2010
Financial Report

Minnesota Housing Finance Agency

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Recent years have presented many new challenges in the housing finance industry and 2010 was no exception. Minnesota Housing is fortunate to have skilled and dedicated staff who make it possible for the Agency to react swiftly and successfully to the changing needs of our marketplace. As part of laying the groundwork for the future, the Agency continues to examine our business model, work diligently to maintain the momentum towards meeting our strategic priorities, and has renewed a commitment to staff development that will prepare current employees for future leadership positions within the organization.

Financial Performance

Last year at this time Minnesota Housing was on the cusp of completing a transition of our homeownership business model from whole loans to mortgage-backed securities. I am pleased to report that we finished our transition in September 2009 and have been productively operating an MBS program since then. The MBS business model will better insulate the Agency from the loan loss exposure that is inherent in a whole loan portfolio. Since the transition, significant numbers of loans have been securitized and financed with agency resources or credit lines in anticipation of finalizing permanent financing under the US Treasury's New Issue Bond Program. The ability to internally warehouse MBS significantly mitigated the impact on revenues of the general decline in investment yields.

You will see in the accompanying financial report that in 2010 Minnesota Housing's core financial performance was strong yet it continued to be masked by loan loss allowances that exceeded historical averages. The Agency's homeownership loan portfolio continued to feel the effects of the nationwide recession as delinquency rates climbed during the first half of the year followed by some moderation thereafter. While it is too early to forecast sustained improvement in portfolio performance, Minnesota Housing is employing multiple approaches to assist households with remaining in their homes at mortgage payments they can afford for the long term.

Strategic Priorities

We continue to make progress in achieving our strategic priorities of (1) financing new affordable housing opportunities, (2) preserving existing affordable housing, (3) ending long-term homelessness, (4) increasing emerging market homeownership, and (5) addressing foreclosure. Progress is demonstrated by the following achievements:

- Over 1,500 new homeownership loans were committed during the year despite a challenging economic environment.
- Virtually all (99%) of the Section 8 units that were at risk of losing their federal assistance were preserved for at least the short term. For every $1 of state funds used to preserve federally assisted housing $5.70 in federal assistance is secured.
- At the end of 2009, 1,754 households were living in housing funded by Minnesota Housing under the state's Business Plan to End Long-term Homelessness. Eighty-eight percent (88%) of the households served in 2009 were still in housing at the end of the year or had moved to another permanent housing option.
- In the last half of FFY 2009, 35% of the first-time homebuyers with mortgages from Minnesota Housing were from emerging markets.
- Nearly 16,000 households received counseling to address the threat of foreclosure. Roughly 50% of the households served have avoided foreclosure and remained in their homes.
- Three hundred ninety (390) foreclosed or vacant and abandoned housing units have been addressed with federal funding to assist in neighborhood stabilization.

Recent infusions of federal monies through one-time or short term programs have been instrumental in assisting the agency in meeting its strategic priorities. The results of funding through the Neighborhood Stabilization Program and the National Foreclosure Mitigation Counseling Program are reflected above. In addition, the Tax Credit Assistance Program and Section 1602/Exchange Program provided the agency with the means to move forward all of the housing tax credit projects that had been stalled from 2007 on. Federal energy conservation funds were combined with agency loan funds to incent approximately 1,200 homeowners to make energy efficiency improvements to their homes.

Despite another sizeable state budget deficit, the reductions to the state appropriations for the agency were relatively modest at 5.5%. The agency's authority to issue appropriation bonds was expanded by an additional $6 million to take advantage of lower interest rates.

Organizational Governance

At this writing, the agency is about to formalize its risk management program with the hiring of a chief risk officer who will be responsible for structuring and overseeing a framework for agency-wide governance, risk and compliance activities and for providing improved accountability to senior management and the Board. With increasing frequency, we are saying "goodbye" to long-term Minnesota Housing employees, including agency leaders, as they retire. Growing talent internally and bringing in new talent is receiving increased emphasis.

Despite the challenges caused by the recession, Minnesota Housing continues to produce positive financial and programmatic results. By building on our strengths, encouraging integration, and developing a cohort of emerging leaders, we are optimistic that Minnesota Housing will continue to perform in the top tier of housing finance agencies in the years ahead.

Regards,

Dan Bartholomay, Commissioner
Minnesota Housing

August 25, 2010

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Agency's 2009 financial statements and, in our report dated August 26, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activities and each major fund.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund (General Reserve, Rental Housing, Residential Housing Finance, Single Family, Homeownership Finance, Multifamily Housing, State Appropriated, and Federal Appropriated) of the Agency, as of June 30, 2010, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

LarsonAllen LLP

LarsonAllen LLP

Minneapolis, Minnesota
August 25, 2010

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

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

Introduction

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

Minnesota Housing is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $5.0 billion. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates three program divisions — Multifamily, Single Family and Community Development — which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, allocation of the federal Low Income Housing Tax Credit, the Housing Trust Fund and Minnesota Housing's Alternative Loan Fund.

The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and one ex-officio member (the State Auditor).

Discussion of Financial Statements

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

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

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

The basic financial statements also include comparative totals as of and for the year ended June 30, 2009. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2010 in comparison to the prior fiscal year.

Discussion of Individual Funds

General Reserve

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

Rental Housing

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

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

All of Minnesota Housing's bond-financed multifamily loans are financed in Rental Housing as of June 30, 2010. Funds in excess of bond resolution requirements may be used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

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

Bonds issued to date were for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and subordinated home improvement mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA), or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD).

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

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2010 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program, for warehousing purchases of single family first-mortgage loans and mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, contributions for limited obligation note expenses, and for bond sale contributions. The fund may also provide funding for interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2010 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, non-profit capacity building and organization support, and deferred, subordinated loans to support multifamily first mortgages.

Discussion of Individual Funds (continued)

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

Single Family

This fund was the principal source of financing for Minnesota Housing's bond-financed homeownership programs until fiscal year 2002 when Minnesota Housing began using the more flexible Residential Housing Finance fund as its principal source of financing for these programs. The majority of the loans in Single Family have either FHA insurance or a VA or RD guarantee.

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

Homeownership Finance

The Agency adopted a new bond resolution for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program. In December 2009 the Homeownership Finance bond resolution was adopted for the purpose of facilitating the administration and financing of programs for the development or acquisition of owner-occupied housing in Minnesota, at prices that persons of low or moderate income can afford, by proving funds to acquire mortgage loans or mortgage-backed securities secured by mortgage loans for owner-occupied housing purposes. No mortgage loans or mortgage-backed securities had been funded by bonds issued under this resolution as of the end of fiscal 2010.

Multifamily Housing

The Agency adopted a new bond resolution for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. In December 2009 the Multifamily Housing bond resolution was adopted for the purpose of facilitating the acquisition, rehabilitation and improvement of a large multifamily rental housing development in Minnesota for persons of low or moderate income by providing funds to make one or more mortgage loans to the owners of the development. No mortgage loans had been funded by bonds issued under this resolution as of the end of fiscal 2010.

State and Federal Appropriated Funds

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

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

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

General Overview

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

General Overview (continued)

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

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

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

In addition to its audited annual financial statements, Minnesota Housing has published unaudited quarterly disclosure reports for the Single Family and Residential Housing Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. Unaudited quarterly disclosure reports will be published for the Homeownership Finance bond resolution once proceeds of bonds issued thereunder are released from escrow. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at www.mnhousing.gov.

Condensed Financial Information

Selected Elements From Statement of Net Assets (in $000's)

		Agency-wide Total		
		June 30, 2010	June 30, 2009	Change
Assets	Cash and Investments	$1,403,723	$1,025,277	$378,446
	Loans receivable, Net	2,268,115	2,428,625	(160,510)
	Interest Receivable	18,838	17,730	1,108
	Total Assets	3,785,148	3,541,415	243,733
Liabilities	Bonds Payable	2,704,507	2,473,733	230,774
	Interest Payable	48,211	49,956	(1,745)
	Accounts Payable and Other Liabilities	21,582	21,316	266
	Funds Held for Others	87,425	83,486	3,939
	Total Liabilities	2,900,100	2,655,696	244,404
Net Assets	Restricted by Bond Resolution	278,195	266,726	11,469
	Restricted by Covenant	476,902	481,528	(4,626)
	Restricted by Law	128,320	134,880	(6,560)
	Total Net Assets	885,048	885,719	(671)

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

		Agency-wide Total		
		Fiscal 2010	Fiscal 2009	Change
Revenues	Interest Earned	$155,845	$172,092	$(16,247)
	Appropriations Received	284,483	231,925	52,558
	Fees and Reimbursements	17,769	14,796	2,973
	Total Revenues (1)	486,313	439,805	46,508
Expenses	Interest Expense	101,516	112,286	(10,770)
	Appropriations Disbursed	270,185	213,779	56,406
	Fees and Reimbursements	6,725	7,067	(342)
	Payroll, Gen. & Admin.	32,263	29,990	2,273
	Loan Loss/Value Adjust's	56,486	76,046	(19,560)
	Total Expenses (1)	486,984	461,552	25,432
	Revenues over Expenses	(671)	(21,747)	21,076
	Beginning Net Assets	885,719	907,466	(21,747)
	Ending Net Assets	885,048	885,719	(671)

(1) Agency-wide totals include interfund amounts

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
June 30, 2010							
Excluding Pool 3	Pool 3	Total	June 30, 2009	Change	June 30, 2010	June 30, 2009	Change
$1,252,406	$50,090	$1,302,496	$922,845	$379,651	$101,227	$102,432	$(1,205)
2,208,963	23,226	2,232,189	2,392,222	(160,033)	35,926	36,403	(477)
18,262	239	18,501	17,016	1,485	337	714	(377)
3,568,948	73,558	3,642,506	3,373,128	269,378	142,642	141,082	1,560
2,704,507	-	2,704,507	2,473,733	230,774	-	-	-
48,211	-	48,211	49,956	(1,745)	-	-	-
14,970	75	15,045	17,384	(2,339)	6,537	3,932	2,605
80,301	-	80,301	81,124	(823)	7,124	2,362	4,762
2,885,715	63	2,885,778	2,622,289	263,489	14,322	6,202	8,120
278,195	-	278,195	266,726	11,469	-	-	-
403,407	73,495	476,902	481,528	(4,626)	-	-	-
-	-	-	-	-	128,320	134,880	(6,560)
683,233	73,495	756,728	750,839	5,889	128,320	134,880	(6,560)

Combined General Reserve and Bond Funds					Combined State and Federal Appropriations Funds		
Fiscal 2010							
Excluding Pool 3	Pool 3	Total	Fiscal 2009	Change	Fiscal 2010	Fiscal 2009	Change
$151,997	$1,286	$153,283	$166,885	$(13,602)	$2,562	$5,207	$(2,645)
-	-	-	-	-	284,483	231,925	52,558
14,808	(888)	13,920	34,323	(20,403)	3,849	2,857	992
191,526	2,404	193,930	200,187	(6,257)	292,383	239,618	52,765
101,516	-	101,516	112,286	(10,770)	-	-	-
-	-	-	-	-	270,185	213,779	56,406
23,299	1,033	24,332	24,724	(392)	72	4,727	(4,655)
26,662	598	27,260	27,678	(418)	5,003	2,312	2,691
25,058	9,875	34,933	49,119	(14,186)	21,553	26,927	(5,374)
176,535	11,506	188,041	213,807	(25,766)	298,943	247,745	51,198
14,991	(9,102)	5,889	(13,620)	19,509	(6,560)	(8,127)	1,567
668,242	82,597	750,839	764,459	(13,620)	134,880	143,007	(8,127)
683,233	73,495	756,728	750,839	5,889	128,320	134,880	(6,560)

FINANCIAL HIGHLIGHTS

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements included as supplementary information in this 2010 Financial Report.

General Reserve and Bond Funds — Statement of Net Assets

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

Loans receivable, net is the largest single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families. Loans receivable, net decreased 7% to $2,232.2 million at June 30, 2010 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans. As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS will increase as they are purchased in place of loans. The majority of the reduction in loans receivable during fiscal year 2010 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased substantially due to an increase in the estimated loss per delinquent loan and an increase in homeownership loan delinquency rates as displayed in the following delinquency data. Minnesota Housing also has amortizing home improvement and rental rehabilitation loans which are no-interest, low-interest, and market-rate loans generally secured with second or subordinate mortgages. The reserve for loan loss for the home improvement loan portfolio decreased due to decreased loan delinquency rates as displayed in the following delinquency data. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited very little change in delinquency rate and the aggregate loan receivable balance. The reserve for loan loss for the multifamily portfolio was relatively unchanged during fiscal year 2010. Minnesota Housing's primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products.

Homeownership Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2010		June 30, 2009	
Current and less than 60 days past due	16,732	90.8%	18,224	92.3%
60-89 days past due	414	2.2%	398	2.0%
90-119 days past due	232	1.3%	240	1.2%
120+ days past due and foreclosures(1)	1,057	5.7%	891	4.5%
Total count	18,435		19,753	
Total past due(1)	1,703	9.2%	1,529	7.7%

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

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

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

	June 30, 2010		June 30, 2009	
Current and less than 60 days past due	9,133	97.4%	8,638	95.6%
60-89 days past due	76	0.8%	86	1.0%
90-119 days past due	48	0.5%	58	0.6%
120+ days past due	123	1.3%	257	2.8%
Total count	9,380		9,039	
Total past due	247	2.6%	401	4.4%

The 60+ day delinquency rate as of June 30, 2010 for the entire Minnesota Housing homeownership loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately two percentage points the delinquency rates of similar loan data available as of March 31, 2010 from the Mortgage Bankers Association of America for loans in Minnesota (as adjusted to reflect the proportions of insurance types in the Agency's loan portfolio).

Due to the unique program characteristics of the Minnesota home improvement loan portfolio, the Agency has determined comparable delinquency data is not available from other sources.

FHA/VA insurance claims receivable consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. FHA/VA insurance claims receivable increased 10% to $11.407 million at June 30, 2010 as a result of increased delinquency rates on such loans.

