the supportive housing units are preserved and the assisted organization may achieve long-term stabilization.

Based on historical data and new diagnostic tools, it is anticipated that the Stewardship Council may receive 5 to 10 new referrals each year. It is anticipated that $150,000 in funding may last up to 2 years, but could be deployed at a different rate depending on the need. Because this is a pilot, the program will be evaluated and adjustments will be made along the way, as needed.

THE PROCESS:
• A supportive housing project may refer itself to the Stewardship Council, though most of the referrals originate from funding partners. In either case, Stewardship Council members review the referral, discuss the pertinent issues and, if appropriate, assign a Technical Assistance Committee (TAC) to work further with the project and develop a stabilization plan. The TAC members are typically comprised of a representative from each entity that has an investment in the specific project.
• A TAC member, in working with organization, may determine it is eligible to apply for the Bridge to Stabilization fund. If so, the TAC member will assist the organization in completing and submitting an application to the Stewardship Council.
• Upon receipt of the application, a Stewardship Council member will complete a Selection Report, evaluating and ranking the application based on need, immediate resolution of crisis and likelihood of long-term stabilization.
The application and Selection Summary report will be presented and discussed at the next Stewardship Council meeting. If a majority of the Stewardship Council votes in favor of the proposal, it will be funded. The Stewardship Council reserves the right to add provisions or conditions at its sole discretion.

- The Stewardship Council Chairperson and a representative of the funding agency will sign the application indicating its consent to fund.
- The Family Housing Fund, serving as fiscal agent, will work with the awardee to complete an appropriate set of due diligence items, execute a Grant Agreement and disburse the funds to the grantee.
- The fiscal agent would keep records of all disbursements and transactions, collect project reports from the grantees, and prepare a final report for the Stewardship Council.

The Stewardship Council has identified five primary reasons a supportive housing development may seek support from Bridge to Stabilization fund:

1. service funding;
2. professional services;
3. technical assistance;
4. operating support; or
5. capital needs

Not all of these activities are eligible under the HTF statute, rules and Guide. Therefore, Minnesota Housing staff will carefully review each application and only approve use of the HTF that are consistent with the approved uses.
MINNESOTA HOUSING FINANCE AGENCY
400 Sibley Street, Suite 300
St. Paul, Minnesota 55101

RESOLUTION NO. MHFA 14-

RESOLUTION APPROVING SELECTION/COMMITMENT OF HOUSING TRUST FUND (HTF) GRANT
FOR THE BRIDGE TO STABILIZATION FUND

WHEREAS, the Minnesota Housing Finance Agency (Agency), the Family Housing Fund (FHF) and the
Greater Minnesota Housing Fund will capitalize a funding pool which will be accessed to preserve
supportive housing units throughout the state; and

WHEREAS, the FHF will serve as the fiscal agent for this funding pool and the Agency will grant
$100,000 of Housing Trust Fund to this pool; and

WHEREAS, the Agency staff has reviewed the request and determined that it is in compliance under
the applicable HTF statute, rules, regulations and policies; that such grants are not otherwise available,
wholly or in part, from private lenders or other agencies upon equivalent terms and conditions; and that
the applications will assist in fulfilling the purpose of preserving supportive housing units in Minnesota.

NOW THEREFORE, BE IT RESOLVED:

THAT, the Board hereby authorizes Agency staff to enter into a grant agreement using State resources
and in compliance with applicable statutes and regulations as set forth, subject to changes allowable
under the multifamily funding modification policy, upon the following conditions:

1. The Agency staff shall review and approve the following grantee the total recommended amount
for the purpose stated:

Family Housing Fund $100,000 Bridge to Stabilization Fund

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

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

Adopted this 24th day of July, 2014.

___________________________________
CHAIRMAN
ITEM: Originator Selections, Targeted Mortgage Opportunity Program

CONTACT: Devon Pohlman, 651-296-8255
devon.pohlman@state.mn.us

REQUEST:
☑ Approval  ☐ Discussion  ☐ Information

TYPE(S):
☐ Administrative  ☐ Commitment(s)  ☐ Modification/Change  ☑ Policy  ☐ Selection(s)  ☐ Waiver(s)
☐ Other:

ACTION:
☑ Motion  ☐ Resolution  ☐ No Action Required

SUMMARY REQUEST:
Staff hereby requests the approval of the originator selections for the Targeted Mortgage Opportunity Program.

FISCAL IMPACT:
The Agency allocated $10,000,000 for the Targeted Mortgage Opportunity Program under the 2014 Affordable Housing Plan ($8,000,000 for the mortgage product from Pool 2 and $2,000,000 for a risk reserve from Pool 3).

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

ATTACHMENT(S):
• Background
BACKGROUND:
The goal of the Targeted Mortgage Opportunity Program (Targeted Mortgage) is to provide first mortgage financing to prospective homebuyers who are otherwise capable of maintaining successful homeownership, but are unable to access a mortgage due to tighter loan product guidelines and investor credit overlays. This pilot initiative targets low-income renters and households of color or Hispanic ethnicity with the ability and willingness to pay a mortgage. The Targeted Mortgage is expected to serve approximately 44 households.

Targeted Mortgage links with the Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity). Homeownership Capacity supports successful homeownership, as well as household financial stability, through intensive homeowner and financial empowerment training. Homeownership Capacity counseling is a pre-requisite to receiving Targeted Mortgage financing.

After the board approved the Targeted Mortgage Program Concept at its April 2014 meeting, staff released a Request for Proposal (RFP) the following month to the 117 stakeholder organizations identified during the stakeholder engagement process. The organizations included the Minnesota state minority councils, current Homeownership Education, Counseling and Training (HECAT) counseling agencies, non-profit mortgage loan originators, financial opportunity center counseling agencies, governmental organizations and other community stakeholders from the Twin Cities metropolitan area and Greater Minnesota.

Three organizations submitted RFP applications to originate Targeted Mortgage loans:

- Build Wealth Minnesota (Build Wealth)
- SHOP Home Mortgage (SHOP)
- Twin Cities Habitat for Humanity (Habitat)

All three organizations target services in the Twin Cities metro area. Under the program, the organizations qualify clients and underwrite, process and close the loans. Originators manually underwrite loans to FHA or conventional guidelines using an overlay that permits compensating factors and product guideline adjustments as outlined in the Targeted Mortgage Term Sheet presented to the board in April. Minnesota Housing staff will review key data and the underwriting decision prior to each loan closing.

In their RFP applications, Build Wealth and SHOP proposed traditional loan origination models. After completing Homeowner Capacity or Homeowners Capacity like counseling, the homebuyers work with a real estate agent to find a house, submit a purchase agreement and work with a Targeted Mortgage lender to secure financing.

Twin Cities Habitat for Humanity proposed two models similar to their current business model. Under their first option, Targeted Mortgage borrowers purchase a renovated home from Habitat’s current portfolio. The second option offers a purchase-and-repair model. Before the borrowers submit a purchase agreement, Habitat inspects the home to verify that it can renovate the house to the organization’s standard within a budget that would not exceed the after-improved value as determined by an appraisal. The homebuyers close on the loan at the after-improved value. A portion of the Targeted Mortgage loan disbursement funds the loan, while Habitat manages the escrow needed for required repairs and completes the repairs after closing.

Staff recommends approval of Twin Cities Habitat for Humanity conditional on verification of capacity to underwrite Targeted Mortgage loans and proposed homebuyer education and counseling component that meets Homeownership Capacity guidelines.
Staff proposes the following funding recommendations:

<table>
<thead>
<tr>
<th>Originator</th>
<th>Proposed Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build Wealth</td>
<td>$3 million</td>
</tr>
<tr>
<td>SHOP Home Mortgage</td>
<td>$2.5 million</td>
</tr>
<tr>
<td>Habitat for Humanity</td>
<td>$2.5 million</td>
</tr>
</tbody>
</table>

All originators demonstrate capacity and sufficient borrower pipeline to use their minimum requested allocation.

Upon approval of selections, staff will work with the selected organizations to execute contracts. We anticipate originators will be ready to make commitments in September.
ITEM: Selections, Enhanced Financial Capacity Homeownership Initiative

CONTACT: Ruth Hutchins, 651-297-3128   Tal Anderson, 651-296-2198  
ruth.hutchins@state.mn.us  tal.anderson@state.mn.us

REQUEST:  
☑ Approval  ☑ Discussion  ☐ Information

TYPE(S):  
☐ Administrative  ☐ Commitment(s)  ☐ Modification/Change  ☐ Policy  ☑ Selection(s)  ☐ Waiver(s)  
☐ Other:

ACTION:  
☑ Motion  ☐ Resolution  ☐ No Action Required

SUMMARY REQUEST:  
The Enhanced Financial Capacity Homeownership Initiative (Homeownership Capacity) pilot is designed to expand the efforts of existing organizations that currently provide intensive financial empowerment and homeownership training. The goal of this initiative is to increase the probability of successful homeownership among emerging markets (i.e. households of color or Hispanic ethnicity) and low-income individuals and to address the homeownership gap between white/non-Hispanic and households of color or Hispanic ethnicity. Staff is hereby requesting board approval of $650,000 in funding recommendations for the initial phase of the pilot program.