Real estate owned consists of properties acquired upon foreclosure of homeownership loans. Real estate owned increased 83% to $24.026 million at June 30, 2010 as a result of increased foreclosures within the homeownership portfolio.

While there has been a substantial increase in delinquency rates and foreclosures in the Agency's loan portfolio during fiscal year 2010, and increases in FHA/VA insurance claims and real estate owned, the combined total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2010, being less than 1.59% of total net loans receivable. Management believes that reserves for loan losses are adequate to assure the proper valuation of the loan assets based on the current assessment of asset quality.

There are no loans in General Reserve.

Investments, cash, and cash equivalents are the next largest categories of assets and are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. The combined investments, cash, and cash equivalents increased 41% to $1,302.2 million at June 30, 2010. The increase is a result of two items. First, additional short-term investments held as of June 30, 2010 were generated from the escrowed proceeds of $275 million of short-term bonds issued under the United States Treasury's New Issue Bond Program. Second, at June 30, 2010 the Agency held certain mortgage-backed securities market valued at $145 million. Of that amount, $111 million is held in anticipation of the Agency issuing mortgage revenue bonds under the United States Treasury's New Issue Bond Program. The remaining $34 million of the mortgage-backed securities have been purchased with bond proceeds, are pledged as security for the payment of those bonds, and are held in an acquisition account. Mortgage-backed securities with these three characteristics are classified on the statement of net assets as "Investments- program mortgage-backed securities." All other mortgage-backed securities, including those held in anticipation of the Agency issuing mortgage revenue bonds (warehoused mortgage-backed securities), are classified as "Investment securities-other."

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 9% to $18.501

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

million at June 30, 2010. Most of the increase is a result of an increase in interest receivable on loans due to increased delinquency in the homeownership portfolio.

Bonds payable, net is the largest single category of liabilities, resulting from debt issued to fund housing-related lending. Bonds payable increased 9% to $2,704.5million at June 30, 2010 largely as a result of $275.490 million of short-term bonds issued under the United States Treasury's New Issue Bond Program. This increase was partially offset by a $67.015 million decrease in general obligation bonds outstanding resulting from bond redemptions and maturities.

The companion category of interest payable decreased 3% to $48.211 million at June 30, 2010 primarily due to a decrease in general obligation debt during fiscal 2010. This decrease was only partially offset by the increase in short-term bond interest payable, which carries a much lower rate of interest.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain capital expenditures. Funds held for others in General Reserve decreased 1% to $80.301 million at June 30, 2010 as multifamily escrows decreased slightly.

Accounts payable and other liabilities decreased 13% to $15.045 million at June 30, 2010 primarily as a result of a reduction in arbitrage rebate liability. In addition, there was a reduction in the reserve first established during fiscal 2008 for potential payment to HUD for projects funded through the HUD Home Investment Partnerships (HOME) Program which are not in compliance with certain HOME Program regulatory requirements. The largest component of accounts payable continues to be arbitrage rebate liability on tax-exempt bonds pursuant to federal law, which is payable to the United States Treasury, and yield compliance liability. Minnesota Housing obtains from independent calculation specialists annual calculations of its arbitrage rebate liability.

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

Net assets of General Reserve and bond funds are divided into two primary categories. Net Assets Restricted by Bond Resolution are pledged to the payment of bonds, subject to bond resolution requirements that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Net Assets Restricted by Covenant are subject to a covenant with bondholders that the Agency will use the money in General Reserve and money that would otherwise have been released to General Reserve only for the administration and financing of programs in accordance with the policy and purpose of the Minnesota Housing enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to provide financial security for the Agency's general obligation bonds. Net assets increased 1% to $756.728 million at June 30, 2010. If Pool 3 net disbursements were excluded, net assets would have increased 2%.

General Reserve and Bond Funds — Revenues Over Expenses

Revenues over expenses of General Reserve and bond funds increased 143% from fiscal year 2009 when considering Pool 3 net expenses and the net effect of unrealized gains and losses that resulted from market valuation adjustments to certain investment assets. Ignoring the effects of unrealized gains and losses on investments, total revenues increased 75%. Total expenses, excluding Pool 3, decreased 7% compared to the prior fiscal year. The largest revenue component, interest earned, decreased during fiscal year 2010. Combined interest revenues of General Reserve and bond funds from loans and investments decreased 8% to $153.283 million compared to the prior fiscal year. Loan interest revenue decreased 3% in fiscal year 2010 as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model. Investment interest revenue decreased 37% in fiscal year 2010 because investment yields decreased and yields on investments made with short-term bond proceeds were minimal.

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

Administrative reimbursements to General Reserve from bond funds were $17.679 million in fiscal year 2010 compared to $17.708 million during the prior fiscal year. The decrease is a result of a decrease in the total assets of the bond funds upon which the administrative reimbursement is calculated. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of $3.979 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2010 compared to $6.667 million during the prior fiscal year. The decrease is mainly a result of decreased overhead reimbursement from State Appropriated during fiscal 2010. Investment earnings within the State Appropriated fund were insufficient to reimburse $2.353 million of fiscal 2010 overhead expense.

Other fee income to General Reserve and bond funds of $9.941 million was essentially unchanged compared to the prior fiscal year. The primary components are fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs.

Minnesota Housing recorded $9.048 million of unrealized gains on investment securities during fiscal year 2010, compared to $1.021 million of unrealized losses during the prior year, an increase of $10.069 million. Interest expense of the bond funds decreased 10% to $101.516 million compared to the prior year as a result of low interest rates on short-term debt and a lower amount of outstanding general obligation bonds during fiscal year 2010.

Combined expenses for loan administration, trustee fees and administrative reimbursements in the bond funds decreased by 2% to $24.332 million compared to the prior fiscal year. $17.679 million of the total administrative reimbursement revenue in General Reserve was an interfund charge to the bond funds which was eliminated for purposes of financial reporting in the Agency-wide financial statements.

Salaries and benefits in General Reserve of $17.815 million were essentially unchanged from the prior year. Other general operating expense in General Reserve and bond funds decreased 5% to $9.445 million compared to the prior year. The decrease is due to $4.023 million of lower expenses for information technology consultants, lower disbursements under the ending long-term homeless initiative, and reductions to other program expenses. These reductions were partially offset by what at first appears to be a $3.533 million increase relating to the HUD Home Investment Partnerships (HOME) Program. The reserve was established during fiscal year 2008 for potential payment to HUD for projects funded through the HOME Program which are not in compliance with certain HOME Program regulatory requirements. That reserve was reduced by $4.288 million in fiscal 2009 and $0.914 million in fiscal 2010 thereby creating a negative expense in both the current and prior fiscal years. A relatively smaller negative expense in fiscal 2010, along with $0.159 million in related disbursements to HUD, results in a comparative expense increase of $3.533 million. Reductions in carrying value of certain low interest rate deferred loans in the bond funds decreased 54% to $9.403. Much of the decrease related to lower disbursements under the ending long-term homeless initiative.

Provision for loan loss expense in the bond funds decreased 11% to $25.530 million. The provision for loan loss expense for the homeownership loan portfolio decreased $1.321 million because the amount of new delinquencies (upon which a portion of the provision for loan loss expense is calculated as an estimate) plus the amount of actual loan losses that differed from estimated losses were slightly less than the prior fiscal year. The provision for loan loss expense for the home improvement loan portfolio decreased $1.278 million also as a result of the decrease in loan delinquency rates. The provision for loan loss expense for the multifamily loan portfolio decreased $0.912 million mainly due to a reduced amount of newly originated first mortgage loans. Please refer to the loans receivable comments in the Financial Highlights section of the Management's Discussion and Analysis of Financial Condition and Results of Operations for more information regarding loan asset quality.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Investment Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2010, $6.794 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Also, Pool 2 recorded a contribution of $15.783 million to Single Family to extinguish the remaining balance of a note and accrued interest owed between the

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

two funds. Single Family made a contribution to the Residential Housing Finance bond fund consisting of $17.381 million of homeownership loans in connection with an economic refunding of debt. Pool 2 made a $0.500 million contribution to Homeownership Finance bond fund ($0.387 million) and Multifamily Housing bond fund ($0.113 million) to cover issuance costs. Single Family made a $0.573 million contribution to the Residential Housing Finance bond fund as a bond sale contribution.

Combined revenues over expenses, including unrealized gains and losses for General Reserve and the bond funds, increased $19.509 million to $5.889 million compared to the prior fiscal year. After removing the effects of unrealized gains and losses and Pool 3 revenues and expenses, the combined revenues over expenses decreased 5% to $6.923 million. Revenues over expenses in General Reserve that are in excess of the Housing Endowment Fund (Pool 1) requirement are transferred periodically to the Housing Investment Fund (Pool 2) for use in housing programs. Revenues over expenses plus non-operating transfers in the Housing Investment Fund (Pool 2) may be transferred periodically, with approval of the Board, to the Housing Affordability Fund (Pool 3) for use in more highly subsidized housing programs. Board policy establishes required balances for Pool 1 and Pool 2.

Total combined net assets of General Reserve and bond funds increased 1% to $756.278 million as of June 30, 2010 as a result of revenues exceeding expenses for fiscal year 2010. The net assets of each individual bond fund increased as a result of net revenues over expenses by fund and non-operating transfers of assets between funds. The net assets of General Reserve decreased $2.497 million as a result of a $1.568 million decrease in Pool 1, which resides in General Reserve, due to a decrease in the balance of outstanding loans on which its requirement is based; a $0.954 million decrease in net assets invested in capital assets; and a $0.025 million increase in unrealized appreciation in investments.

State and Federal Appropriated Funds — Statement of Net Assets

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

Investments, cash, and cash equivalents are the largest categories of assets in the appropriated funds. The June 30, 2010 combined balance decreased 1% to $101.227 million as a result of combined disbursements for programs, loans and expenses exceeding the combined appropriations received and revenues during the fiscal year.

Certain state appropriations are expended as housing loans with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2010 State Appropriated fund net loans receivable decreased 1% to $35.926 million, reflecting slightly lower net loan program activity.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2010 decreased 53% to $0.337 million primarily as a result of lower interest rates.

Accounts payable and other liabilities represent amounts payable for HUD's share of savings from certain debt refinancing activities and accrued expenses for federal and state housing programs. The balance payable at June 30, 2010 was $6.537 million compared to $3.932 million at June 30, 2009. The increase in accounts payable and other liabilities is largely attributable to Section 1602/ Exchange program funds received by the Agency at the end of fiscal year 2010 that are payable to the ultimate recipients of those funds.

For administrative convenience, certain State Appropriated fund loans are administered within the bond funds, resulting in an interfund receivable for the loan disbursement and servicing activities. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. At June 30, 2010 the combined net interfund payable was $0.661 million.

At June 30, 2010 the balance of funds held for others was $7.124 million. In October, 2009 the Agency issued a series of bonds under a new indenture of trust. The indenture permits capital funding for long-

State and Federal Appropriated Funds — Statement of Net Assets (continued)

term homeless households and other purposes through the issuance of Agency bonds secured solely by state appropriations. The proceeds of this series of bonds provided capital funding for permanent supportive housing in two multifamily housing developments. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. The bonds are not recorded as a liability by the Agency since they are not an obligation of the Agency. The balance of the undisbursed proceeds of the issued bonds in the amount of $6.829 million is recorded as funds held for others. Excess federal housing assistance payments received for administration of the Section 8 program and the interest income earned on those unexpended funds in the amount of $0.295 million is also recorded as funds held for others.

All of the net assets of the appropriated funds are restricted by law for use with housing programs only and are not pledged or available to support the bonds or other obligations of Minnesota Housing or its general obligation pledge in respect thereof. The combined net assets of the appropriated funds decreased to $128.320 million as of June 30, 2010 compared to June 30, 2009, reflecting combined revenues less than disbursements and expenses during fiscal year 2010.

State and Federal Appropriated Funds — Revenues Over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from $231.925 million at June 30, 2009 to $284.483 million at June 30, 2010. Federal appropriations received increased by $56.029 million, mostly due to funds received in fiscal year 2010 for the National Stabilization Program (NSP), the Tax Credit Assistance Program (TCAP), and the Section 1602/ Exchange Program. State appropriations received decreased by $3.471 million.

Interest income from investments decreased as investment yields in general were below previous levels and the average balance of investment assets was less than the prior year. The combined interest income from investments decreased 53% to $2.389 million for fiscal year 2010.

Loan interest income from State Appropriations loan assets continues to be minimal at $0.173 million as relatively few loans bear interest.

Fees earned and other income in the amount of $2.797 million were recorded in the State Appropriated fund during fiscal year 2010. This consisted mainly of private donations and interagency transfers of funds to support certain state housing programs. Fees earned and other income of $3.182 millionwere recorded in the Federal Appropriation fund in fiscal year 2010. These were Energy Saver Rebate Program funds received from a Minnesota state agency to reimburse homeowners for qualifying energy improvements.

Unrealized gains or losses on investments are recorded to reflect current market valuations of investments, and may be reversed over time as investments are held. Combined unrealized losses of $0.641 million were recorded at June 30, 2010 compared to $0.371 million unrealized losses at June 30, 2009.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 54% to $2.130 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated fund to the extent of investment earnings on unexpended appropriations. During fiscal year 2010 investment earnings in the State Appropriated fund were insufficient to reimburse $2.353 million of overhead expenses incurred in General Reserve. Combined appropriations disbursed increased 26% to $270.185 million compared to the prior year, reflecting State Appropriations disbursed of $25.999 million and federal appropriations disbursed of $244.186 million to support housing policy objectives.

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

Reduced expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans resulted in lower expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 23% to $20.038 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund decreased 21% to $1.822 million at June 30, 2010. Other general operating expenses in the Federal Appropriation fund of $3.181 million is homeowner reimbursement for qualifying energy improvements from the Energy Saver Rebate Program.

Combined revenues were less than combined expenditures of the appropriated funds by $6.560 million at June 30, 2010. Ultimately, the entire State and Federal Appropriated funds' net assets will be expended for housing programs.