FISCAL IMPACT:  
The Homeownership Capacity Program is supported by the 2014 Affordable Housing Plan budget in the use of Pool 3 funds for this initiative.

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

ATTACHMENT(S):  
• Background
BACKGROUND:
The Homeownership Capacity program concept was approved at the April 2014 Board meeting. As noted in the Program Concept, financial empowerment topics include, but are not limited to:

- Asset building (i.e. savings, retirement plans, home ownership, higher education, etc.)
- Credit report education, repair, and re-building
- Development of spending plans, including discussion of financial best practices
- Consumer protection training and education (i.e. banks, credit unions, insurance companies, predatory financial scams, and identity theft)
- Filing taxes

Upon approval of the concept, a request for proposal (RFP) was released and applications were submitted in late May. In the RFP, applicants addressed the following:

- The target service area and target demographic the applicant will serve as well as the approach to securing client participation;
- The number of clients that will be served and the capacity of the applicant to meet the demand;
- The role of the counselor and client;
- The anticipated average length of time the applicant will work with clients;
- The measurable outcomes the applicant will achieve;
- How HomeStretch or Framework will be integrated into the program design;
- Training of those providing Homeownership Capacity services; and
- Program forecasting to include method and likely number of potential clients to which outreach will be provided, the number expected to fall within program parameters, and the number to proceed into homeownership.

Each proposal was reviewed and evaluated by two Minnesota Housing Single Family program staff members. Proposals were then presented to a selection committee made up of staff from throughout the Agency. Proposals were scored pursuant to the criteria summarized above.

Discussion
Agency staff are recommending the top seven (7) applicants as scored by the scoring committee be selected for funding:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Funding Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build Wealth</td>
<td>$200,000</td>
</tr>
<tr>
<td>Bii Gii Winn</td>
<td>$75,000</td>
</tr>
<tr>
<td>CLUES (Comunidades Latinas Unidas En Servicio)</td>
<td>$100,000</td>
</tr>
<tr>
<td>Hmong American Partnership (HAP)</td>
<td>$50,000</td>
</tr>
<tr>
<td>NeDA (Neighborhood Development Alliance)</td>
<td>$50,000</td>
</tr>
<tr>
<td>Project for Pride in Living (PPL)</td>
<td>$50,000</td>
</tr>
<tr>
<td>Three Rivers CAP</td>
<td>$125,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$650,000</strong></td>
</tr>
</tbody>
</table>

The Agency also received non-recommended applications from the following organizations: African Economic Development Solutions (AEDS), Anoka County Community Action Program (ACCAP), Community Neighborhood Housing Services (CNHS), EMERGE, Lakes and Pines, Northwest Community Action Program (NWCAP), Southwest Minnesota Housing Partnership (SWMHP), and West Central CAP.
The seven recommended organizations expect to serve 671 households with this Homeownership Capacity funding. With these seven applicants, the Agency would serve a diverse group of low-income renters and emerging market communities in the Twin Cities Metropolitan Area and Greater Minnesota. Funds for the eligible activities listed in this Program Concept will be made available for a period of fourteen (14) months from August 1, 2014 – September 30, 2015.

Homeownership Capacity is a pilot program with the goal for clients to achieve sustainable housing which may include homeownership. Evaluation of the program will be both quantitative and qualitative. A standard set of data collection items used to demonstrate client progress towards goal and post-goal achievement outcomes will be defined and required for reporting under Homeownership Capacity.
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ITEM: Bridge to Success Program, Implementation Update

CONTACT: Luis Pereira, 651-296-8276  Tal Anderson, 296-2198
luis.pereira@state.mn.us  tal.anderson@state.mn.us

REQUEST:
☐ Approval  ☑ Discussion  ☐ Information

TYPE(S):
☐ Administrative  ☐ Commitment(s)  ☐ Modification/Change ☐ Policy  ☐ Selection(s)  ☐ Waiver(s)
☐ Other:

ACTION:
☐ Motion  ☐ Resolution  ☑ No Action Required

SUMMARY REQUEST:
Update about the implementation of Bridge to Success, a responsible contract-for-deed program administered by SHOP Home Mortgage and funded initially by Minnesota Housing and other funders. The program serves Twin Cities neighborhoods impacted by a high number of foreclosures and provides financing to households otherwise unable to qualify for traditional first mortgage financing.

FISCAL IMPACT:
None.

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

ATTACHMENT(S):
• Background
BACKGROUND:

Funding and Program Concept
Minnesota Housing’s 2012 Affordable Housing Plan budgeted $10.4 million from Pool 2 for a community recovery financing program to be administered by SHOP Home Mortgage (SHOP), a joint venture between the Greater Metropolitan Housing Corporation and Dayton’s Bluff Neighborhood Housing Services. In addition to the Agency’s commitment to SHOP, the Family Housing Fund also provided $3M. On February 23, 2012, the board approved the Program Concept for the Bridge to Success program, which was intended for households desiring to purchase a home but unable to obtain traditional mortgage financing. The Program Concept included the following elements:

- A requirement to purchase a home within a target area defined by Minnesota Housing including those Census Tracts deemed High Need and Moderate Need of Community Stabilization, and/or within ½ mile of fixed rail transit service;
- Financing provided to borrowers at a fixed-interest rate of 7.5% per annum, a 30-year amortization term, and a balloon payment due on the contract-for-deed instrument at ten years;
- A minimum borrower investment $2,000 of their own funds into the transaction;
- Underwriting enhancements including a maximum 31% monthly housing payment-to-income ratio and 41% total obligations-to-income (DTI) ratio absent compelling mitigating circumstances;
- Mandatory borrower completion of homebuyer education;
- A ten-year period to allow higher-risk borrowers adequate time period to prepare for successful refinancing while working with a financial counselor;
- Borrower attendance at one pre-purchase and one post-purchase homebuyer/financial counseling session with a participating agency (a member of the Minnesota Homeownership Center’s homeownership advisors network), including the creation of a budget and action plan; and
- Default mitigation strategies incorporated into the program’s overall financial model.

Portfolio and Borrower Characteristics
For Bridge to Success contracts-for-deed originated between August 2012 and June 30, 2014, the following statistics apply:

Contract-for-deed portfolio
- 112 contracts-for-deed originated, for a total contract volume of $16,170,111
- $142,928 average purchase price
- $1,009 average monthly housing payment
- 24.1 average housing ratio / 33.7 average DTI
- 101.9 average Loan-To-Value (LTV)

Borrower characteristics
- 3.4 average household size
- 616.8 average borrower credit score
- $68,603 average annual household income
  - 58 of 112 households, 52% of the total, earn less than or equal to 80% AMI of the Twin Cities area median income ($95,300 in 2014); and

---

1 Additional financial analysis related to the financial structure for the contract-for-deed pool has been conducted by Minnesota Housing’s Chief Financial Officer and program funding partners.
o 54 of 112 households, or 48% of the total, earn greater than 80% of the Twin Cities area median income.

Fig. 1. Borrower households of color and/or Latino ethnicity (emerging markets)

<table>
<thead>
<tr>
<th></th>
<th>Borrowers (112 to-date)</th>
<th>Co-Borrowers (63 to-date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hispanic or Latino</td>
<td>Counts: 9 %: 8%</td>
<td>Counts: 9 %: 14%</td>
</tr>
<tr>
<td>Am Indian</td>
<td>Counts: 2 %: 2%</td>
<td>Counts: 1 %: 2%</td>
</tr>
<tr>
<td>Asian</td>
<td>Counts: 6 %: 5%</td>
<td>Counts: 4 %: 6%</td>
</tr>
<tr>
<td>Black</td>
<td>Counts: 40 %: 36%</td>
<td>Counts: 0 %: 0%</td>
</tr>
<tr>
<td>Hawaiian or Pac Islander</td>
<td>Counts: 0 %: 0%</td>
<td>Counts: 19 %: 30%</td>
</tr>
<tr>
<td>White</td>
<td>Counts: 62 %: 55%</td>
<td>Counts: 1 %: 2%</td>
</tr>
</tbody>
</table>

Note: Hispanics/Latinos may be of any race.

**Contract-for-Deed Performance**

**Delinquency.** Because serviced contracts originated by quarter number well under 300 for every quarter analyzed, there is a greater chance that a random occurrence of delinquency of a small number of contracts can cause the quarter’s delinquency rate to spike (leading to less confidence in the overall data). Of the 74 originated Bridge to Success contracts between August 1, 2012 and January 24, 2014, three were considered delinquent as of February 2, 2014, i.e. 4.05% of the total. In addition, the average delinquency rate for Bridge to Success contracts originated by SHOP for the quarters analyzed was 5.68%. Because of the low number of contracts originated per quarter under the Bridge to Success program, it means that the data is susceptible to random occurrences of delinquency as discussed above, making it difficult to draw concrete conclusions about overall delinquency at this point.

**Cancellation.** As of May 6, 2014, there had been no contract-for-deed cancellations, though two contract-for-deed purchasers had put their homes up for sale as a way to find a more affordable situation.

**Number of refinances.** As of May 6, 2014, there had been one contract-for-deed refinanced (of 89 total originated through March 2014).

**Location of Borrower Home Purchases**
The vast majority of households purchasing homes with Bridge to Success financing between August 2012 and June 30, 2014 bought in Minneapolis (42 total). Communities that have also seen a substantial number of home purchases are Saint Paul (17), Brooklyn Center (13), and Brooklyn Park (10).
Fig. 2. Bridge to Success target areas and locations of home purchases

Community Stabilization Areas of Need | Family Housing Fund Corridors of Opportunity
---|---
High and Moderate Need Census Tracts | 1/2 Mile around Hiawatha, Central Corridor, Northstar, and Southwest
Bridge to Success purchase locations, 8/1/12 - 6/30/14

Community Stabilization Areas of Need are based on Minnesota Housing Community Profiles data for 2011. These lower income and older communities have had a lot of foreclosures or a drop in housing prices. Sources: American Community Survey 2005-2009 estimates, MN Dept of Revenue Certificate of Real Estate Value, 2009, and LPS Applied Analytics foreclosure data for 2010. Updated June, 2012.
Additional Investors
At the time of board approval of the Program Concept, it was acknowledged that as SHOP raised additional investment funds from other parties, the size of the loan pool would expand to serve more households. By the end of March 2014, SHOP had fully allocated the initial investment of funds from Minnesota Housing and the Family Housing Fund.

New funders have emerged to fund a second Bridge to Success loan pool. A second close included lenders American Bank ($3M) and US Bank ($2.6M), for a total loan pool of approximately $5.6M. SHOP expects a third close to include two additional lenders, for an approximate additional investment of $4.5M. After this point, SHOP expects high-wealth investors to emerge that could expand the loan pool to potentially $32M.

Conclusion
From August 2012 through March 2014, SHOP has administered the Bridge to Success contract-for-deed program, with borrowers successfully closing on homes located in targeted Twin Cities neighborhoods in need of community stabilization. Purchasing households have been modest as well as middle income, with about half earning below Twin Cities 80% of AMI and half above, and had an average credit score more than 20 points below 640 (the minimum credit score required to qualify for Start Up first mortgages through Minnesota Housing). SHOP has manually underwritten the contracts-for-deed, and done so relatively conservatively, with an average borrower housing ratio and debt-to-income ratio well below the program maximums of 31/41, respectively. Families have tended to be larger in size, and over half have been households of color or of Hispanic/Latino ethnicity. To date, delinquency rates have remained low.

Initial loan pool investment from Minnesota Housing and the Family Housing Fund has enabled the program to develop, attracting private lenders (and potentially future institutional investors) to enlarge the loan pool and enable SHOP to continue to offer this socially-responsible alternative financing tool for households otherwise unable to purchase a home.
ITEM: Successor to HOME Homeowner Entry Loan Program (HOME HELP)

CONTACT: Michael Haley, 651-297-2678
mike.haley@state.mn.us

REQUEST: 
- Discussion
- Information

TYPE(S):
- Administrative
- Commitment(s)
- Modification/Change
- Policy
- Selection(s)
- Waiver(s)
- HOME HELP Program Update

ACTION:
- No Action Required

SUMMARY REQUEST:
As part of the Affordable Housing Plan, Single Family staff is proposing cessation of the HOME Homeowner Entry Loan Program (HOME HELP) as it may no longer be delivered effectively. It is further proposed that the program be replaced with a new downpayment assistance program to meet the mission objectives of HOME HELP.

FISCAL IMPACT:
In no longer offering HOME HELP, $3.4 million in federal HOME funds may be reallocated to the Multifamily Division for development purposes. A comparable amount of Pool 3 funds is being requested for a replacement downpayment assistance program as part of the 2015 Affordable Housing Plan process. No determination has been made as to a specific allocation of replacement funds.

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

ATTACHMENT(S):
- Background
BACKGROUND:
In 2004, Minnesota Housing developed a deeply targeted downpayment assistance program using federal HOME funds. The use of HOME funds for downpayment assistance was mandated by the U.S. Department of Housing and Urban Development at that time under the American Dream Downpayment Initiative. This program later evolved into the HOME Homeowner Entry Loan Program (HELP) and it is currently offered by Minnesota Housing in conjunction with the Start Up program for first time homebuyers.

HOME HELP has always provided deeper amounts of downpayment assistance than Minnesota Housing’s other downpayment programs. The Agency designed the program to meet specific policy objectives over the years, including the targeting of funds to low income renters and households of color and Hispanic ethnicity. Mortgage lenders that wished to participate in HOME HELP were required to submit a separate application for admission into the HOME HELP program in which they explained how they were going to market the funds to assure alignment with Agency policy objectives.

Over the years, HOME HELP has been very successful in meeting its policy objectives. In 2013, the median annual household income for HOME HELP borrowers was $38,975 compared to the overall median annual household income of $48,500 for Agency home mortgage program borrowers. 46.7% of HOME HELP borrowers were households of color or Hispanic ethnicity, versus 22.9% for overall home mortgage program borrowers.

Notwithstanding HOME HELP’s success at meeting the Agency’s policy objectives, the program has been experiencing declining use in recent years. As a result, Minnesota Housing has allocated somewhat less to HOME HELP based on projected funds use. Yet, through June 30, only $1.7 million of $3.4 million allocated to HOME HELP under the 2014 Affordable Housing Plan was committed. There are several reasons for declining program use:

- HOME HELP is a non-industry standard loan product for lenders to originate—even for downpayment assistance programs. There are different documentary and property inspection requirements, as well as income and house price limits that are determined by household size by county.
- As a result of the above, few lenders are now willing to originate HOME HELP loans. Currently, 13 lenders out of the total lender network of 89 offering Start Up are willing to participate in the program.
- HUD officials have stated in a number of venues that they prefer federal HOME funds to be allocated to development programs as opposed to downpayment assistance programs, and they have continued to add requirements to make downpayment assistance very difficult to provide.
- Due to additional requirements added for HOME downpayment assistance programs, it is difficult for Agency staff to simplify the program to make it more attractive for participating lenders to deliver. Minnesota Housing is among few HFAs that have continued to use HOME funds for downpayment assistance.
- Because of federal requirements pertaining to HOME, delivering the program is Agency staff intensive.

In light of the above, Minnesota Housing Single Family staff is proposing cessation of the HOME HELP Program effective with the commencement of next year’s Affordable Housing Plan. However, given the program’s policy performance, it is also proposing to replace HOME HELP with a deeply targeted downpayment assistance program that may be more easily delivered by participating mortgage lenders that are aligned with Agency policy goals. The Agency will maintain a separate application process for any replacement program and monitor lender policy performance. Staff wishes to inform the board of this discussion and welcomes input.
ITEM: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2014

CONTACT: Bill Kapphahn, 651-215-5972 Rob Tietz, 651-297-4009
William.Kapphahn@state.mn.us Rob.Tietz@state.mn.us

REQUEST:
☐ Approval  ☑ Discussion  ☑ Information

TYPE(S):
☐ Administrative  ☐ Commitment(s)  ☐ Modification/Change  ☐ Policy  ☐ Selection(s)  ☐ Waiver(s)
☑ Other: Finance ______________________

ACTION:
☐ Motion  ☐ Resolution  ☑ No Action Required

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

FISCAL IMPACT:
None.

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

ATTACHMENT(S):
• Report Highlights
• Report: Semi-annual Variable Rate Debt and Swap Performance Review as of July 1, 2014
• All of the Agency’s swap contracts were evaluated and determined to be effective hedges, at this point in time, under the accounting guidance provided by GASB 53.

• Basis Risk: During the period January, 2014 to June, 2014 the variable interest received on swaps and the variable interest paid on variable rate bonds performed with the anticipated correlation. Staff continues to expect that, over time, the two rates will track each other as originally anticipated.

• Counterparty/Termination Risk: The market value of swaps, which the Agency would owe to the counterparties only if the swaps were terminated, decreased from $22.6 million on January 1, 2014 to $21.5 million on July 1, 2014. While the market value of a swap is a means to quantify current termination risk, it is not a suitable measure to evaluate the original decision to enter into the swap contract. Swap contracts’ market values will evaporate as they approach their maturity date. The Agency does not intend to prematurely terminate any of the swap contracts, barring termination events.