Significant Long-Term Debt Activity

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2010 long-term bonds totaling $2,039.0 million and short-term bonds totaling $607.9 million. Bond proceeds and related revenues are held by trustees, who are responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2010, amounts held by the respective trustees in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During the 2010 fiscal year, Minnesota Housing issued eight series of bonds and notes aggregating $1,384.9 million, compared to the issuance of 13 series totaling $1,075.9 million the previous fiscal year. Long-term debt issuance to finance mortgage lending continued to be suppressed in fiscal year 2010 as it was in fiscal year 2009, due to compression of interest rates in the capital markets. Minnesota Housing used a combination of internal funds and short-term advances to finance its loan programs during much of fiscal 2010. Long-term bonds are traditionally issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes are issued to preserve tax-exempt bonding authority for future program use, to warehouse purchases of mortgage-backed securities in advance of permanent financing and, in 2010, to participate in the United States Treasury's New Issue Bond Program. Short-term debt issued for these purposes totaled $1,007.5 million and $275.5 million respectively.

A total of $1,208.1 million in principal payments and $100.5 million of interest payments were made during the fiscal year 2010. Of the total principal payments, $983.2 million were refundings of short-term debt and $175.5 million were made prior to the scheduled maturity date using a combination of optional and special redemption provisions.

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

While most of the Agency's bonds are tax-exempt, taxable bonds have also been issued to supplement limited tax-exempt authority in order to meet demand for mortgage loans. Taxable bonds may also be used to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps have been a component of Minnesota Housing's financings since 2003, enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates.

Significant Long-Term Debt Activity (continued)

Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. (See Interest Rate Swaps under the notes to the financial statements for further discussion of interest-rate swaps and their risks.) Board policy governs the process Minnesota Housing follows to issue and manage debt. State statute limits total outstanding debt of Minnesota Housing to $5.0 billion.

At June 30, 2010 Minnesota Housing's issuer ratings were "AA+" and "Aa1" from Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively. Minnesota Housing's credit ratings are separate from, and are not directly dependent on, ratings on debt issued by the State of Minnesota. Ongoing reporting to and communications with the bond rating agencies are priorities for the Agency.

Significant Factors That May Affect Financial Condition and/or Operations

Legislative Actions

As part of budget balancing measures, state appropriations to the agency were reduced by $4.217 million for the FY 10-11 biennium – a 4.9% base budget reduction. The base for the following biennium is set at $683,000 less than the revised budget for the current biennium; the base budget for FY 12-13 is $81.768 million. For a point of reference, the base for FY 08-09 was $89.916 million.

The authority granted in 2008 to issue nonprofit housing bonds (appropriation-backed bonds) was amended to increase the total amount of bonds that can be issued from $30 million to $36 million. This action does not change the amount of debt service appropriated to pay off the bonds, but does allow the agency to take advantage of lower interest rates to issue more debt. The additional $6 million in appropriation bond proceeds may be used for either permanent supportive housing or for acquisition and/or rehabilitation of foreclosed or vacant properties to be owned by nonprofit organizations and rented to low-and moderate-income households.

Federal Stimulus Funds

As part of the Housing and Economic Recovery Act of 2008, Congress established and funded the Neighborhood Stabilization Program (NSP). NSP funds were allocated among states and communities on a formula basis. The Governor designated Minnesota Housing as administrator of the $38.8 million allocated to the State. Minnesota Housing has used both state appropriations and Agency resources to assist with efforts to remediate neighborhoods hardest hit by the foreclosure crisis.

The federal stimulus legislation enacted in 2009 (the American Recovery and Reinvestment Act) includes two funding programs to assist housing tax credit projects that have been stalled due to the unfavorable tax credit market. The Agency administers $28.4 million under the Tax Credit Assistance Program (TCAP) and over $62 million under the Section 1602/ Exchange Program.

Nationwide Foreclosure Crisis

The nationwide housing foreclosure crisis continued to impact borrowers in Minnesota Housing's loan portfolio despite the Agency's practice of providing only mortgage products designed to promote sustainable homeownership. Loan delinquencies and foreclosures were higher in fiscal year 2010 for both the homeownership and home improvement portfolios as described in Management's Discussion and Analysis of Financial Condition and Results of Operations–Financial Highlights. Economic conditions and their future impact on the Agency's loan portfolios are unpredictable. The Agency regularly reviews loan portfolio performance and records additional loss reserves when justified by actual delinquency, foreclosure and property loss experience. The Agency additionally utilizes several loss mitigation techniques to assist homeowners with avoiding foreclosure and to minimize Agency losses on foreclosed loans.

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

Additional Information

Questions and inquiries may be directed to either Mr. Bill Kapphahn or Ms. Sharon Spahn Bjostad at Minnesota Housing Finance Agency, 400 Sibley Street, Suite 300, St. Paul, MN 55101 (651-296-7608 or 800-657-3769 or if T.T.Y. 651-297-2361).

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Net Assets (in thousands)
As of June 30, 2010 (with comparative totals as of June 30, 2009)

		Agency-wide Total as of June 30, 2010	Agency-wide Total as of June 30, 2009
Assets	Cash and cash equivalents	$ 646,706	$410,786
	Investments-program mortgage-backed securities	33,686	-
	Investment securities-other	723,331	614,491
	Loans receivable, net	2,268,115	2,428,625
	Interest receivable on loans	16,287	15,249
	Interest receivable on investments	2,551	2,481
	Deferred loss on interest rate swap agreements	37,077	27,205
	FHA/VA insurance claims	11,407	10,372
	Real estate owned	24,026	13,101
	Unamortized bond issuance costs	12,927	13,698
	Capital assets, net	1,631	2,585
	Other assets	7,404	2,822
	Total assets	$3,785,148	$3,541,415
Liabilities	Bonds payable, net	$2,704,507	$2,473,733
	Interest payable	48,211	49,956
	Interest rate swap agreements	37,077	27,205
	Deferred revenue-service release fees	1,298	-
	Accounts payable and other liabilities	21,582	21,316
	Funds held for others	87,425	83,486
	Total liabilities	2,900,100	2,655,696
	Commitments and contingencies		
Net Assets	Restricted by bond resolution	278,195	266,726
	Restricted by covenant	476,902	481,528
	Restricted by law	128,320	134,880
	Invested in capital assets	1,631	2,585
	Total net assets	885,048	885,719
	Total liabilities and net assets	$3,785,148	$3,541,415

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Agency-wide Financial Statements
Statement of Activities (in thousands)
As of June 30, 2010 (with comparative totals as of June 30, 2009)

		Agency-wide Total for the Year Ended June 30, 2010	Agency-wide Total for the Year Ended June 30, 2009
Revenue	Interest earned on loans	$137,118	$141,193
	Interest earned on investments-program mortgage-backed securities	702	-
	Interest earned on investments-other	18,025	30,899
	Appropriations received	284,483	231,925
	Administrative reimbursement	1,849	1,991
	Fees earned and other income	15,920	12,805
	Unrealized gains on investments	8,407	(1,392)
	Total revenues	466,504	417,421
Expenses	Interest	101,516	112,286
	Loan administration and trustee fees	6,725	7,067
	Salaries and benefits	17,815	17,743
	Other general operating	14,448	12,247
	Appropriations disbursed	270,185	213,779
	Reduction in carrying value of certain low interest rate deferred loans	29,441	46,196
	Provision for loan losses	27,045	29,850
	Total expenses	467,175	439,168
	Change in net assets	(671)	(21,747)
Net Assets	Total net assets, beginning of year	885,719	907,466
	Total net assets, end of year	$885,048	$885,719

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Net Assets (in thousands)
Proprietary Funds
As of June 30, 2010 (with comparative totals as of June 30, 2009)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance	Single Family
Assets	Cash and cash equivalents	$ 52,134	$ 36,257	$ 209,177	$ 41,634
	Investments-program mortgage-backed securities	-	-	33,686	-
	Investment securities-other	55,803	32,134	560,690	5,330
	Loans receivable, net	-	179,380	1,916,872	135,937
	Interest receivable on loans	-	973	14,214	1,086
	Interest receivable on investments	417	649	1,104	58
	Deferred loss on interest rate swap agreements	-	-	37,077	-
	FHA/VA insurance claims	-	-	9,561	1,846
	Real estate owned	-	-	23,271	755
	Unamortized bond issuance costs	-	1,556	9,956	898
	Capital assets, net	1,631	-	-	-
	Other assets	1,266	3	265	718
	Total assets	$111,251	$ 250,952	$ 2,815,873	$188,262
Liabilities	Bonds payable, net	$ -	$150,085	$2,162,527	$116,405
	Interest payable	-	3,029	42,022	3,021
	Interest rate swap agreements	-	-	37,077	-
	Deferred revenue-service release fees	-	-	1,298	-
	Accounts payable and other liabilities	5,306	4,645	4,667	382
	Interfund payable (receivable)	1,475	-	(1,736)	(400)
	Funds held for others	80,301	-	-	-
	Total liabilities	87,082	157,759	2,245,855	119,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	93,193	115,654	68,854
	Restricted by covenant	22,538	-	454,364	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,631	-	-	-
	Total net assets	24,169	93,193	570,018	68,854
	Total liabilities and net assets	$111,251	$ 250,952	$ 2,815,873	$188,262

See accompanying notes to financial statements

Bond Funds		Appropriated Funds			
Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total as of June 30, 2010	Total as of June 30, 2009
$ 260,638	$ 15,013	$ 28,383	$ 3,470	$ 646,706	$ 410,786
-	-	-	-	33,686	-
-	-	60,610	8,764	723,331	614,491
-	-	35,926	-	2,268,115	2,428,625
-	-	14	-	16,287	15,249
-	-	278	45	2,551	2,481
-	-	-	-	37,077	27,205
-	-	-	-	11,407	10,372
-	-	-	-	24,026	13,101
409	108	-	-	12,927	13,698
-	-	-	-	1,631	2,585
-	-	-	5,152	7,404	2,822
$ 261,047	$ 15,121	$ 125,211	$ 17,431	$ 3,785,148	$ 3,541,415
$ 260,490	$ 15,000	$ -	$ -	$ 2,704,507	$ 2,473,733
132	7	-	-	48,211	49,956
-	-	-	-	37,077	27,205
-	-	-	-	1,298	-
39	6	925	5,612	21,582	21,316
-	-	248	413	-	-
-	-	6,829	295	87,425	83,486
260,661	15,013	8,002	6,320	2,900,100	2,655,696
386	108	-	-	278,195	266,726
-	-	-	-	476,902	481,528
-	-	117,209	11,111	128,320	134,880
-	-	-	-	1,631	2,585
386	108	117,209	11,111	885,048	885,719
$ 261,047	$ 15,121	$ 125,211	$ 17,431	$ 3,785,148	$ 3,541,415

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement Revenues, Expenses, and Changes in Net Assets (in thousands)
Proprietary Funds
As of June 30, 2010 (with comparative totals as of June 30, 2009)

			Bond Funds	
		General Reserve	Rental Housing	Residential Housing Finance
Revenue	Interest earned on loans	$ -	$ 11,993	$ 113,681
	Interest earned on investments-program mortgage-backed securities	-	-	702
	Interest earned on investments-other	342	1,895	9,300
	Appropriations received	-	-	-
	Administrative reimbursement	21,658	-	-
	Fees earned and other income	8,907	656	378
	Unrealized gains (losses) on investments	25	48	8,948
	Total revenues	30,932	14,592	133,009
Expenses	Interest	-	8,081	83,689
	Loan administration and trustee fees	-	133	5,878
	Administrative reimbursement	-	1,571	14,539
	Salaries and benefits	17,815	-	-
	Other general operating	8,820	-	625
	Appropriations disbursed	-	-	-
	Reduction in carrying value of certain low interest rate deferred loans	-	748	8,655
	Provision for loan losses	-	(505)	27,513
	Total expenses	26,635	10,028	140,899
	Revenues over (under) expenses	4,297	4,564	(7,890)
Other Changes	Non-operating transfer of assets between funds	(6,794)	-	8,465
	Change in net assets	(2,497)	4,564	575
Net Assets	Total net assets, beginning of year	26,666	88,629	569,443
	Total net assets, end of year	$24,169	$ 93,193	$ 570,018

See Accompanying notes to financial statements.