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

• Long-term Debt, Fixed vs. Variable graph: Total outstanding variable rate debt decreased to 15% of total long-term debt at July 1, 2014 compared to 17% at January 1, 2014. The decrease is due to net issuance of fixed-rate debt exceeding the redemptions/maturities of variable-rate debt.
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Floating-to-Fixed Interest Rate Swap Structure: Overview

Mortgage Borrowers → Fixed Rate → Minnesota Housing → Fixed Rate → Swap Counterparty

- Floating rate based on remarketing of bonds by the remarketing agent.
- Fixed rate based on SIFMA or % of LIBOR.

Backup Liquidity Provider

Remarketing Agent

Bondholders of Agency's Variable Rate Debt
## Overview of Swaps

**July 1, 2014**

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Issue Date</th>
<th>Original Notional Amount of Swap</th>
<th>Notional Amount Outstanding</th>
<th>Counterparty</th>
<th>Floating Rate Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHFB 2003 B</td>
<td>07/23/2003</td>
<td>$25,000,000</td>
<td>$17,700,000</td>
<td>The Bank of New York Mellon</td>
<td>65% of LIBOR + 23 basis points</td>
</tr>
<tr>
<td>RHFB 2003 J</td>
<td>10/15/2003</td>
<td>25,000,000</td>
<td>12,125,000</td>
<td>The Bank of New York Mellon</td>
<td>65% of LIBOR + 23 basis points</td>
</tr>
<tr>
<td>RHFB 2004 G</td>
<td>07/01/2004</td>
<td>50,000,000</td>
<td>24,645,000</td>
<td>Royal Bank of Canada</td>
<td>64% of LIBOR + 26 basis points</td>
</tr>
<tr>
<td>RHFB 2005 C</td>
<td>03/02/2005</td>
<td>25,000,000</td>
<td>14,535,000</td>
<td>The Bank of New York Mellon</td>
<td>64% of LIBOR + 28 basis points</td>
</tr>
<tr>
<td>RHFB 2005 I</td>
<td>06/02/2005</td>
<td>40,000,000</td>
<td>23,395,000</td>
<td>The Bank of New York Mellon</td>
<td>64% of LIBOR + 28 basis points</td>
</tr>
<tr>
<td>RHFB 2005 M</td>
<td>08/04/2005</td>
<td>60,000,000</td>
<td>34,220,000</td>
<td>The Bank of New York Mellon</td>
<td>64% of LIBOR + 29 basis points</td>
</tr>
<tr>
<td>RHFB 2006 C</td>
<td>03/21/2006</td>
<td>28,335,000</td>
<td>21,350,000</td>
<td>The Bank of New York Mellon</td>
<td>64% of LIBOR + 29 basis points</td>
</tr>
<tr>
<td>RHFB 2007 E (Taxable)</td>
<td>03/07/2007</td>
<td>25,000,000</td>
<td>9,235,000</td>
<td>Royal Bank of Canada</td>
<td>One-month LIBOR</td>
</tr>
<tr>
<td>RHFB 2007 J (Taxable)</td>
<td>05/17/2007</td>
<td>37,500,000</td>
<td>14,215,000</td>
<td>Royal Bank of Canada</td>
<td>One-month LIBOR</td>
</tr>
<tr>
<td>RHFB 2007 S</td>
<td>12/19/2007</td>
<td>18,975,000</td>
<td>18,975,000</td>
<td>The Bank of New York Mellon</td>
<td>100% of SIFMA Index Rate + 6 basis points</td>
</tr>
<tr>
<td>RHFB 2007 T (Taxable)</td>
<td>12/19/2007</td>
<td>37,160,000</td>
<td>17,605,000</td>
<td>The Bank of New York Mellon</td>
<td>One-month LIBOR</td>
</tr>
<tr>
<td>RHFB 2008 C</td>
<td>08/07/2008</td>
<td>40,000,000</td>
<td>40,000,000</td>
<td>Royal Bank of Canada</td>
<td>64% of LIBOR + 30 basis points</td>
</tr>
<tr>
<td>RHFB 2009 C</td>
<td>02/12/2009</td>
<td>40,000,000</td>
<td>40,000,000</td>
<td>Royal Bank of Canada</td>
<td>64% of LIBOR + 30 basis points</td>
</tr>
<tr>
<td>RHFB 2009 F</td>
<td>12/01/2009</td>
<td>34,120,000</td>
<td>14,890,000</td>
<td>Royal Bank of Canada</td>
<td>100% of SIFMA + 8 basis points</td>
</tr>
</tbody>
</table>

**Totals**  
$486,090,000  
$302,890,000
Floating-to-Fixed Interest Rate Swap Structure: Basis Risk

- Mortgage Borrowers
- Fixed Rate
- Minnesota Housing
- Fixed Rate
- Swap Counterparty
- Floating rate based on SIFMA or % of LIBOR
- Floating rate based on remarketing of bonds by the remarketing agent
- Backup Liquidity Provider
- Remarketing Agent
- Bondholders of Agency’s Variable Rate Debt
## Basis Risk
### July 1, 2014

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Issue Date</th>
<th>VRDO's and Swaps Outstanding</th>
<th>Net Variable Interest Paid (Received) Basis Risk</th>
<th>Contractual Swap Fixed Rate</th>
<th>Effective Swap Fixed Rate</th>
<th>Effective Rate As a Percentage of Swap Fixed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHFB 2003 B</td>
<td>07/23/2003</td>
<td>$17,700,000</td>
<td>$ (162,260)</td>
<td>3.532%</td>
<td>3.471%</td>
<td>98.27%</td>
</tr>
<tr>
<td>RHFB 2003 J</td>
<td>10/15/2003</td>
<td>$12,125,000</td>
<td>(112,388)</td>
<td>4.183%</td>
<td>4.134%</td>
<td>98.83%</td>
</tr>
<tr>
<td>RHFB 2004 G</td>
<td>07/22/2004</td>
<td>$24,645,000</td>
<td>(239,675)</td>
<td>4.165%</td>
<td>4.105%</td>
<td>98.56%</td>
</tr>
<tr>
<td>RHFB 2005 C</td>
<td>03/02/2005</td>
<td>$14,535,000</td>
<td>(196,801)</td>
<td>3.587%</td>
<td>3.485%</td>
<td>97.16%</td>
</tr>
<tr>
<td>RHFB 2005 I</td>
<td>06/02/2005</td>
<td>$23,395,000</td>
<td>(293,975)</td>
<td>3.570%</td>
<td>3.472%</td>
<td>97.25%</td>
</tr>
<tr>
<td>RHFB 2005 M</td>
<td>08/04/2005</td>
<td>$34,220,000</td>
<td>(574,357)</td>
<td>3.373%</td>
<td>3.241%</td>
<td>96.09%</td>
</tr>
<tr>
<td>RHFB 2006 C</td>
<td>03/21/2006</td>
<td>$21,350,000</td>
<td>(293,255)</td>
<td>3.788%</td>
<td>3.647%</td>
<td>96.28%</td>
</tr>
<tr>
<td>RHFB 2007 E (Taxable)</td>
<td>03/07/2007</td>
<td>$9,235,000</td>
<td>123,622</td>
<td>5.738%</td>
<td>5.828%</td>
<td>101.57%</td>
</tr>
<tr>
<td>RHFB 2007 J (Taxable)</td>
<td>05/17/2007</td>
<td>$14,215,000</td>
<td>195,631</td>
<td>5.665%</td>
<td>5.762%</td>
<td>101.71%</td>
</tr>
<tr>
<td>RHFB 2007 S</td>
<td>12/19/2007</td>
<td>$18,975,000</td>
<td>(59,140)</td>
<td>4.340%</td>
<td>4.292%</td>
<td>98.89%</td>
</tr>
<tr>
<td>RHFB 2007 T (Taxable)</td>
<td>12/19/2007</td>
<td>$17,605,000</td>
<td>319,804</td>
<td>4.538%</td>
<td>4.699%</td>
<td>103.55%</td>
</tr>
<tr>
<td>RHFB 2008 C</td>
<td>08/07/2008</td>
<td>$40,000,000</td>
<td>(392,192)</td>
<td>4.120%</td>
<td>3.954%</td>
<td>95.97%</td>
</tr>
<tr>
<td>RHFB 2009 C</td>
<td>02/12/2009</td>
<td>$40,000,000</td>
<td>(631,102)</td>
<td>4.215%</td>
<td>3.922%</td>
<td>93.05%</td>
</tr>
<tr>
<td>RHFB 2009 F</td>
<td>12/01/2009</td>
<td>$14,890,000</td>
<td>(79,744)</td>
<td>2.365%</td>
<td>2.300%</td>
<td>97.25%</td>
</tr>
</tbody>
</table>

**Totals**       | $302,890,000  | **$ (2,395,832)**           | **98.27%**                                    | 98.83%                      | 98.56%                   | 97.16%                                             |

*The cumulative net of total variable interest paid on all VRDO's ($40,136,133) and all variable interest received from the swap counterparties ($42,531,965).*
Floating-to-Fixed Interest Rate Swap Structure: Counterparty/Termination Risk

- **Mortgage Borrowers** pay a fixed rate and receive a floating rate based on SIFMA or % of LIBOR.
- **Minnesota Housing** pays a fixed rate and receives a floating rate based on the remarketing of bonds by the remarketing agent.
- **Bondholders of Agency's Variable Rate Debt** are linked to backup liquidity provider.
- **Remarketing Agent** facilitates the remarketing process.
- **Swap Counterparty** pays a fixed rate and receives a floating rate based on SIFMA or % of LIBOR.
## Counterparty/Termination Risk

**July 1, 2014**

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Counterparty</th>
<th>Rating at Inception</th>
<th>Credit Rating</th>
<th>Long-term Credit Outlook</th>
<th>Notional Amount Outstanding</th>
<th>Swap Maturity</th>
<th>Swap Average PSA (years)</th>
<th>Swap Fixed Rate</th>
<th>Market Value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHFB 2003 B</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A1/A+</td>
<td>Stable/Negative</td>
<td>$17,700,000</td>
<td>01/01/2033</td>
<td>21</td>
<td>3.532%</td>
<td>$(1,138,830)</td>
</tr>
<tr>
<td>RHFB 2003 J</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A1/A+</td>
<td>Stable/Negative</td>
<td>$12,125,000</td>
<td>07/01/2033</td>
<td>14.3</td>
<td>4.183%</td>
<td>$(1,281,336)</td>
</tr>
<tr>
<td>RHFB 2005 C</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A1/A+</td>
<td>Stable/Negative</td>
<td>$14,535,000</td>
<td>01/01/2035</td>
<td>9.2</td>
<td>3.587%</td>
<td>$(219,931)</td>
</tr>
<tr>
<td>RHFB 2005 I</td>
<td>The Bank of New York Mellon</td>
<td>Aaa/AA</td>
<td>A2/AA-</td>
<td>Stable/Stable</td>
<td>$23,395,000</td>
<td>01/01/2036</td>
<td>9.2</td>
<td>3.570%</td>
<td>$(724,527)</td>
</tr>
<tr>
<td>RHFB 2005 M</td>
<td>The Bank of New York Mellon</td>
<td>Aaa/AA</td>
<td>A2/AA-</td>
<td>Stable/Stable</td>
<td>$34,220,000</td>
<td>01/01/2036</td>
<td>8.4</td>
<td>3.373%</td>
<td>$(1,001,577)</td>
</tr>
<tr>
<td>RHFB 2006 C</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A2/AA-</td>
<td>Stable/Stable</td>
<td>$21,350,000</td>
<td>01/01/2037</td>
<td>10.6</td>
<td>3.788%</td>
<td>$(911,151)</td>
</tr>
<tr>
<td>RHFB 2007 S</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A2/AA-</td>
<td>Stable/Stable</td>
<td>$18,975,000</td>
<td>07/01/2038</td>
<td>27.4</td>
<td>4.340%</td>
<td>$(1,258,355)</td>
</tr>
<tr>
<td>RHFB 2007 T</td>
<td>The Bank of New York Mellon</td>
<td>Aa1/AA-</td>
<td>A2/AA-</td>
<td>Stable/Stable</td>
<td>$17,605,000</td>
<td>07/01/2038</td>
<td>11.8</td>
<td>4.538%</td>
<td>$(1,373,812)</td>
</tr>
</tbody>
</table>

**Total The Bank of New York Mellon**

$159,905,000  $(7,909,519)

<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Counterparty</th>
<th>Rating at Inception</th>
<th>Credit Rating</th>
<th>Long-term Credit Outlook</th>
<th>Notional Amount Outstanding</th>
<th>Swap Maturity</th>
<th>Swap Average PSA (years)</th>
<th>Swap Fixed Rate</th>
<th>Market Value*</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHFB 2004 G</td>
<td>Royal Bank of Canada</td>
<td>Aaa/AA-</td>
<td>A3/AA-</td>
<td>Negative/Stable</td>
<td>$24,645,000</td>
<td>01/01/2032</td>
<td>11.3</td>
<td>4.165%</td>
<td>$(1,926,189)</td>
</tr>
<tr>
<td>RHFB 2008 C</td>
<td>Royal Bank of Canada</td>
<td>Aaa/AA-</td>
<td>A3/AA-</td>
<td>Negative/Stable</td>
<td>$40,000,000</td>
<td>07/01/2048</td>
<td>20.6</td>
<td>4.120%</td>
<td>$(3,279,235)</td>
</tr>
<tr>
<td>RHFB 2009 C</td>
<td>Royal Bank of Canada</td>
<td>Aaa/AA-</td>
<td>A3/AA-</td>
<td>Negative/Stable</td>
<td>$40,000,000</td>
<td>07/01/2039</td>
<td>18.9</td>
<td>4.215%</td>
<td>$(4,613,877)</td>
</tr>
<tr>
<td>RHFB 2009 F</td>
<td>Royal Bank of Canada</td>
<td>Aaa/AA-</td>
<td>A3/AA-</td>
<td>Negative/Stable</td>
<td>$14,890,000</td>
<td>07/01/2039</td>
<td>4.2</td>
<td>2.365%</td>
<td>$(457,556)</td>
</tr>
</tbody>
</table>

**Total Royal Bank of Canada**

$142,985,000  $(13,622,382)

**Total All Swaps**

$302,890,000  $(21,531,901)

*A positive market value represents money due the Agency from the Counterparty upon termination. A negative number represents money payable by the Agency upon termination. Valuations are provided by DerivActiv.*
Floating-to-Fixed Interest Rate Swap Structure: Liquidity Risk

Mortgage Borrowers \( \xrightarrow{\text{Fixed Rate}} \) Minnesota Housing \( \xrightarrow{\text{Fixed Rate}} \) Swap Counterparty

- Floating rate based on remarketing of bonds by the remarketing agent
- Fixed Rate
- Floating rate based on SIFMA or % of LIBOR

Backup Liquidity Provider \( \xrightarrow{\text{To}} \) Remarketing Agent

Bondholders of Agency’s Variable Rate Debt
<table>
<thead>
<tr>
<th>Bond Series</th>
<th>Current Liquidity Provider</th>
<th>Long-term Credit Rating</th>
<th>Long-term Credit Outlook</th>
<th>Short-term Credit Rating</th>
<th>VRDO's Outstanding</th>
<th>VRDO Maturity</th>
<th>Liquidity Facility Maturity</th>
<th>Liquidity Fee</th>
<th>Original Liquidity Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>RHFB 2003 B</td>
<td>Royal Bank of Canada</td>
<td>Aa3/AA-</td>
<td>Negative/Stable</td>
<td>P-1/A-1+</td>
<td>$ 17,700,000</td>
<td>01/01/2033</td>
<td>07/17/2015</td>
<td>0.650%</td>
<td>0.300%</td>
</tr>
<tr>
<td>RHFB 2003 J</td>
<td>Royal Bank of Canada</td>
<td>Aa3/AA-</td>
<td>Negative/Stable</td>
<td>P-1/A-1+</td>
<td>12,125,000</td>
<td>07/01/2033</td>
<td>07/17/2015</td>
<td>0.650%</td>
<td>0.300%</td>
</tr>
<tr>
<td>RHFB 2004 G</td>
<td>Royal Bank of Canada</td>
<td>Aa3/AA-</td>
<td>Negative/Stable</td>
<td>P-1/A-1+</td>
<td>24,645,000</td>
<td>01/01/2032</td>
<td>07/17/2015</td>
<td>0.650%</td>
<td>0.195%</td>
</tr>
<tr>
<td>RHFB 2005 C</td>
<td>Royal Bank of Canada</td>
<td>Aa3/AA-</td>
<td>Negative/Stable</td>
<td>P-1/A-1+</td>
<td>14,535,000</td>
<td>01/01/2035</td>
<td>07/17/2015</td>
<td>0.650%</td>
<td>0.195%</td>
</tr>
<tr>
<td>RHFB 2005 I</td>
<td>Royal Bank of Canada</td>
<td>Aa3/AA-</td>
<td>Negative/Stable</td>
<td>P-1/A-1+</td>
<td>23,395,000</td>
<td>01/01/2036</td>
<td>07/17/2015</td>
<td>0.650%</td>
<td>0.195%</td>
</tr>
<tr>
<td></td>
<td>Royal Bank of Canada subtotal</td>
<td></td>
<td></td>
<td></td>
<td>$ 92,400,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RHFB 2005 M</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>34,220,000</td>
<td>01/01/2036</td>
<td>07/17/2015</td>
<td>0.685%</td>
<td>0.195%</td>
</tr>
<tr>
<td>RHFB 2006 C</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>21,350,000</td>
<td>01/01/2037</td>
<td>03/21/2015</td>
<td>0.450%</td>
<td>0.092%</td>
</tr>
<tr>
<td>RHFB 2007 E</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>9,235,000</td>
<td>07/01/2038</td>
<td>03/21/2015</td>
<td>0.450%</td>
<td>0.092%</td>
</tr>
<tr>
<td>RHFB 2007 J</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>14,215,000</td>
<td>07/01/2038</td>
<td>03/21/2015</td>
<td>0.450%</td>
<td>0.092%</td>
</tr>
<tr>
<td>RHFB 2007 S</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>18,975,000</td>
<td>07/01/2038</td>
<td>03/21/2015</td>
<td>0.450%</td>
<td>0.092%</td>
</tr>
<tr>
<td>RHFB 2007 T</td>
<td>Wells Fargo</td>
<td>Aa3/AA-</td>
<td>Stable/Stable</td>
<td>P-1/A-1+</td>
<td>17,605,000</td>
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<td>Stable/Stable</td>
<td>P-1/A-1+</td>
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<td>0.250%</td>
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<td>RHFB 2009 C</td>
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<td>Aaa/AA+</td>
<td>Stable/Stable</td>
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<td>07/01/2036</td>
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<td>Stable/Stable</td>
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¹Federal Home Loan Bank of Des Moines
## Liquidity Renewal Requirements