Bond Funds			Appropriated Funds			
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2010	Total for the Year Ended June 30, 2009
$ 11,271	$ -	$ -	$ 173	$ -	$ 137,118	$ 141,193
-	-	-	-	-	702	-
3,959	132	8	2,137	252	18,025	30,899
-	-	-	40,734	243,749	284,483	231,925
-	-	-	-	-	21,658	24,375
-	-	-	2,797	3,182	15,920	12,805
27	-	-	(614)	(27)	8,407	(1,392)
					-	
15,257	132	8	45,227	247,156	486,313	439,805
9,606	132	8	-	-	101,516	112,286
636	1	5	72	-	6,725	7,067
1,569	-	-	2,130	-	19,809	22,384
-	-	-	-	-	17,815	17,743
-	-	-	1,822	3,181	14,448	12,247
-	-	-	25,999	244,186	270,185	213,779
-	-	-	20,038	-	29,441	46,196
(1,478)	-	-	1,515	-	27,045	29,850
10,333	133	13	51,576	247,367	486,984	461,552
4,924	(1)	(5)	(6,349)	(211)	(671)	(21,747)
(2,171)	387	113	-	-	-	-
2,753	386	108	(6,349)	(211)	(671)	(21,747)
66,101	-	-	123,558	11,322	885,719	907,466
$ 68,854	$ 386	$ 108	$ 117,209	$ 11,111	$ 885,048	$ 885,719

MINNESOTA HOUSING FINANCE AGENCY
Fund Financial Statements
Statement of Cash Flows (in thousands)
Proprietary Funds
As of June 30, 2010 (with comparative totals as of June 30, 2009)

			Bond Funds	
		General Reserve	Rental Housing	Residential Housing Finance
Cash flows from operating activities:	Principal repayments on loans and mortgage-backed securities	$ -	$ 15,060	$ 132,376
	Investment in loans and mortgage-backed securities	-	(767)	(141,074)
	Interest received on loans	-	11,977	108,094
	Other operating	-	-	(3,038)
	Fees and other income received	8,865	656	1,679
	Salaries, benefits and vendor payments	(22,646)	(135)	(6,233)
	Appropriations received	-	-	-
	Appropriations disbursed	-	-	-
	Administrative reimbursement from funds	21,092	(1,571)	(14,539)
	Deposits into funds held for others	29,480	-	-
	Disbursements made from funds held for others	(31,551)	-	-
	Interfund transfers and other assets	(1,534)	(1)	306
	Net cash provided (used) by operating activities	3,706	25,219	77,571
Cash flows from noncapital financing activities:	Proceeds from sale of bonds and notes	-	-	1,165,420
	Principal repayment on bonds and notes	-	(12,590)	(1,106,110)
	Interest paid on bonds and notes	-	(7,666)	(82,242)
	Financing costs paid related to bonds issued	-	-	(2,164)
	Interest paid/received between funds	-	-	1,392
	Principal paid/received between funds	-	-	6,315
	Agency contribution to program funds	-	-	(500)
	Transfer of cash between funds	(12,403)	-	12,403
	Net cash provided (used) by noncapital financing activities	(12,403)	(20,256)	(5,486)
Cash flows from investing activities:	Investment in real estate owned	-	-	(2,901)
	Interest received on investments	1,850	2,126	8,600
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	59,928
	Proceeds from maturity, sale or transfer of investment securities	19,000	29,187	1,262,542
	Purchase of investment securities	(55,383)	(26,189)	(1,324,287)
	Purchase of loans between funds	-	-	(47,603)
	Net cash provided (used) by investing activities	(34,533)	5,124	(43,721)
	Net increase (decrease) in cash and cash equivalents	(43,230)	10,087	28,364
Cash and cash equivalents:	Beginning of year	95,364	26,170	180,813
	End of year	$ 52,134	$ 36,257	$ 209,177

See accompanying notes to financial statements

Bond Funds			Appropriated Funds			-
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2010	Total for the Year Ended June 30, 2009
$ 17,704	$ -	$ -	$ 3,207	$ -	$ 168,347	$ 153,628
(13)	-	-	(22,665)	-	(164,519)	(294,714)
10,138	-	-	173	-	130,382	137,146
-	-	-	(1,824)	-	(4,862)	(7,689)
-	-	-	3,047	-	14,247	12,896
(662)	(1)	(5)	(72)	-	(29,754)	(31,900)
-	-	-	40,734	243,602	284,336	231,069
-	-	-	(25,651)	(245,318)	(270,969)	(213,470)
(1,569)	-	-	(1,326)	-	2,087	1,653
-	-	-	13,189	1	42,670	29,104
-	-	-	(6,360)	(2,076)	(39,987)	(33,183)
(46)	-	-	96	-	(1,179)	186
25,552	(1)	(5)	2,548	(3,791)	130,799	(15,274)
-	260,490	15,000	-	-	1,440,910	1,075,810
(89,385)	-	-	-	-	(1,208,085)	(1,011,545)
(10,641)	-	-	-	-	(100,549)	(112,060)
(14)	(370)	(102)	-	-	(2,650)	(2,534)
(1,392)	-	-	-	-	-	-
(6,315)	-	-	-	-	-	-
-	387	113	-	-	-	-
-	-	-	-	-	-	-
(107,747)	260,507	15,011	-	-	129,626	(50,329)
(656)	-	-	-	-	(3,557)	(1,599)
1,714	132	7	2,463	279	17,171	37,063
4,869	-	-	-	-	64,797	25,164
4,982	-	-	42,000	4,820	1,362,531	638,001
(2,843)	-	-	(52,049)	(4,696)	(1,465,447)	(877,989)
49,699	-	-	(2,096)	-	-	-
57,765	132	7	(9,682)	403	(24,505)	(179,360)
(24,430)	260,638	15,013	(7,134)	(3,388)	235,920	(244,963)
66,064	-	-	35,517	6,858	410,786	655,749
$ 41,634	$ 260,638	$ 5,013	$ 28,383	$ 3,470	$ 646,706	$ 410,786

(continued)

Statement of Cash Flows (in thousands)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance
Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:			
Revenues over (under) expenses	$ 4,297	$ 4,564	$ (7,890)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:			
Amortization of premiums (discounts) and fees on loans	-	(53)	1,485
Depreciation	2,590	-	-
Realized losses (gains) on sale of securities, net	(2)	141	473
Unrealized losses (gains) on securities, net	(25)	(48)	(8,948)
Provision for loan losses	-	(505)	27,513
Reduction in carrying value of certain low interest rate and/or deferred loans	-	749	8,655
Capitalized interest on loans and real estate owned	-	(179)	(6,234)
Interest earned on investments	(340)	(1,963)	(9,919)
Interest expense on bonds and notes	-	8,081	83,689
Changes in assets and liabilities:			
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	14,293	(8,698)
Decrease (increase) in interest receivable on loans	-	95	(1,535)
Increase (decrease) in arbitrage rebate liability	-	47	141
Increase (decrease) in accounts payable	1,399	(2)	(1,467)
Increase (decrease) in interfund payable, affecting operating activities only	(567)	-	342
Increase (decrease) in funds held for others	(2,071)	-	-
Other	(1,575)	(1)	(36)
Total	(591)	20,655	85,461
Net cash provided (used) by operating activities	$ 3,706	$ 25,219	$ 77,571

See accompanying notes to financial statements.

Bond Funds			Appropriated Funds			
Single Family	Homeownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total for the Year Ended June 30, 2010	Total for the Year Ended June 30, 2009
$ 4,924	$ (1)	$ (5)	$ (6,349)	$ (211)	$ (671)	$ (21,747)
(742)	-	-	-	-	690	1,630
-	-	-	-	-	2,590	1,966
(143)	-	-	-	-	469	(952)
(27)	-	-	614	27	(8,407)	1,392
(1,478)	-	-	1,515	-	27,045	29,850
-	-	-	20,038	-	29,442	46,196
(311)	-	-	-	-	(6,724)	(2,971)
(3,754)	(132)	(7)	(2,137)	(252)	(18,504)	(30,184)
9,606	132	7	-	-	101,515	112,285
17,691	-	-	(19,458)	-	3,828	(141,086)
402	-	-	-	-	(1,038)	(2,940)
(62)	-	-	-	-	126	472
(26)	-	-	346	2,737	2,987	(3,399)
(528)	-	-	900	(147)	-	-
-	-	-	6,829	(2,076)	2,682	(4,079)
-	-	-	250	(3,869)	(5,231)	(1,707)
20,628	-	-	8,897	(3,580)	131,470	6,473
$ 25,552	$ (1)	$ (5)	$ 2,548	$ (3,791)	$ 130,799	$ (15,274)

Nature of Business and Fund Structure

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

The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to a total outstanding amount of $5.0 billion. The bonds and other obligations are not a debt of the State of Minnesota or any political subdivision thereof.

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

General Reserve

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

Rental Housing

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

Residential Housing Finance

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

Bonds

This bond resolution had been the principal source of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans, although no bonds were issued to support home improvement lending during fiscal year 2010. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets of the bonds issued and outstanding under the resolution are pledged to the repayment of Residential Housing Finance bonds, except that the limited obligation debt is issued under separate resolutions and is secured by the proceeds thereof as invested.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are three subfunds: Housing Investment Fund (Pool 2), Housing Affordability Fund (Pool 3) and one or more limited obligation note accounts. Except for funds in a limited obligation note account, funds deposited therein

Nature of Business and Fund Structure (continued)

would otherwise be available to be transferred to General Reserve under the applicable bond resolution. The Alternative Loan Fund is not pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency and, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2010 this fund provided capital for several Agency programs including its home improvement loan program, its multifamily first-mortgage loan program, warehousing purchases of single family first-mortgage loans and mortgage-backed securities secured by single family first mortgage loans, tax credit bridge loans, contributions for limited obligation note expenses and bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire high interest-rate debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2010 resources from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, nonprofit capacity building and organization support, and deferred, subordinated loans to support multifamily first mortgages.

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

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

Single Family

Bonds issued for homeownership programs were issued under Single Family until 2002 when the Agency began using Residential Housing Finance. The Agency generally expects to issue bonds for homeownership programs under Residential Housing Finance and the newer Homeownership Finance. Loans in Single Family are secured by first mortgages on real property.

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

Homeownership Finance

The Agency adopted a new bond resolution for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program. In December 2009 the Homeownership Finance bond resolution was adopted for the purpose of facilitating the administration and financing of programs for the development or acquisition of owner-occupied housing in Minnesota, at prices that persons of low or moderate income can afford, by providing funds to acquire mortgage loans or mortgage-backed securities secured by mortgage loans for owner-occupied housing purposes. No mortgage loans or mortgage-backed securities had been funded by bonds issued under this resolution as of the end of fiscal year 2010.

Multifamily Housing

The Agency concluded it was to its advantage to adopt a new bond resolution for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. In December 2009 the Multifamily Housing Bonds resolution was adopted for the purpose of facilitating the acquisition, rehabilitation and improvement of a large multifamily rental housing development in Minnesota for persons of low or moderate income by providing funds to make one or more mortgage loans to the owners of the development. No mortgage loans had been funded by bonds issued under this resolution as of the end of fiscal year 2010.

Nature of Business and Fund Structure (continued)

State Appropriated

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

Federal Appropriated

The Federal Appropriated fund was established to account for funds received from the federal government which are to be used for programs for low- and moderate-income persons and families in the form of no-interest deferred loans and grants in support of foreclosure counseling and remediation efforts, assistance to tax credit developments and other housing-related program costs. The net assets of the Federal Appropriated fund are not pledged or available to support bondholders or creditors of the Agency.

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Generally Accepted Accounting Principles

The Agency has adopted Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting.* The Agency has applied all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This Statement addresses whether and when intangible assets should be considered capital assets for financial reporting purposes. It requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. It also provides guidance on recognizing internally generated computer software as an intangible asset. This Statement also establishes guidance on amortization of intangible assets. The provisions of this Statement generally are required to be applied retroactively. GASB Statement No. 51 is required to be effective for the Agency's fiscal year ended June 30, 2010. The adoption of this Statement did not affect the Agency's financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* This Statement defines derivative instruments and requires governmental entities to measure most derivative instruments at fair value and report them on the financial statements as assets or liabilities. Changes in the fair value of derivative instruments would be reported in the financial statements as investment gains and losses, unless certain criteria are met for investing the derivative instrument as a hedge, in which case a deferred inflow or outflow would be reported on the statement of net assets. This statement also requires note disclosure that includes summary information about derivative instruments used as hedges and investments, and disclosure of the risk exposures resulting from the derivative instruments. GASB Statement No. 53 was adopted by the Agency for fiscal year ended June 30, 2010. The adoption of this statement did not

Summary of Significant Accounting Policies (continued)

affect net assets for fiscal year 2010 since the Agency's interest rate swap agreements were determined to be effective hedges and, therefore, did not result in unrealized gain or loss.

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

Cash and Cash Equivalents

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

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

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

Loans Receivable, Net

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

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

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

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

Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2010.

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

Summary of Significant Accounting Policies (continued)

of multifamily development loans are amortized using the effective interest method over the term of the loan. The amount amortized is included in interest earned on loans.

Interest Receivable on Loans

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

Deferred Loss on Interest Rate Swaps Agreements

The Agency's interest rate swap agreements have a negative fair value as of the end of fiscal 2010. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss in this category.

FHA/VA Insurance Claims Receivable

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category.

Real Estate Owned

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

Unamortized Bond Issuance Costs

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

Bonds Payable, Net

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

Interest Rate Swap Agreements

Because the Agency's interest rate swap agreements have a negative fair value as of the end of fiscal 2010, they are recorded here as a liability.

Deferred Revenue-Service Release Fees

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

Interfund Payable (Receivable)

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

Summary of Significant Accounting Policies (continued)

Funds Held for Others

Funds held for others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds; it is not included in the investment income of General Reserve. Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow funds and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held For Others and not included in the investment income of Federal Appropriated.

Restricted by Bond Resolution

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

Restricted by Covenant

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

Restricted by Law

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

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain of the funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2009 are for comparative purposes only.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets excluding the reserve for loan loss, unearned discounts on loans, the proceeds of short-term debt, premiums on loans, deferred bond issuance costs, unrealized appreciation and depreciation on investments, and deferred loss on interest rate swap agreements.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of $1.850 million are reflected as administrative reimbursement revenues in the General Reserve.

Summary of Significant Accounting Policies (continued)

Administrative reimbursements in the amount of $19.809 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

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

Reduction in Carrying Value of Certain Low Interest Rate Deferred Loans

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

Other Changes

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

Non-operating Transfer of Assets Between Funds

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers among the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3); periodic transfers to bond funds to fulfill bond resolution requirements; and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2010 were $79.7 million and $3.6 million for Residential Housing Finance and Single Family, respectively.

Use of Estimates

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

Related Party Transactions

In fiscal year 2006 an advance was made from Residential Housing Finance to optionally redeem bonds in Single Family in order to take advantage of economically favorable conditions. The advance to Single Family was being repaid according to the original debt repayment schedule but was extinguished in fiscal year 2010.

Change in Accounting Principle

In fiscal year 2010 the Agency adopted GASB 53, *Accounting and Financial Reporting for Derivative Instruments.* This resulted in the recording of the fair value of the Agency's interest rate swap contracts as

Summary of Significant Accounting Policies (continued)

liability and as a deferred loss. Included in the comparison totals for fiscal year 2009 is the fair value of those interest rate swap contracts as of June 30, 2009 as estimated by the respective counterparties.

Income Taxes

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

Rebateable Arbitrage

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

Cash, Cash Equivalents and Investment Securities

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

Cash and Cash Equivalents are generally stated at cost, which approximates market value. Certain investment agreements are stated at an amount that is less than cost. The balances were composed of the following at June 30, 2010 (in thousands):

Cash and Cash Equivalents

Funds	Deposits	Money Market Fund	State Investment Pool	Investment Agreements	Combined Totals
General Reserve	$ —	$ —	$ 52,134	$ —	$ 52,134
Rental Housing	—	12,226	—	24,031	36,257
Multifamily Housing	—	15,013	—	—	15,013
Residential Housing Finance	2,497	89,676	—	117,004	209,177
Single Family	394	11,133	—	30,107	41,634
Homeownership Finance	—	260,638	—	—	260,638
State Appropriated	133	6,830	21,420	—	28,383
Federal Appropriated	380	2,795	295	—	3,470
Agency-wide Totals	$3,404	$398,311	$73,849	$171,142	$646,706

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

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

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions. As of June 30, 2010, all the investment agreement providers, or the investment agreement guarantors if more highly rated, had a Standard & Poor's long-term credit rating of "A-" or higher and a Moody's long-term credit rating of "A3" or higher, except for Depfa Bank PLC's Standard & Poor's rating which is discussed below. The individual investment agreements are unrated. Substantially all of the agreements contain "termination" clauses so that the Agency may withdraw funds early if credit ratings deteriorate below specified levels and remedial action is not taken. Certain investment agreements with Depfa Bank PLC ($31.679 million) and Credit Agricole CIB ($22.437 million) require downgrade to the

Cash, Cash Equivalents and Investment Securities (continued)

ratings on the related bonds before triggering the termination clauses. Because Depfa Bank PLC's rating was downgraded to "BBB" by Standard & Poor's. The Agency reduced the carrying value of those agreements by $1.107 million as of June 30, 2010.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, certificates of deposit, commercial paper and corporate notes) are recorded at fair market value and were allocated to the following funds at June 30, 2010 (in thousands):

Investment Securities

Funds	Investment Securities-Other Amortized Cost	Program Mortgage-backed Securities Amortized Cost	Unrealized Appreciation (Depreciation) in Fair Market Value	Estimated Fair Market Value
General Reserve	$ 55,336	$ —	$ 467	$ 55,803
Rental Housing	31,357	—	777	32,134
Multifamily Housing	—	—	—	—
Residential Housing Finance	553,727	32,024	8,625	594,376
Single Family	4,739	—	591	5,330
Homeownership Finance	—	—	—	—
State Appropriated	60,051	—	559	60,610
Federal Appropriated	8,510	—	254	8,764
Agency-wide Totals	$713,720	$32,024	$11,273	$757,017

U.S. Treasury securities, U.S. Agency securities, corporate notes and commercial paper in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. U.S. treasury and U.S. agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name. Certificates of deposit pledged as collateral for certain limited obligation notes with the Federal Home Loan Bank of Des Moines are held by the Federal Home Loan Bank of Des Moines in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities by their lowest Standard & Poor's/Moody's rating. U.S. Treasury securities are not classified because they are not considered to have credit risk. Investment securities' credit rating categories (without qualifiers) at June 30, 2010 were (in thousands):

Credit Ratings of Investment Securities

Type	Par Value	AAA/Aaa	AA/Aa
Certificates of Deposit	$332,355	$332,355	$ —
U.S. Agencies	366,221	336,221	—
Municipals	36,970		36,970
Agency-wide Totals	$735,546	$668,576	$ 36,970
U.S. Treasuries	10,683		
Agency-wide Totals	$746,229		

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized appreciation of $9.909 million and net discounts of $0.783 million), along with the weighted average maturities (in years) as of June 30, 2010, consisted of the following (in thousands):

Cash, Cash Equivalents and Investment Securities (continued)

Cash, Cash Equivalents and Investment Securities

		Weighted Average Maturity, in Years							
Type	Par Value	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated
Deposits	$ 3,404	—	—	—	—	—	—	—	—
Certificates of Deposit	332,355	—	—	—	—	—	—	—	—
Money market fund	398,311	—	—	—	—	—	—	—	—
State Investment Pool	73,849	—	—	—	—	—	—	—	—
Investment agreements	171,142	—	—	—	—	—	—	—	—
U.S. Agencies	366,221	2.6	8.0	24.1	12.8	—	—	3.2	5.3
U.S. Treasuries	10,683	—	—	9.8	6.6	—	—	—	7.4
Municipals	36,970	—	—	—	—	—	—	—	—
Agency-wide Totals	$1,392,935								
Weighted Average Maturity		1.3	3.3	6.6	1.2	—	—	2.2	2.2

Investments in any one issuer, excluding investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, as of June 30, 2010 were as follows (in thousands):

Investment Issuer	Amount
Federal Home Loan Bank of Des Moines, Certificates of Deposit	$332,355
Federal National Mortgage Association, U.S. Agencies	95,754
Federal Home Loan Mortgage Corporation, U.S. Agencies	58,846
Federal Home Loan Bank, U.S. Agencies	53,310
Assured Guaranty Municipal Corporation, Investment Agreements	53,181

The Agency maintained certain deposits and investments throughout fiscal year 2010 that were subject to custodial credit risk. As of June 30, 2010, the amounts subject to this risk consisted of the following (in thousands):

	Amount
Deposits not covered by depository insurance and uncollateralized (including $398,311 in a money market fund and $73,849 in the State investment pool)	$ 475,564
Investment securities (which excludes investment agreements) uninsured, uncollateralized and not held in the Agency's name	802,982
Agency-wide Total	$1,278,546

Net realized gain on sale of investment securities of $0.469 million is included in interest earned on investments.

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2010 were as follows (in thousands):

Funds	Amount
Rental Housing	$19,722
Residential Housing Finance	52,820
Single Family	7,646
Totals	$80,188

Loans Receivable, Net

Loans receivable, net at June 30, 2010 consisted of (in thousands):

Funds	Outstanding Principal	Allowance for Loan Losses	Unamortized Premiums (Discounts) and Fees	Loans Receivable, Net
General Reserve	$ —	$ —	$ —	$ —
Rental Housing	187,731	(7,110)	(1,241)	179,380
Residential Housing Finance	1,949,823	(35,857)	2,906	1,916,872
Single Family	138,020	(1,155)	(928)	135,937
Homeownership Finance	—	—	—	—
Multifamily Housing	—	—	—	—
State Appropriated	37,301	(1,375)	—	35,926
Federal Appropriated	—	—	—	—
Agency-wide Totals	$2,312,875	$(45,497)	$ 737	$2,268,115

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. The majority of the loans in the Single Family fund and a significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not eliminate, loan losses. Losses on mortgage loans in the Single Family fund are also secured by an insurance reserve fund established under the bond resolution therefor.

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. During fiscal year 2010 the unpaid principal amount of loans with such characteristics aggregated $10.666 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), $0.768 million in Rental Housing and $22.187 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below.

Loans receivable, net and gross in Residential Housing Finance at June 30, 2010 consist of a variety of loans as follows (in thousands):

Description	Net Outstanding Amount	Gross Outstanding Amount
Residential Housing Finance Bonds:		
Homeownership, first mortgage loans	$1,593,427	$1,606,426
Other homeownership loans, generally secured by a second mortgage	2,091	2,167
Alternative Loan Fund, Housing Investment Fund (Pool 2):		
Home Improvement loans, generally secured by a second mortgage	116,713	119,199
Homeownership, first mortgage loans	26,230	27,193
Multifamily, first mortgage loans	155,185	170,610
Alternative Loan Fund, Housing Affordability Fund (Pool 3):		
Other homeownership loans, the majority secured by a second mortgage	23,226	24,228
Residential Housing Finance Totals	$1,916,872	$1,949,823

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

Other Assets

Other assets, including receivables, at June 30, 2010 consisted of the following (in thousands):

Funds	Receivables Due from the Federal Government	Other Assets and Receivables	Total
General Reserve	$1,262	$ 4	$1,266
Rental Housing	—	3	3
Residential Housing Finance	—	265	265
Single Family	—	718	718
Homeownership Finance	—	—	—
Multifamily Housing	—	—	—
State Appropriated	—	—	—
Federal Appropriated	5,152	—	5,152
Agency-wide Totals	$6,414	$990	$7,404

Bonds Payable, Net

Bonds payable, net at June 30, 2010 were as follows (in thousands):

Funds	Par Bonds Outstanding	Net Unamortized Deferred Variable Rate Fees	Net Unamortized Premium and Deferred Fees	Net Unamortized Deferred Loss	Bonds Payable, Net
Rental Housing	$ 151,955	$ —	$ —	$ (1,870)	$ 150,085
Residential Housing Finance	2,103,005	(96)	4,109	(491)	2,106,527
Single Family	116,405	—	—	—	116,405
Homeownership Finance	260,490	—	—	—	260,490
Multifamily Housing	15,000	—	—	—	15,000
Sub-totals	$2,646,855	$(96)	$4,109	$(2,361)	$2,648,507
Residential Housing Finance- Line of Credit Advances	56,000	—	—	—	56,000
Totals	$2,702,855	$(96)	$4,109	$(2,361)	$2,704,507

Summary of bond activity from June 30, 2009 to June 30, 2010 (in thousands):

Funds	June 30, 2009 Bonds Outstanding, at Par	Par Issued	Par Repaid	June 30, 2010 Bonds Outstanding, at Par
Rental Housing	$ 164,545	$ —	$ 12,590	$ 151,955
Residential Housing Finance	2,099,675	1,109,440	1,106,110	2,103,005
Single Family	205,790	—	89,385	116,405
Homeownership Finance	—	260,490	—	260,490
Multifamily Housing	—	15,000	—	15,000
Totals	$2,470,010	$1,384,930	$1,208,085	$2,646,855

Bonds Payable, Net (continued)

Bonds payable at June 30, 2010 were as follows (in thousands):

Series	Interest rate	Final Maturity	Original Par	June 30, 2010 Bonds Outatanding, at Par
Rental Housing Bonds				
1995 Series C-2	5.85% to 5.95%	2015	$ 38,210	$ 5,480
1995 Series D	5.80% to 6.00%	2022	234,590	9,050
1997 Series A	5.40% to 5.875%	2028	4,750	3,775
1998 Series A	5.375%	2028	5,505	5,505
1998 Series B	6.60%	2019	4,180	2,510
1998 Series C	4.75% to 5.20%	2029	2,865	2,290
1999 Series A	4.65% to 5.10%	2024	4,275	3,125
1999 Series B	5.50% to 6.15%	2025	3,160	2,030
2000 Series A	5.55% to 6.15%	2030	9,290	5,700
2000 Series B	5.90%	2031	5,150	4,270
2001 Series A	4.50% to 5.35%	2033	4,800	4,215
2002 Series A	3.55% to 4.05%	2014	27,630	12,795
2003 Series A	4.55% to 4.95%	2045	12,770	12,040
2003 Series B	4.15% to 5.08%	2031	1,945	1,725
2003 Series C-1	4.35% to 5.20%	2034	2,095	1,915
2004 Series A	3.35% to 5.00%	2035	9,345	7,820
2004 Series B	4.00% to 4.85%	2035	3,215	2,980
2004 Series C	3.20% to 4.40%	2022	80,000	45,380
2005 Series A-1	4.25% to 4.85%	2035	1,725	1,620
2006 Series A-1	4.40% to 5.10%	2047	6,615	6,480
2006 Series B	4.89%	2037	5,020	4,835
2006 Series C-1	4.96%	2037	2,860	2,750
2007 Series A-1	4.65%	2038	3,775	3,665
			473,770	151,955
Residential Housing Finance Bonds				
2002 Series A	4.75% to 5.30%	2019	14,035	3,515
2002 Series B	4.90% to 5.65%	2033	59,650	12,570
2002 Series A-1	4.20% to 4.90%	2019	6,860	4,410
2002 Series B-1	4.20% to 5.35%	2033	25,760	13,065
2002 Series E	4.30% to 5.00%	2020	12,805	7,630
2002 Series F	4.30% to 5.40%	2032	52,195	21,515
2002 Series H	4.93%	2012	20,000	10,000
2003 Series A	3.05% to 4.30%	2034	40,000	16,950
2003 Series B	Variable	2033	25,000	25,000
2003 Series I	3.95% to 5.25%	2020	25,000	9,400
2003 Series J	Variable	2033	25,000	21,220
2004 Series A	3.20% to 4.25%	2018	22,480	19,440
2004 Series B	3.35% to 5.00%	2033	94,620	48,765
2004 Series C	4.70%	2035	14,970	13,100
2004 Series E-1	4.10% to 4.60%	2016	5,110	3,845
2004 Series E-2	4.40% to 4.60%	2016	6,475	4,875
2004 Series F-1	4.20% to 4.50%	2012	4,600	620
2004 Series F-2	4.20% to 5.25%	2034	36,160	23,130

continued

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2010 Bonds Outatanding, at Par
Residential Housing Finance Bonds (continued)				
2004 Series G	Variable	2032	$ 50,000	$ 39,160
2005 Series A	3.20% to 4.125%	2018	14,575	9,595
2005 Series B	4.75% to 5.00%	2035	20,425	15,405
2005 Series C	Variable	2035	25,000	20,110
2005 Series G	4.25% to 4.30%	2018	8,950	8,430
2005 Series H	4.00% to 5.00%	2036	51,050	37,765
2005 Series I	Variable	2036	40,000	32,395
2005 Series J	3.625% to 4.00%	2015	11,890	11,450
2005 Series K	3.70% to 4.40%	2028	41,950	30,760
2005 Series L	4.75% to 5.00%	2036	48,165	38,485
2005 Series M	Variable	2036	60,000	48,090
2005 Series O	3.90% to 4.20%	2015	4,510	4,510
2005 Series P	4.00% to 5.00%	2036	65,490	54,265
2006 Series A	3.50% to 4.00%	2016	13,150	9,430.
2006 Series B	4.60% to 5.00%	2037	43,515	37,785
2006 Series C	Variable	2037	28,335	25,060
2006 Series F	3.75% to 4.25%	2016	11,015	8,050
2006 Series G	4.85% to 5.50%	2037	58,985	54,650
2006 Series H	5.85%	2036	15,000	8,370
2006 Series I	4.10% to 5.75%	2038	95,000	81,120
2006 Series J	6.00% to 6.51%	2038	45,000	38,395
2006 Series L	3.55% to 3.95%	2016	6,740	5,450
2006 Series M	4.625% to 5.75%	2037	35,260	34,350
2006 Series N	5.20% to 5.76%	2037	18,000	14,910
2007 Series C	3.625% to 3.95%	2017	12,515	10,550
2007 Series D	4.60% to 5.50%	2038	62,485	58,525
2007 Series E	Variable	2038	25,000	20,545
2007 Series H	3.65% to 3.95%	2017	12,230	12,230
2007 Series I	3.95% to 5.50%	2038	100,270	91,745
2007 Series J	Variable	2038	37,500	31,565
2007 Series L	3.00% to 5.50%	2048	105,000	98,545
2007 Series M	6.345%	2038	70,000	65,950
2007 Series P	3.50% to 3.90%	2017	4,305	4,155
2007 Series Q	3.80% to 5.50%	2038	42,365	40,195
2007 Series R	4.46% to 4.76%	2013	2,840	2,000
2007 Series S	Variable	2038	18,975	18,975
2007 Series T	Variable	2048	37,160	35,840
2008 Series A	2.60% to 4.65%	2023	25,090	23,290
2008 Series B	5.50% to 5.65%	2033	34,910	34,620
2008 Series C	Variable	2048	40,000	40,000
2009 Series A	1.85% to 5.20%	2023	26,795	25,175
2009 Series B	5.00% to 5.90%	2038	33,205	31,795
2009 Series C	Variable	2036	40,000	40,000
2009 Series D	1.20% to 4.00%	2020	19,830	19,830
2009 Series E	2.05% to 5.10%	2040	103,960	103,960

continued

Bonds Payable, Net (continued)