**July 1, 2014**

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<td>34,120,000</td>
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<td>302,890,000</td>
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¹The Bank of New York Mellon    ²Royal Bank of Canada    ³Federal Home Loan Bank of Des Moines
Total Long Term Debt: Fixed vs. Variable
Fiscal Year Ending June 30

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<thead>
<tr>
<th>Year</th>
<th>Fixed Rate</th>
<th>Hedged</th>
<th>Variable Rate</th>
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<td>84%</td>
<td>16%</td>
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<td>83%</td>
<td>17%</td>
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<tr>
<td>2007</td>
<td>83%</td>
<td>16%</td>
<td>1%</td>
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Annual Long Term Debt Issuance: Fixed vs. Variable
Fiscal Year Ending June 30

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<th>Year</th>
<th>Fixed Rate</th>
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<td>2009</td>
<td>60%</td>
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</tr>
<tr>
<td>2010</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>2011</td>
<td>100%</td>
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<td>2012</td>
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<td>2013</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2014</td>
<td>100%</td>
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Glossary of Terms

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

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

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

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

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

SIFMA

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

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

Upon a termination of the swap at fair value, a termination payment may be due by one party to the other based upon the fair value of the swap at the time (even if the payment is owed to the defaulting party). The potential termination risks to Minnesota Housing are the liability for a termination payment to the counterparty or the inability to replace the swap with favorable financial terms, in which event the variable rate bonds would no longer be hedged. Under its outstanding swaps, Minnesota Housing has the ability in certain circumstances to terminate the swap in whole or in part at par, rather than at fair value, in order to mitigate amortization risk.

VDROs
Variable Rate Demand Obligations (“VDROs”) are floating rate bonds that have a stated long-term maturity but bear interest at a short-term rate that is reset periodically (generally weekly). The holder of the bonds has the option to tender the bonds for purchase upon short notice (generally seven days). If the bonds cannot be remarshaled by the remarketing agent, the liquidity facility provider (and not the issuer) is obligated to purchase the bonds.
ITEM: Post-Sale Report, Homeownership Finance Bonds, 2014 Series A

CONTACT: Rob Tietz, 651-297-4009  Bill Kapphahn, 651-215-5972
        rob.tietz@state.mn.us    william.kapphahn@state.mn.us

REQUEST:  □ Approval  □ Discussion  ✔ Information

TYPE(S):  □ Administrative  □ Commitment(s)  □ Modification/Change  □ Policy  □ Selection(s)  □ Waiver(s)
        ✔ Other: Finance

ACTION:   □ Motion  □ Resolution  ✔ No Action Required

SUMMARY REQUEST: The Agency sold $38,526,925 of Homeownership Finance Bonds on June 10, 2014. Pursuant to the Debt Management Policy, the attached post-sale report is provided by the Agency’s financial advisor, CSG Advisors. This is an information item and does not require approval.

FISCAL IMPACT: None

MEETING AGENCY PRIORITIES:
        ✔ Promote and support successful homeownership  □ Preserve federally-subsidized rental housing
        □ Address specific and critical needs in rental housing markets  □ Prevent and end homelessness
        □ Prevent foreclosures and support community recovery  □ Strengthening Organizational Capacity

ATTACHMENT(S):  
        • Post-Sale Report
MEMORANDUM

Date: July 7, 2014
To: Minnesota Housing Finance Agency
From: Gene Slater, Tim Rittenhouse
Re: Post-Sale Report
$38,526,925 Homeownership Finance Bonds (HFB)
2014 Series A

BOND CRITERIA

At its telephonic meeting on June 2nd, the Board authorized the issuance of up to $100 million of single-family monthly pass-through bonds including 2014 Series A, based on four key criteria:

1. **Avoid major interest rate risk** by continuing to hedge pipeline production until loans are either sold or permanently financed by bond issues, such as Series A.

2. **Continue high ratings on all Minnesota Housing’s single-family Bonds**, with Series A rated Aaa.

3. **Provide at least a comparable expected level of return to selling MBS**.

4. **Enhance long-term financial sustainability** through a mix of bond financing and sales of MBS to provide more balanced and financially sustainable results for Minnesota Housing.

KEY RESULTS FOR MINNESOTA HOUSING

**Additional Purposes of Series A**

In addition to meeting each of the criteria above, Series A was designed to:

- Achieve full spread on this new issue and minimize any use of Minnesota Housing’s existing $12 million of zero participations to help achieve full spread on future issues.

- Test the ability to return to the single-family pass-through bond market that Minnesota Housing pioneered in 2012 and 2013, so as to help provide attractive financing options for future production.

**Key Measurable Objectives.** Minnesota Housing’s objectives were to:

1. Achieve full spread while maintaining the zero participations to finance future production.
2. Obtain a present value return for Minnesota Housing as high or higher than selling the same new MBS in the secondary market, assuming a reasonable prepayment speed.

**Accomplishments.** The results were very successful.

- **Attractive Bond Yield.** Bond yield on Series 2014 A was 3.0% versus the required yield of approximately 3.6% on a traditionally structured tax-exempt issue.

- **Increased Size.** Because of significant investor demand, the issue was increased in size from $25 million to $38.5 million.

- **Full Spread.** Minnesota Housing received full spread on the new mortgages without using any of Minnesota Housing’s existing zero participations. This provided a present value return after all hedging costs of approximately 2.76% at 100% prepayment speed, 1.60% at 144% prepayment speed and 0.53% at 200% prepayment speed. (For planning purposes, we have assumed 144% to 150% as prepayment speed).

- **Hedging.** Keeping the loan production pipeline fully hedged until bonds were sold and utilizing changes in the value of such hedges to permit maximum spread on the bond issue.

- **Establishing Investor Demand.** With over $100 million of investor orders, the underwriters helped re-establish the market and liquidity for future pass-through bond issues.

**TIMING AND STRUCTURE**

**Timing.** The issue was priced on Tuesday June 10th, with closing on June 19th.

**Sizing.** The issue was initially sized at $25 million and was increased to $38.5 million based on investor demand. The final sizing was able to finance almost all the warehoused production through the end of June.

**Major Design Decisions.** Key decisions by Minnesota Housing were to:

- Continue to include a 10-year par call at Minnesota Housing’s option so that it can potentially take advantage of interest rates at that time to either refund the bonds or sell the MBS and pay off the bonds.

- Include both Fannie Mae as well as Ginnie Mae MBS in the issue, with no percentage limit, which is important as the Fannie Mae share of production has increased partly due to higher FHA insurance premiums to borrowers.

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

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

1. **Investor Interest.** There was significant institutional interest, with over $100 million of orders. Buyers were able to realize the benefit of the tax exemption, thus helping them to receive a significant yield benefit compared to investing in TBA securities.
2. **Timing.** The municipal market has outperformed Treasuries in 2014, with strong demand and very low supply providing the best start to the year for municipal bonds in 5 years. In April both Treasuries and municipals rallied, helping provide strong demand for Minnesota Housing’s last sale. Since then yields dropped and then came back to about the same levels for 10 year Treasuries and MMD as in April.

This issue was unusual in that it was designed backwards from a given rate level. RBC began with exploratory discussions with investors to identify those willing to purchase tax-exempt pass-through bonds at 3%. The investors, recognizing that 3% was needed for Minnesota Housing to bring the issue in the first place, stayed at the 3% level as market rates fluctuated leading up to the sale, including a rise through the sale date.