Series	Interest rate	Final Maturity	Original Par	June 30, 2010 Bonds Outatanding, at Par
Residential Housing Finance Bonds (continued)				
2009 Series F	Variable	2031	$ 34,120	$ 34,120
			2,191,280	1,770,650
Limited Obligation Notes				
2010-A	0.27%	2010	332,355	332,355
			332,355	332,355
Single Family Mortgage Bonds				
1994 Series E	5.60% to 5.90%	2025	31,820	10,720
1994 Series T	6.125%	2017	16,420	340
1996 Series A	6.375%	2028	34,480	2,130
1996 Series B	6.35%	2019	7,990	1,090
1996 Series C	6.10%	2015	12,345	525
1996 Series D	6.00%	2017	23,580	615
1996 Series E	6.25%	2023	14,495	955
1996 Series F	6.30%	2028	18,275	1,200
1996 Series G	6.25%	2028	41,810	1,925
1996 Series H	6.00%	2021	13,865	630
1996 Series I	8.00%	2017	14,325	320
1997 Series D	5.80% to 5.85%	2021	15,885	2,035
1997 Series E	5.90%	2029	23,495	1,740
1998 Series F-1	5.05% to 5.45%	2017	10,650	775
1998 Series G-1	5.60%	2022	6,150	975
1998 Series H-1	5.65%	2031	14,885	2,360
1998 Series F-2	5.00% to 5.70%	2017	11,385	1,750
1998 Series G-2	6.00%	2022	6,605	2,105
1998 Series H-2	6.05%	2031	15,965	5,110
1999 Series H	5.30% to 5.80%	2021	16,350	3,050
1999 Series I	5.35% to 6.05%	2031	34,700	3,870
1999 Series J	5.00%	2017	4,745	1,870
1999 Series K	4.40% to 5.35%	2033	44,515	15,405
2000 Series F	Variable	2031	20,000	6,535
2000 Series G	4.50% to 5.40%	2025	39,990	13,470
2000 Series H	5.50%	2023	32,475	7,920
2001 Series A	5.35% to 5.45%	2022	14,570	5,365
2001 Series B	4.90% to 5.675%	2030	34,855	6,525
2001 Series E	3.30% to 4.90%	2035	23,000	15,095
			599,625	116,405
Homeownership Finance Bonds				
2009 A	Variable	2011	260,490	260,490
			260,490	260,490
Multifamily Housing Bonds				
2009	Variable	2011	15,000	15,000
			15,000	15,000
Combined Totals			$3,872,520	$2,646,855

Bonds Payable, Net (continued)

The final maturities of the Homeownership Finance Bonds, 2009 Series A and the Multifamily Housing Bonds, Series 2009 are listed in the foregoing table as 2011, because the conditions for release of proceeds of these bonds under the Treasury Department's New Issue Bond Program had not been met as of June 30, 2010. If the conditions for release of proceeds are satisfied, some or all of the bonds will bear interest at a long-term rate and amortize over a term ending for the Homeownership Finance Bonds, 2009 Series A, on July 1, 2041 and for the Multifamily Housing Bonds, Series 2009, on August 1, 2051.

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

Substantially all bonds are subject to optional redemption after various dates at an amount equal to 100% to 102% of the unpaid principal and accrued interest as set forth in the applicable series resolution.

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2010, are as follows (in thousands):

	Rental Housing		Residential Housing Finance (1)	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$ 12,030	$ 7,145	$ 362,765	$ 67,581
2012	12,280	6,629	33,335	65,788
2013	11,275	6,097	44,640	64,328
2014	12,715	5,611	36,830	62,790
2015	7,270	5,091	39,480	61,398
2016-2020	36,845	20,145	214,580	283,628
2021-2025	19,750	12,691	256,080	240,337
2026-2030	16,785	8,104	356,755	183,870
2031-2035	11,655	4,356	418,505	112,170
2036-2040	5,855	2,054	314,040	32,920
2041-2045	4,600	885	13,865	1,919
2046-2050	895	67	12,130	461
Totals	$151,955	$ 78,874	$ 2,103,005	$1,177,191

	Single Family		Homeownership Finance	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$ 3,405	$ 6,036	$260,490	$230
2012	3,600	5,865	-	-
2013	3,775	5,679	-	-
2014	4,170	5,472	-	-
2015	4,505	5,246	-	-
2016-2020	26,765	22,227	-	-
2021-2025	29,080	14,426	-	-
2026-2030	28,345	6,999	-	-
2031-2035	12,760	1,334	-	-
2036-2040	-	-	-	-
2041-2045	-	-	-	-
2046-2050	-	-	-	-
Totals	$116,405	$73,285	$260,490	$230

Bonds Payable, Net (continued)

	Multifamily Housing		Combined Totals	
Fiscal Year	Principal	Interest	Principal	Interest
2011	$15,000	$13	$ 653,690	$ 81,005
2012	-	-	49,215	78,283
2013	-	-	59,690	76,105
2014	-	-	53,715	73,873
2015	-	-	51,255	71,736
2016-2020	-	-	278,190	326,000
2021-2025	-	-	304,910	267,454
2026-2030	-	-	401,885	198,973
2031-2035	-	-	442,920	117,859
2036-2040	-	-	319,895	34,973
2041-2045	-	-	18,465	2,804
2046-2050	-	-	13,025	527
	$15,000	$13	$2,646,855	$1,329,593

(1) Includes limited obligation notes

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

Residential Housing Finance Bonds 2003 Series B and J; 2004 Series G; 2005 Series C, I and M; 2006 Series C; 2007 Series E (Taxable), J (Taxable), S and T (Taxable); 2008 Series C; and 2009 Series C and F accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Future interest due for these bonds, as displayed above in the annual debt service requirements table, is based upon the respective rates in effect on June 30, 2010. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

Single Family Bonds, 2000 Series F accrue interest at a variable rate that is recalculated each calendar month. The rate is the one-month LIBOR (London Interbank Offered Rate) plus 0.30% per annum provided that the rate may not exceed 11.00% per annum. Future interest due for this series, as displayed above in the annual debt service requirements table, is based upon the calculated rate in effect on June 30, 2010. Interest payments on this series of bonds will vary as one-month LIBOR varies.

The income and assets of each of the bond funds are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. The bond resolutions contain covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2010, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Call notices were issued on or before June 30, 2010 for the redemption of certain bonds thereafter. See Subsequent Events.

Interest Rate Swaps

The Agency has entered into certain interest rate swap agreements which are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2010. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2010. In accordance with GASB 53, the Agency recorded the fair value of the agreements on the

Interest Rate Swaps (continued)

statement of net assets. The fair values exclude accrued interest. As of June 30, 2010, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value of the interest rate swap agreements as of June 30, 2009, as determined by the counterparties to the agreements, is displayed for the prior year on the statement of net assets for comparison purposes. The fair value is displayed on the statement of net assets as a liability named "Interest rate swap agreements." The change in fair value for fiscal year 2010 is included in the asset account identified as "Deferred loss on interest rate swap agreements."

Objective of Swaps

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

Swap Payments and Associated Debt

Using rates as of June 30, 2010, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming interest rates remain the same for the term of the bonds, are as follows (in thousands). As interest rates vary, variable rate bond interest payments and net swap payments will vary.

Fiscal Year	Principal	Interest	Interest Rate Swaps, Net	Total
2011	$ 21,010	$2,052	$15,123	$ 38,185
2012	10,935	1,158	15,368	27,461
2013	820	1,157	14,450	16,427
2014	870	1,154	13,679	15,703
2015	1,215	1,151	12,954	15,320
2016-2020	28,530	6,753	66,446	101,729
2021-2025	66,225	6,140	48,201	120,566
2026-2030	111,705	4,971	33,698	150,374
2031-2035	138,785	3,236	22,282	164,303
2036-2040	92,190	1,291	9,267	102,748
2041-2045	9,745	305	1,846	11,896
2046-2050	6,240	115	670	7,025

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2010, are contained in the three tables below (in thousands). All swaps are pay-fixed. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps (except for the 2009 F swap), the Agency has also purchased the cumulative right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and, except for the 2003B, 2003J, 2004G, and 2009F swaps, the right to terminate the swaps at par at approximately the 10-year anniversary date of the swap. The Agency also has the right to terminate outstanding swaps in whole or in part at fair value at any time if it is not in default thereunder.

Interest Rate Swaps (continued)

Counterparty: UBS AG

Moody's / Standard & Poor's Credit Ratings (2): Aa3/A+

Associated Bond Series	Notional Amount as of June 30, 2010	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2010	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010
RHFB 2003B	$ 25,000	July 23, 2003	January 1, 2033	3.532%	65% of 1 month LIBOR* plus 0.23% per annum	$ (1,346)	$ (877)
RHFB 2003J	21,220	October 15, 2003	July 1, 2033	4.183%	65% of 1 month LIBOR* plus 0.23% per annum	(2,210)	(488)
RHFB 2005C	20,110	March 2, 2005	January 1, 2035	3.587%	64% of 1 month LIBOR* plus 0.28% per annum	(1,376)	(392)
RHFB 2006C	25,060	March 21, 2006	January 1, 2037	3.788%	64% of 1 month LIBOR* plus 0.29% per annum	(2,241)	(541)
RHFB 2007S	18,975	December 19, 2007	July 1, 2038	4.340%	100% of SIFMA**** Index plus 0.06% per annum	(838)	(670)
RHFB 2007T (Taxable)	35,840	December 19, 2007	July 1, 2026	4.580%	100% of 1 month LIBOR*	(3,188)	(838)
	$146,205					$ (11,199)	$(3,806)

Counterparty: Royal Bank of Canada

Moody's / Standard & Poor's Credit Ratings (3): Aaa/AA-

Associated Bond Series	Notional Amount as of June 30, 2010	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2010	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010
RHFB 2004G	$ 39,160	July 22, 2004	January 1, 2032	4.165%	64% of 1 month LIBOR* plus 0.26% per annum	$ (3,624)	$ (765)
RHFB 2007E (Taxable)	20,545	March 7, 2007	July 1, 2038	5.738%	100% of 1 month LIBOR*	(2,313)	(166)
RHFB 2007J (Taxable)	31,565	May 17, 2007	July 1, 2038	5.665%	100% of 1 month LIBOR*	(3,478)	(342)
RHFB 2008C (Taxable)	40,000	August 7, 2008	July 1, 2048	4.120%	64% of 1 month LIBOR* plus 0.30% per annum	(4,421)	(1,171)
RHFB 2009C (Taxable)	40,000	February 12, 2009	July 1, 2039	3.070%	64% of 1 month LIBOR* plus 0.30% per annum	(5,557)	(982)
RHFB 2009F	34,120	December 1, 2009	September 12, 2017	2.365%	100% of weekly SIFMA**** plus 0.80% per annum	(891)	(891)
	$205,390					$ (20,284)	$(4,317)

Interest Rate Swaps (continued)

Counterparty: Citibank, N.A.

Moody's / Standard & Poor's Credit Ratings [4]: A1/A+

Associated Bond Series	Notional Amount as of June 30, 2010	Effective Date	Swap Maturity Date	Fixed Rate Payable	Variable Rate Receivable	Fair Value (1) as of June 30, 2010	Increase (Decrease) in Fair Value for the Fiscal Year Ended June 30, 2010
RHFB 2005I	$ 32,395	June 2, 2005	January 1, 2036	3.570%	64% of 1 month LIBOR* plus .28% per annum	$ (2,401)	$ (692)
RHFB 2005M	48,090	August 4, 2005	January 1, 2036	3.373%	64% of 1 month LIBOR* plus 0.29% per annum	(3,193)	(1,056)
	$ 80,485					$ (5,594)	$(1,748)
Combined Totals	$432,080					$ (37,077)	$(9,871)

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

(2) Moody's has given the "Aa3" rating of this counterparty (UBS AG) a negative outlook and Standard & Poor's has given the "A+" rating of this counterparty (UBS AG) a stable outlook.

(3) Moody's has given the "Aaa" rating of this counterparty (Royal Bank of Canada)a negative outlook and Standard & Poor's has give the "AA-" rating of this counterparty (Royal Bank of Canada) a positive outlook.

(4) Moody's has given the "A1" rating of this counterparty (Citibank, N.A.) a stable outlook and Standard & Poor's has given the "A+" rating of this counterparty (Citibank, N.A.) a negative outlook.