3. **Successful Sale.** The sale proved very favorable with the bond yield approximately the same as the yield on GNMA securities.

**Comparable Transactions.** There have been no new money single-family pass-through transactions since Utah’s in February (where in-state buyers were interested in CRA-type credit). Florida on April 23rd issued taxable refunding bonds at 3.0% with a 2036 final maturity (8 years shorter than Series A). Two days after Minnesota Housing’s sale, New Mexico sold a small $12.3 million taxable refunding with a 2035 final maturity at 2.75%.

All in all, this was an excellent performance.

**UNDERWRITING**

**Underwriters.** RBC was the senior manager; regular co-managers were Piper Jaffray and Wells Fargo. Since monthly pass-through bonds are sold only to institutional investors, there was no selling group or rotating co-manager.

**Underwriter Fees.** Management fees were appropriate, consistent with industry standards, and in the same range as fees reported for other housing issues of similar size and structure.
ISSUE DETAILS

**Key Dates:**
- 2014 A Bond Pricing for HFB Indenture
- Institutional Order Period: Tuesday, June 10, 2014
- Closing Date: Thursday, June 19, 2014

**Economic Calendar.** Economic signals have continued to be mixed as to the pace of economic growth. During the week prior to the sale, negative economic news was that construction spending came in slightly lower than forecast (at 0.2% versus 0.7% market consensus) and the trade deficit for April jumped dramatically to $47.2 billion, far higher than the $41 billion consensus forecast, suggesting a weakening of export-driven growth. The U.S. also created only 179,000 new jobs in May, below consensus forecast of 210,00.

On the other hand, unit labor costs came in higher (up 5.7% versus 4.8% expected) and, outside of government statistics, Bloomberg’s Consumer confidence rose for the first time in 5 weeks, from 33.3 to 35.1. Although productivity figures for the first quarter declined 3.2%, the worst in six years, this was attributed largely to severe winter weather.

**Treasuries.** Long-term Treasury bond yields have generally dropped since the beginning of 2014, defying expectations that rates would rise as the Federal Reserve tapered bond purchases and the economy slowly improved. The 10-year Treasury yield dropped from 3.0% at the beginning of the year to as low as 2.44 on May 28th and then increased somewhat to 2.59% on June 5. The sharpest movements were over the last two weeks with the 10-year yield dropping by 10 basis points before Memorial Day and then rising by 14 basis points this past week.

**Municipals.** During 2014 municipal yields have dropped almost twice as much as Treasury yields. For example, since RHFB 2014 A in February, the 10-year MMD has dropped by 25 basis points while the 10-year Treasury fell by 14 basis points. The 30-year MMD dropped by 51 basis points while the 30-year Treasury dropped by 24 basis points. In the last month, rates have moved more in tandem, with both the municipal and Treasury market weakening in the week ending June 5th. Municipal bond fund inflows slowed to $192 million from $634 million the week before.

- Volume of new issuance continues at record low levels.
- Despite the absolute low level of rates, there has been ongoing and renewed retail and institutional interest.
- Credit spreads have continued to remain relatively wide, especially compared to the low absolute level of rates, with approximately 65 basis point differentials between the AAA G.O. MMD index and A-rated G.O.s, both at 10 years and at 30 years.
- There have been significant weekly outflows in municipal bond funds in the last 3 weeks.
- MMD as a percentage of treasuries has risen dramatically to levels not seen since late 2012.
Post-Sale Report $38,526,925 Homeownership Finance Bonds
(HFB), 2014 Series A
July 7, 2014

Board Agenda Item: 9.B
Attachment: Post Sale Report

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<th>10-Year MMD</th>
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<td>4.85%</td>
<td>109.2%</td>
</tr>
<tr>
<td>2011 C/D*</td>
<td>6/7/11</td>
<td>3.01%</td>
<td>2.63%</td>
<td>87.4%</td>
<td>4.27%</td>
<td>4.23%</td>
<td>99.1%</td>
</tr>
<tr>
<td>2011 E*</td>
<td>8/24/11</td>
<td>2.29%</td>
<td>2.26%</td>
<td>98.7%</td>
<td>3.63%</td>
<td>3.89%</td>
<td>107.2%</td>
</tr>
<tr>
<td>2011 F/G*</td>
<td>11/22/11</td>
<td>1.94%</td>
<td>2.18%</td>
<td>112.4%</td>
<td>2.91%</td>
<td>3.83%</td>
<td>131.6%</td>
</tr>
<tr>
<td>2012 RHFB ABCD**</td>
<td>3/27/12</td>
<td>2.20%</td>
<td>1.97%</td>
<td>89.5%</td>
<td>3.29%</td>
<td>3.34%</td>
<td>101.5%</td>
</tr>
<tr>
<td>2012 A*</td>
<td>7/31/12</td>
<td>2.51%</td>
<td>1.66%</td>
<td>109.9%</td>
<td>2.81%</td>
<td>2.86%</td>
<td>101.8%</td>
</tr>
<tr>
<td>2012 B*</td>
<td>10/2/12</td>
<td>2.64%</td>
<td>1.69%</td>
<td>103.0%</td>
<td>3.06%</td>
<td>3.06%</td>
<td>91.5%</td>
</tr>
<tr>
<td>2013 A*</td>
<td>1/9/13</td>
<td>2.88%</td>
<td>1.69%</td>
<td>89.9%</td>
<td>2.80%</td>
<td>2.80%</td>
<td>91.5%</td>
</tr>
<tr>
<td>2013 B*</td>
<td>4/8/13</td>
<td>3.76%</td>
<td>1.72%</td>
<td>97.7%</td>
<td>2.91%</td>
<td>2.94%</td>
<td>101.0%</td>
</tr>
<tr>
<td>2013 RHFB ABC/C**</td>
<td>5/14/13</td>
<td>1.96%</td>
<td>1.81%</td>
<td>92.3%</td>
<td>3.17%</td>
<td>2.93%</td>
<td>92.4%</td>
</tr>
<tr>
<td>2013 C</td>
<td>6/17/13</td>
<td>2.10%</td>
<td>2.23%</td>
<td>101.8%</td>
<td>3.35%</td>
<td>3.50%</td>
<td>104.4%</td>
</tr>
<tr>
<td>2014 RHFB A**</td>
<td>2/11/14</td>
<td>2.75%</td>
<td>2.52%</td>
<td>91.6%</td>
<td>3.69%</td>
<td>3.87%</td>
<td>104.9%</td>
</tr>
<tr>
<td>2014 RHFB B**</td>
<td>4/16/14</td>
<td>2.65%</td>
<td>2.30%</td>
<td>86.8%</td>
<td>3.45%</td>
<td>3.51%</td>
<td>101.7%</td>
</tr>
<tr>
<td>2014 A*</td>
<td>6/10/14</td>
<td>2.64%</td>
<td>2.33%</td>
<td>88.3%</td>
<td>3.47%</td>
<td>3.40%</td>
<td>98.0%</td>
</tr>
</tbody>
</table>

Change from 2014 RHFB B to 2014 A:
-1 bps
+3 bps
+1.5%
+2 bps
-11 bps
-3.7%

* Homeownership Finance Revenue Bonds
** Residential Housing Finance Bonds (RHFB)

Municipal Calendar. The Minnesota competitive sale calendar was relatively light for the week of the sale with about $25 million total among 7 issuers. There were no other Minnesota negotiated sales on the BondBuyer calendar.

A small New Mexico taxable single-family pass-through was scheduled for the day after Minnesota’s pricing, also led by RBC. The issue was $12.7 million and refunded prior bonds, so it had a much shorter average life than Minnesota’s new money issue.

MBS Yields. MBS yields are very relevant to investors in Series A because they can choose between purchasing MBS themselves or purchasing bonds backed by MBS. In effect, bond purchasers look as much to the spread between HFA bonds and MBS as they do to the spread between HFA bonds and treasuries.