* London Inter-Bank Offered Rate
** Moody's Investor Service, Inc.
*** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies
**** Securities Industry and Financial Markets Association

Termination Risk

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

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2010, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, aparty post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is $50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, $5 million if the ratings are not less than "A+" and "A1", $3 million if the ratings are not less than "A" and "A2", and $0, if either rating is lower. These bilateral

Interest Rate Swaps (continued)

requirements are established to mitigate potential credit risk exposure. As of June 30, 2010, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

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

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month, taxable LIBOR rate or the SIFMA index rate, plus a specified spread if the swap relates to tax-exempt bonds. Basis risk will vary over time due to inter-market conditions. As of June 30, 2010, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.29% to 0.31% per annum while the variable interest rate on the associated swaps ranged from 0.37% to 0.52% per annum. As of June 30, 2010, the interest rate on the Agency's variable rate taxable debt was 0.33% per annum while the variable interest rate on the corresponding swaps was 0.35% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap has been based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

Tax Risk

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

Conduit Debt Obligation

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the corporation to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2010, $31.1 million of the bonds were outstanding. Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

Appropriation Debt Obligation

In October, 2009 the Agency issued a series of bonds under a new indenture of trust that permits capital funding for permanent supportive housing for long-term homeless households and other purposes. As of June 30, 2010, $13.3 million of the bonds were outstanding. These bonds are secured solely by state appropriations. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency other than the appropriations the Agency expects to receive from the State General Fund pursuant to a standing appropriation made by the Legislature in 2008. Thus, the bonds are not recorded as a liability in the accompanying financial statements.

Defeased Debt

On December 1, 2009, the Agency issued $157,910,000 of Residential Housing Finance Bonds, 2009 Series DEF, a portion of which defeased $52,910,000 of the Agency's outstanding Single Family Mortgage Bonds, 1995 Series M, 1996 Series JK, 1997 Series ABC, 1997 Series IJKL, 1998 Series AB, 1998 Series

Defeased Debt (continued)

CDE, 1999 Series BCD, 2000 Series ABC, and 2000 Series IJ. Consequently, the trust account assets and the liability for the defeased bonds were not included in the Agency's statement of net assets after that date. The reacquisition price exceeded the net carrying amount of the defeased debt by $0.573 million, which has been netted against the new debt and amortized over the remaining life of the refunded debt. The refunding of these bonds decreased total future debt service by approximately $18.931 million and resulted in a present value savings of approximately $13.917 million. At June 30, 2010, the outstanding principal of the defeased bonds was $0.

Accounts Payable and Other Liabilities

Accounts payable and other liabilities at June 30, 2010 consisted of the following (in thousands):

Funds	Arbitrage Rebate Payable to the Federal Government and Yield Compliance Liability	Accrued Salaries, Compensated Absences and Employee Benefits	Other Liabilities and Accounts Payable	Total
General Reserve	$	$3,205	$ 2,101	$ 5,306
Rental Housing	4,626	—	19	4,645
Residential Housing Finance	3,987	—	680	4,667
Single Family	348	—	34	382
Homeownership Finance	—	—	39	39
Multifamily Housing	—	—	6	6
State Appropriated	—	—	925	925
Federal Appropriated	—	—	5,612	5,612
Agency-wide Totals	$8,961	$3,205	$9,416	$21,582

The amount of arbitrage rebate payable and yield compliance liability that is not due within one year in Rental Housing is $4.575 million, in Residential Housing Finance is $3.048 million and in Single Family is $0.200 million, for a total of $8.043 million.

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2010 consisted of the following (in thousands):

Due to	Due from								
Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
General Reserve	$ —	$ —	$ —	$ —	$ —	$ —	$ 410	$413	$ 823
Rental Housing	—	—	—	—	—	—	—	—	—
Residential Housing Finance	2,298	—	—	—	—	—	—	—	2,298
Single Family	—	—	482	—	—	—	—	—	482
Homeownership Finance Bonds	—	—	—	—	—	—	—	—	—
Multifamily Housing Bonds	—	—	—	—	—	—	—	—	—
State Appropriated	—	—	80	82	—	—	—	—	162
Federal Appropriated	—	—	—	—	—	—	—	—	
Agency-wide Totals	$2,298	$ —	$562	$82	$ —	$ —	$410	$413	$3,765

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

Interfund Transfers

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2010 consisted of the following (in thousands)

		Transfer from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$—	$1,571	$14,539	$1,569	$ —	$ —	$1,720	$2,089	$21,488
	Rental Housing	—	—	—	—	—	—	—	—	—
	Residential Housing Finance	—	—	—	7,707	—	—	2,115	2,465	12,287
	Single Family	—	—	49,699	—	—	—	—	—	49,699
	Homeownership Finance Bonds	—	—	—	—	—	—	—	—	—
	Multifamily Housing Bonds	—	—	—	—	—	—	—	—	—
	State Appropriated	395	—	40	46	—	—	—	—	481
	Federal Appropriated	—	310	92	—	—	—	—	—	402
	Agency-wide Totals	$395	$1,881	$64,370	$49,322	$ —	$ —	$3,835	$4,554	$84,357

Interfund transfers recorded in Interfund Payable (Receivable) were made to move loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including $2.0 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated; to make payments from Single Family to Residential Housing Finance on loans outstanding between those funds and to move nonprofit housing bond principal and interest payments to Residential Housing Finance.

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2010, consisted of the following (in thousands):

		Transfer from								
	Funds	General Reserve	Rental Housing	Residential Housing Finance	Single Family	Home-ownership Finance	Multifamily Housing	State Appropriated	Federal Appropriated	Total
Transfer to	General Reserve	$ —	$—	$ —	$ —	$—	$—	$—	$—	$ —
	Rental Housing	—	—	—	—	—	—	—	—	—
	Residential Housing Finance	12,403		—	17,954	—	—	—	—	30,357
	Single Family	—	—	15,783	—	—	—	—	—	15,783
	Homeownership Finance Bonds	—	—	387	—	—	—	—	—	387
	Multifamily Housing Bonds	—	—	113	—	—	—	—	—	113
	State Appropriated	—	—	—	—	—	—	—	—	—
	Federal Appropriated	—	—	—	—	—	—	—	—	—
	Agency-wide Totals	$12,403	$0	$16,283	$17,954	$—	$—	$—	$—	$46,640

Interfund Transfers (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds normally result from bond sale contributions to new debt issues in other funds, the transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement and periodic transfers from the bond funds of assets in excess of bond resolution requirements.

Net Assets

Restricted by Bond Resolution

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

Restricted by Covenant

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

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

The $476.902 million of net assets restricted by covenant are restricted by a covenant made with bondholders authorized by the Agency's enabling legislation.

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

The combined net assets of the General Reserve and bond funds (exclusive of Pool 3) are required by Board Resolution to be not less than the combined net assets of the same funds as of the immediately preceding fiscal year end. These combined net assets were $668.242 million as of June 30, 2009 and are $683.233 million as of June 30, 2010.

The following table describes total net assets restricted by covenant, including the balances to be maintained according to the Agency's Board guidelines, as of June 30, 2010 (in thousands):

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Housing Endowment Fund (Pool 1), General Reserve				
Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriated loans) and must be invested in short-term, investment-grade securities at market interest rates	$ 22,513	$—	$—	$ 22,513

Net Assets (continued)

Net Assets — Restricted By Covenant	Certain Balances Maintained According to Agency's Board Guidelines	Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	Mitigate Pool 1 Unrealized Depreciation in Fair Market Value	Total Net Assets Restricted by Covenant
Unrealized depreciation in fair market value of investments, excluding multifamily development escrow investments	—	25	—	25
Subtotal, Housing Endowment Fund (Pool 1), General Reserve	$ 22,513	$25	$—	$ 22,538
Housing Investment Fund (Pool 2), Residential Housing Finance				
An amount that causes the combined net assets in the General Reserve Account and bond funds (exclusive of Pool 3) to be the greater of the combined net assets of the same funds for the immediately preceding audited fiscal year end or the combined net assets of the same funds for the immediately preceding fiscal year end plus current fiscal year income over expenses and transfers to Pool 2 less an amount transferred to Pool 3 ($0 for fiscal year 2010). Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities.	376,364	—	—	376,364
Unrealized depreciation in fair market value of investments	—	4,505	—	4,505
Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance	376,364	4,505	—	380,869
Housing Affordability Fund (Pool 3), Residential Housing Finance				
Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities.	71,769	—	—	71,769
Unrealized appreciation in fair market value of investments	—	1,726	—	1,726
Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance	71,769	1,726	—	73,495
Agency-wide Total	$470,646	$6,256	$—	$476,902

Net Assets (continued)

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Net Assets Restricted by Law. The $11.111 million of net assets restricted by law in the Federal Appropriated fund as of June 30, 2010 are restricted by federal requirements that control the use of the funds. The $117.209 million of net assets restricted by law in the State Appropriated fund as of June 30, 2010 are restricted by the state laws appropriating such funds.

Defined Benefit Pension Plan

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

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

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

Effective Date	Employee	Employer
07/01/09	4.75%	4.75%
07/01/10	5.00%	5.00%

The Agency's pension contribution to the System for the fiscal year ended June 30, 2010 was $666 thousand.

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

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Actual Covered Payroll (Previous FY)	UAAL as a % of Covered Payroll
07/01/09	$9,030,401	$10,512,760	$1,482,359	85.90%	$2,329,499	63.63%
07/01/08	9,013,456	9,994,602	981,146	90.18%	2,256,528	43.48%
07/01/07	8,904,517	9,627,305	722,788	92.49%	2,095,310	34.50%

Defined Benefit Pension Plan (continued)

Schedule of Employer Contributions (dollars in thousands)

Year Ended June 30	Actuarially Required Contribution Rate	Actual Covered Payroll	Actual Member Contributions	Annual Required Employer Contributions	Actual Employer Contributions*	Percent Contributed
2009	12.39%	$2,329,499	$108,866	$179,759	$107,211	59.64%
2008	11.76%	2,256,528	99,280	$166,088	$96,746	58.25%
2007	10.11%	2,095,310	89,447	122,389	86,492	70.67%

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

The information presented was as of July 1, 2009, which is the latest actuarial information available.

The above summarizes the defined benefit pension plan. Please refer to the July 1, 2008, Minnesota State Employees Retirement Fund Actuarial Valuation and Review for a more comprehensive description. The actuarial valuation and review can be obtained from the financial information page of the Minnesota State Retirement System web site at www.msrs.state.mn.us. The information contained in that web site is also available in alternative formats to individuals with disabilities. Please call 1-800-657-5757 or use the MN Relay Service at 1-800-627-3529.

Other Postemployment Benefits

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

The State of Minnesota obtained an actuarial valuation from an independent firm of its postretirement medical benefits as of July 1, 2006 to determine its other postemployment benefits (OPEB) liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The State and the Agency recorded the liability for the first time during fiscal 2008. The State calculated the Agency's portion of the OPEB obligation based upon active employee count. For the Agency in fiscal 2008, the annual required contribution (ARC) was $96 thousand, the employer contribution was $58 thousand and the net OPEB obligation (NOO) was $38 thousand. The NOO is $151 thousand for fiscal 2010. The NOO was recorded as an expense and a corresponding liability by the Agency.

This is a cost sharing plan. The State of Minnesota has not prepared separate financial statements for the plan. The actuarial method used to determine the actuarial accrued liability and the annual required contribution was the entry age normal method. The assumed discount rate was 4.75% and the assumed payroll growth rate was 4.0%. Future retirees who are eligible for an implicit subsidy are assumed to elect coverage at a 50% rate. The projected annual medical claims cost trend rate is 9.13% initially, reduced by decrements to an ultimate rate of 5.0% for the year 2026 and beyond. Mortality was determined using 1983 Group Annuity Mortality Tables.

The funding status, from the report dated July 31, 2008, which is the latest available, is described in the following tables on a plan-wide basis. The Agency portion is not separately determinable. The State of Minnesota also subsidizes the healthcare and dental premium rates for certain other state agency retirees. That liability is reflected in the tables along with the implicit rate subsidy.

Other Postemployment Benefits (continued)

The funding status is summarized as follows.

Schedule of Funding Progress
(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	$0	$564,809	$564,809	0.0%	$1,961,643	28.79%
07/01/08	0	664,452	664,452	0.0	1,891,300	35.13

Schedule of Employer Contributions
(dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
06/30/08	$56,314	$24,611	43.70%	$31,703
06/30/09	65,480	24,055	36.74	73,127
06/30/10	67,663	28,343	41.89	112,447

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Fiscal Year Ended	Annual Required Contribution (ARC)	Employer Contribution	Interests on NOO	ARC Adjustment with Interest (h) / (e) * 1.0475	Amortization Factor	Annual OPEB Cost (a) + (c) – (d)	Change in NOO (f) – (b)	NOO Balance LY + (g)
06/30/08	$56,314	$24,611	$ —	$ —	27.0839*	$56,314	$31,703	$ 31,703
06/30/09	65,200	24,055	1,506	1,226	27.0839*	65,480	41,425	73,127
06/30/10	67,018	28,343	3,474	2,828	27.0839*	67,663	39,320	112,447

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

Risk Management

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

Type of coverage	Coverage Limit
Real and personal property loss	$ 4,781,597
Business interruption/loss of use/extra expense	50,000,000
Bodily injury and property damage per person	500,000
Bodily injury and property damage per occurrence	1,500,000
Faithful performance/commercial crime	14,000,000
Employee dishonesty	250,000

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

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

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

Commitments

As of June 30, 2010, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

Funds	Amount
General Reserve	$ —
Rental Housing	16,694
Multifamily Finance	—
Residential Housing Finance	193,326
Single Family	—
Homeownership Finance	—
State Appropriated	109,876
Federal Appropriated	97,411
Agency-wide Totals	$417,307

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

The Agency has cancellable lease commitments for office facilities through May 2012 and for parking through February 2012. Combined office facilities and parking lease expense for fiscal year 2010 was $1.106 million. Commitments for future minimum lease payments under cancellable leases for office facilities and parking are (in thousands):

	Fiscal Year		
	2011	2012	Total
Amount	$1,011	$927	$1,938

On June 30, 2010 the Agency had in place a $68.3 million revolving line of credit with the Federal Home Loan Bank of Des Moines collateralized with $6.5 million of homeownership loans and $61.8 million of mortgage-backed securities, all of which reside in Pool 2. The advances taken during fiscal year 2010 were used to purchase and warehouse mortgage-backed securities in Pool 2. The line of credit activity for the year ended June 30, 2010, is summarized as follows (in thousands):

Beginning Balance	Draws	Repayments	Ending Balance
$0	$66,000	$10,000	$56,000

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

Subsequent Events

The Agency called for redemption subsequent to June 30, 2010 the following bonds (in thousands):

Program	Redemption Date	Par
Residential Housing Finance	July 1, 2010	$52,615,000
Single Family	July 1, 2010	9,290,000
Rental Housing	July 6, 2010	200,000
Rental Housing	July 16, 2010	60,000
Rental Housing	August 20, 2010	710,000
Rental Housing	September 17, 2010	505,000

Subsequent Events (continued)

On July 22, 2010 the Board of the Agency adopted a bond resolution authorizing the issuance of up to $332.355 million of limited obligation bonds for the purpose of preserving volume cap for future use. A Limited Obligation Bonds Note 2010B in the amount of $332.355 million was delivered on August 24, 2010. The proceeds of the Limited Obligation Note Series 2010B were used to retire the Limited Obligation Note Series 2010A in the amount of $332.355 million on August 24, 2010.