<table>
<thead>
<tr>
<th>Type</th>
<th>Delivery</th>
<th>Coupon</th>
<th>Measure</th>
<th>June 17, 2013</th>
<th>Feb. 11, 2014</th>
<th>April 16, 2014</th>
<th>June 10, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNMA</td>
<td>1 month</td>
<td>4.0</td>
<td>Price</td>
<td>106.31</td>
<td>105.98</td>
<td>105.80</td>
<td>106.23</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Yield*</td>
<td>3.30%</td>
<td>3.34%</td>
<td>3.36%</td>
<td>3.31%</td>
</tr>
<tr>
<td>FNMA</td>
<td>1 month</td>
<td>4.50</td>
<td>Price</td>
<td>106.91</td>
<td>107.44</td>
<td>107.06</td>
<td>107.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Yield*</td>
<td>3.72%</td>
<td>3.66%</td>
<td>3.70%</td>
<td>3.63%</td>
</tr>
<tr>
<td>10-year Treasury</td>
<td>n/a</td>
<td>n/a</td>
<td>Yield</td>
<td>2.19%</td>
<td>2.75%</td>
<td>2.65%</td>
<td>2.64%</td>
</tr>
<tr>
<td>GNMA to 10 year Treasury</td>
<td>n/a</td>
<td>n/a</td>
<td>Yield*</td>
<td>150.68%</td>
<td>121.45%</td>
<td>126.79%</td>
<td>125.38%</td>
</tr>
<tr>
<td>GNMA to 10 year MMD</td>
<td>n/a</td>
<td>n/a</td>
<td>Yield*</td>
<td>147.98%</td>
<td>132.54%</td>
<td>146.09%</td>
<td>155.79%</td>
</tr>
</tbody>
</table>

*at 100% PSA
Perhaps more important than the MBS yields at 100% are those at higher prepayment speeds since those more closely correspond to the actual pricing of MBS. The GNMA 4.0 had a yield of 3.18% at 150% and 3.05% at 200% prepayment speed. The Fannie Mae 4.5 had a yield of 3.47% at 150% and 3.3% at 200% prepayment speed.

PASS-THROUGH BOND PRICING COMPARABLES, 2014 TO DATE

<table>
<thead>
<tr>
<th>Pricing Date</th>
<th>$/12/14</th>
<th>$/11/14</th>
<th>$/10/14</th>
<th>$/23/14</th>
<th>$/24/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$12,646,801</td>
<td>$26,668,756</td>
<td>$38,526,925</td>
<td>$21,070,000</td>
<td>$20,000,000</td>
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<tr>
<td>Series</td>
<td>New Mexico MFA</td>
<td>Indiana HCD</td>
<td>Minnesota HFA</td>
<td>Florida HFC</td>
<td>Utah HC</td>
</tr>
<tr>
<td>Program</td>
<td>2014 Series B</td>
<td>2014 Series 1</td>
<td>2014 Series A</td>
<td>2014 Series A</td>
<td>2014 Series A</td>
</tr>
<tr>
<td>Rating(s)</td>
<td>Single Family / Negotiated</td>
<td>Single Family / Negotiated</td>
<td>Single Family / Negotiated</td>
<td>Single Family / Negotiated</td>
<td>Single Family / Negotiated</td>
</tr>
<tr>
<td>Tax Status</td>
<td>Taxable</td>
<td>Taxable</td>
<td>Taxable</td>
<td>Taxable</td>
<td>Taxable</td>
</tr>
<tr>
<td>Use of Funds</td>
<td>Refunding</td>
<td>Refunding</td>
<td>Refunding</td>
<td>Refunding</td>
<td>Refunding</td>
</tr>
<tr>
<td>Maturity</td>
<td>2035</td>
<td>2036</td>
<td>2044</td>
<td>2036</td>
<td>2044</td>
</tr>
<tr>
<td>Price</td>
<td>100.000</td>
<td>104.250</td>
<td>100.000</td>
<td>100.000</td>
<td>100.000</td>
</tr>
<tr>
<td>Coupon/Yield</td>
<td>2.760</td>
<td>3.000</td>
<td>3.000</td>
<td>3.000</td>
<td>3.000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator</th>
<th>10-Year US Treasury</th>
<th>GNMA @ 100% PSA</th>
<th>GNMA @ 100% CN Forecast</th>
<th>10-Year MMD</th>
<th>100% PSA</th>
<th>150% PSA</th>
<th>200% PSA</th>
<th>300% PSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/12/14 Indicative Yield (Yr)</td>
<td>2.580</td>
<td>2.968</td>
<td>2.861</td>
<td>2.330</td>
<td>7.9</td>
<td>6.6</td>
<td>5.8</td>
<td>4.2</td>
</tr>
<tr>
<td>6/11/14 Indicative Yield (Yr)</td>
<td>2.650</td>
<td>3.039</td>
<td>3.047</td>
<td>2.330</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6/10/14 Indicative Yield (Yr)</td>
<td>2.640</td>
<td>3.043</td>
<td>3.002</td>
<td>2.330</td>
<td>10.8</td>
<td>6.8</td>
<td>7.3</td>
<td>5.5</td>
</tr>
<tr>
<td>4/23/14 Indicative Yield (Yr)</td>
<td>2.700</td>
<td>3.162</td>
<td>3.212</td>
<td>2.280</td>
<td>6.2</td>
<td>5.4</td>
<td>4.7</td>
<td>3.8</td>
</tr>
<tr>
<td>2/4/14 Indicative Yield (Yr)</td>
<td>2.640</td>
<td>3.116</td>
<td>3.153</td>
<td>2.520</td>
<td>10.1</td>
<td>6.4</td>
<td>7.2</td>
<td>5.7</td>
</tr>
<tr>
<td>Weighted Average Spread (Yr)</td>
<td>+17</td>
<td>+44</td>
<td>+46</td>
<td>+76</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Weighted Average Life (Yr)</td>
<td>+36</td>
<td>+36</td>
<td>+21</td>
<td>+72</td>
<td>10.1</td>
<td>6.4</td>
<td>7.2</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Notes:
- 100% PSA assumes historic prepayment speed.
- 150% PSA assumes 3.05% prepayment speed.
- 200% PSA assumes 4.05% prepayment speed.
- 300% PSA assumes 6.05% prepayment speed.

Manager: RBC Capital Markets, JPMorgan, RBC Capital Markets, Zions Bank
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AGENDA ITEM: 9.C
MINNESOTA HOUSING BOARD MEETING
July 24, 2014

ITEM: Report of Complaints Received by Agency or Chief Risk Officer

CONTACT: Will Thompson, 651-296-9813 Paula Beck, 651-296-9806
will.thompson@state.mn.us paula.beck@state.mn.us

REQUEST:
☐ Approval  ☐ Discussion  ☑ Information

TYPE(S):
☐ Administrative  ☐ Commitment(s)  ☐ Modification/Change  ☑ Policy  ☐ Selection(s)  ☐ Waiver(s)
☐ Other: __________________________

ACTION:
☐ Motion  ☐ Resolution  ☑ No Action Required

SUMMARY REQUEST:
The Agency and the Chief Risk Officer have developed procedures for the receipt, retention and treatment of complaints received by the Agency or the Chief Risk Officer regarding conflict of interest, misuse of funds and fraud that have been submitted by any person external or internal to the Agency.

Update from the Chief Risk Officer regarding complaints of potential conflict of interest, alleged misuse of funds and alleged fraud that have been reported to the Agency or the Chief Risk Officer since the Board adopted Reporting Non-Compliance with Agency Policy and Procedures on January 27, 2011.

FISCAL IMPACT:
There were 35 instances of potential conflicts of interests, alleged misused funds and alleged fraudulent activity for the 43-month period beginning December 2010 and ending June 2014. A total of $226,301 was not recovered: ($148,758 in misused funds (unchanged from last quarter), and $77,543 in fraudulent activity (unchanged from last quarter).

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

ATTACHMENT:
• Reporting Non-Compliance with Agency Policy and Procedures.
Reporting Non-Compliance with Agency Policy and Procedures

This reporting is designed to convey to the Board any complaints received, their current status, and their resolution, if one has been reached.

An updated report will be delivered to the Board quarterly, with the next report due October 23, 2014.

<table>
<thead>
<tr>
<th>Complaint</th>
<th>Status</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resolution</td>
<td>Closed</td>
<td>In Process</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>External Employment Approved</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Insufficient Evidence</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>None Yet</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Fraud / Embezzlement</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Funding Transferred to Different Entity</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Insufficient Evidence</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>FBI Investigation Initiated</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Provided Requested Loan Information</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Misuse of Funds</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>All Funds Returned to Agency</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Insufficient Evidence</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Issue Cured</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Negotiated Settlement</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>None – Nonviable Counterparty</td>
<td>1</td>
<td></td>
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<tr>
<td>OLA Forwarded Complaint to County</td>
<td>1</td>
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<tr>
<td>Revenue Recapture</td>
<td>2</td>
<td>1</td>
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<tr>
<td>Entry of Judgment</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>None Yet</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Notice of Default Sent</td>
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<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>25</td>
<td>10</td>
</tr>
</tbody>
</table>

Key Trends:
- Four new alleged misuse of funds cases opened from March 2014 through June 2014
- One new alleged conflict of interest case opened from March 2014 through June 2014
- One new alleged Fraud / Embezzlement case opened from March 2014 through June 2014
- Two cases closed from March 2014 through June 2014
- $336,000 of misused funds were recovered by the Agency from March 2014 through June 2014

Report Legend:
- Complaint – An allegation or inquiry of non-compliance with Agency policy and procedures
- Status – Can be either In Process or Closed
- Resolution – How was the complaint resolved (Closed Status) or current disposition (In Process)