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MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
General Reserve and Bond Funds
Five Year Financial Summary (in thousands)
Fiscal Years 2006 – 2010

		2006	2007	2008	2009	2010
Loan Receivable, net (as of June 30)	Multifamily programs	$ 350,661	$ 348,974	$ 346,509	$ 348,563	$ 334,565
	Homeownership programs	1,302,544	1,588,871	1,899,313	1,934,766	1,780,911
	Home Improvement programs	123,531	121,977	115,452	108,893	116,713
	Total	$1,776,736	$2,059,822	$2,361,274	$2,392,222	$2,232,189
Mortgage-backed securities net, at par (as of June 30)	Program mortgage-backed securities	$ -	$ -	$ -	$ -	$ 32,321
	Warehoused mortgaged-backed securities	-	-	-	-	$ 107,330
	Total	$ 0	$ 0	$ 0	$ 0	$ 139,651
Bonds Payable, net (as of June 30)	Multifamily programs	$ 200,744	$ 191,691	$ 178,431	$ 162,288	$ 165,085
	Homeownership programs	1,725,347	2,187,297	2,217,945	2,296,445	2,524,422
	Home Improvement programs	20,000	20,000	15,000	15,000	15,000
	Total	$1,946,091	$2,398,988	$2,411,376	$2,473,733	$2,704,507
Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year	Multifamily programs	$ 29,534	$ 19,306	$ 30,169	$ 41,897	$ 20,874
	Homeownership programs	393,866	424,436	436,263	207,050	55,891
	Program and warehoused mortgage-backed securities	-	-	-	-	140,992
	Home Improvement programs	51,119	29,456	19,883	17,977	32,299
	Total	$ 474,519	$ 473,198	$ 486,315	$ 266,924	$ 250,056
Net Assets (as of June 30)	Total Net Assets	$ 719,887[1]	$ 750,990[1]	$ 662,124	$ 668,242	$ 683,233
	Percent of total assets	25.7%[1]	22.8%[1]	19.9%	20.2%	19.1%
Revenue over Expenses	Revenues over expenses for the fiscal year	$ 22,695[1]	$ 31,103[1]	$ 35,352	$ 6,118	$ 14,991

Notes:

Does not include State Appropriated

(1) Includes Pool 3

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2010 (with comparative totals as of June 30, 2009)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance Excluding Pool 3	Single Family
Assets	Cash and cash equivalents	$ 52,134	$ 36,257	$ 204,570	$ 41,634
	Investments-program mortgage-backed securities	-	-	33,686	-
	Investment securities-other	55,803	32,134	515,207	5,330
	Loans receivable, net	-	179,380	1,893,646	135,937
	Interest receivable on loans	-	973	14,136	1,086
	Interest receivable on investments	417	649	943	58
	Deferred loss on interest rate swap agreements	-	-	37,077	-
	FHA/VA insurance claims	-	-	9,561	1,846
	Real estate owned	-	-	23,271	755
	Unamortized bond issuance costs	-	1,556	9,956	898
	Capital assets, net	1,631	-	-	-
	Other assets	1,266	3	262	718
	Total assets	$111,251	$250,952	$2,742,315	$188,262
Liabilities	Bonds payable, net	$ -	$150,085	$2,162,527	$116,405
	Interest payable	-	3,029	42,022	3,021
	Interest rate swap agreements	-	-	37,077	-
	Deferred revenue-service release fees	-	-	1,298	-
	Accounts payable and other liabilities	5,306	4,645	4,592	382
	Interfund payable (receivable)	1,475	-	(1,724)	(400)
	Funds held for others	80,301	-	-	-
	Total liabilities	87,082	157,759	2,245,792	119,408
	Commitments and contingencies				
Net Assets	Restricted by bond resolution	-	93,193	115,654	68,854
	Restricted by covenant	22,538	-	380,869	-
	Restricted by law	-	-	-	-
	Invested in capital assets	1,631	-	-	-
	Total net assets	24,169	93,193	496,523	68,854
	Total liabilities and net assets	$111,251	$250,952	$2,742,315	$188,262

Bond Funds						
Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total As Of June 30, 2010	General Reserve & Bond Funds Excluding Pool 3 Total As Of June 30, 2009	Residential Housing Finance Excluding Pool 3	General Reserve & Bond Funds Total as of June 30, 2010	General Reserve & Bond Funds Total as of June 30, 2009
$260,638	$15,013	$ 610,246	$ 366,283	$ 4,607	$ 614,853	$ 368,411
-	-	33,686	-	-	33,686	-
-	-	608,474	493,648	45,483	653,957	554,434
-	-	2,208,963	2,370,170	23,226	2,232,189	2,392,222
-	-	16,195	15,166	78	16,273	15,235
-	-	2,067	1,549	161	2,228	1,781
-	-	37,077	27,205	-	37,077	27,205
-	-	11,407	10,372	-	11,407	10,372
-	-	24,026	13,101	-	24,026	13,101
409	108	12,927	13,698	-	12,927	13,698
-	-	1,631	2,585	-	1,631	2,585
-	-	2,249	1,289	3	2,252	1,289
$261,047	$15,121	$3,568,948	$3,315,066	$73,558	$3,642,506	$3,400,333
$260,490	$15,000	$2,704,507	$2,473,733	$ -	$2,704,507	$2,473,733
132	7	48,211	49,956	-	48,211	49,956
-	-	37,077	27,205	-	37,077	27,205
-	-	1,298	-	-	1,298	-
39	6	14,970	14,802	75	15,045	17,384
-	-	(649)	4	(12)	(661)	92
-	-	80,301	81,124	-	80,301	81,124
260,661	15,013	2,885,715	2,646,824	63	2,885,778	2,649,494
386	108	278,195	266,726	-	278,195	266,726
-	-	403,407	398,931	73,495	476,902	481,528
-	-	-	-	-	-	-
-	-	1,631	2,585	-	1,631	2,585
386	108	683,233	668,242	73,495	756,728	750,839
$261,047	$15,121	$3,568,948	$3,315,066	$73,558	$3,642,506	$3,400,333

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Revenues, Expenses and Changes in Net Assets (in thousands)
General Reserve and Bond Funds
June 30, 2010 (with comparative totals as of June 30, 2009)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance Excluding Pool 3	Single Family
Revenues	Interest earned on loans	$ -	$11,993	$113,358	$11,271
	Interest earned on investments-program mortgage-backed securities	-	-	702	-
	Interest earned on investments-other	342	1,895	8,337	3,959
	Administrative reimbursement	21,658	-	-	-
	Fees earned and other income	8,907	656	240	-
	Unrealized gains (losses) on Investments	25	48	7,968	27
	Total revenues	30,932	14,592	130,605	15,257
Expenses	Interest	-	8,081	83,689	9,606
	Loan administration and trustee fees	-	133	5,871	636
	Administrative reimbursement	-	1,571	13,513	1,569
	Salaries and benefits	17,815	-	-	-
	Other general operating	8,820	-	27	-
	Reduction in carrying value of certain low interest rate deferred loans	-	748	-	-
	Provision for loan losses	-	(505)	26,293	(1,478)
	Total expenses	26,635	10,028	129,393	10,333
	Revenues over (under) expenses	4,297	4,564	1,212	4,924
Other changes	Non-operating transfer of assets between funds	(6,794)	-	8,465	(2,171)
	Non-operating transfer of contribution to (from) program funds	-	-		-
	Change in net assets	(2,497)	4,564	9,677	2,753
Net Assets	Total net assets, beginning of year	26,666	88,629	486,846	66,101
	Total net assets, end of year	$24,169	$93,193	$496,523	$68,854

Bond Funds						
Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2009	Residential Housing Finance Pool 3	General Reserve & Bond Funds Total for the Year Ended June 30, 2010	General Reserve & Bond Funds Total for the Year Ended June 30, 2009
$ -	$ -	$136,622	$140,655	$ 323	$136,945	$141,023
-	-	702	-	-	702	-
132	8	14,673	22,968	963	15,636	25,862
-	-	21,658	24,375	-	21,658	24,375
-	-	9,803	9,870	138	9,941	9,948
-	-	8,068	(1,190)	980	9,048	(1,021)
132	8	191,526	196,678	2,404	193,930	200,187
132	8	101,516	112,286	-	101,516	112,286
1	5	6,646	7,007	7	6,653	7,016
-	-	16,653	16,728	1,026	17,679	17,708
-	-	17,815	17,743	-	17,815	17,743
-	-	8,847	8,710	598	9,445	9,935
-	-	748	-	8,655	9,403	20,302
-	-	24,310	28,086	1,220	25,530	28,817
133	13	176,535	190,560	11,506	188,041	213,807
(1)	(5)	14,991	6,118	(9,102)	5,889	(13,620)
387	113	-	-	-	-	-
-	-	-	-	-	-	-
386	108	14,991	6,118	(9,102)	5,889	(13,620)
-	-	668,242	662,124	82,597	750,839	764,459
$386	$108	$683,233	$668,242	$73,495	$756,728	$750,839

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds
Year ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

			Bond Funds		
		General Reserve	Rental Housing	Residential Housing Finance Excluding Pool 3	Single Family
Cash flows from operating activities:	Principal repayments on loans	$ -	$15,060	$129,305	$17,704
	Investment in loans	-	(767)	(124,885)	(13)
	Interest received on loans	-	11,977	107,807	10,138
	Other operating	-	-	(27)	-
	Fees and other income received	8,865	656	1,541	-
	Salaries, benefits and vendor payments	(22,646)	(135)	(6,132)	(662)
	Administrative reimbursement from funds	21,092	(1,571)	(13,513)	(1,569)
	Deposits into funds held for others	29,480	-	-	-
	Disbursements made from funds held for others	(31,551)	-	-	-
	Interfund transfers and other assets	(1,534)	(1)	18,809	(46)
	Net cash provided (used) by operating activities	3,706	25,219	112,905	25,552
Cash flows from noncapital financing activities:	Proceeds from sale of bonds and notes	-	-	1,165,420	-
	Principal repayment on bonds and notes	-	(12,590)	(1,106,110)	(89,385)
	Interest paid on bonds and notes	-	(7,666)	(82,242)	(10,641)
	Financing costs paid related to bonds issued	-	-	(2,164)	(14)
	Interest paid/received between funds	-	-	1,353	(1,392)
	Principal paid/received between funds	-	-	(12,085)	(6,315)
	Agency contribution to program funds	-	-	(500)	-
	Transfer of cash between funds	(12,403)	-	12,403	-
	Net cash provided (used) by noncapital financing activities	(12,403)	(20,256)	(23,925)	(107,747)
Cash flows from investing activities:	Investment in real estate owned	-	-	(2,901)	(656)
	Interest received on investments	1,850	2,126	7,274	1,714
	Proceeds from sale of mortgage insurance claims/real estate owned	-	-	59,928	4,869
	Proceeds from maturity, sale or transfer of investment securities	19,000	29,187	1,176,578	4,982
	Purchase of investment securities	(55,383)	(26,189)	(1,254,275)	(2,843)
	Purchase of loans between funds	-	-	(49,699)	49,699
	Net cash provided (used) by investing activities	(34,533)	5,124	(63,095)	57,765
	Net increase (decrease) in cash and cash equivalents	(43,230)	10,087	25,885	(24,430)
Cash and cash equivalents:	Beginning of year	95,364	26,170	178,685	66,064
	End of year	$52,134	$36,257	$204,570	$41,634

Bond Funds					
Homeownership Finance Bonds	**Multifamily Housing Bonds**	**General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010**	**Residential Housing Finance Pool 3**	**General Reserve & Bond Funds Year Ended June 30, 2010**	**General Reserve & Bond Funds Year Ended June 30, 2009**
$ -	$ -	$ 162,069	$ 3,071	$ 165,140	$ 150,698
-	-	(125,665)	(16,189)	(141,854)	(266,924)
-	-	129,922	287	130,209	136,976
-	-	(27)	(3,011)	(3,038)	(5,374)
-	-	11,062	138	11,200	9,914
(1)	(5)	(29,581)	(101)	(29,682)	(31,849)
-	-	4,439	(1,026)	3,413	6,661
-	-	29,480	-	29,480	28,817
-	-	(31,551)	-	(31,551)	(33,154)
-	-	17,228	(18,503)	(1,275)	3,234
(1)	(5)	167,376	(35,334)	132,042	(1,001)
260,490	15,000	1,440,910	-	1,440,910	1,075,810
-	-	(1,208,085)	-	(1,208,085)	(1,011,545)
-	-	(100,549)	-	(100,549)	(112,060)
(370)	(102)	(2,650)	-	(2,650)	(2,534)
-	-	(39)	39	-	-
-	-	(18,400)	18,400	-	-
387	113	-	-	-	-
-	-	-	-	-	-
260,507	15,011	111,187	18,439	129,626	(50,329)
-	-	(3,557)	-	(3,557)	(1,599)
132	7	13,103	1,326	14,429	31,678
-	-	64,797	-	64,797	25,164
-	-	1,229,747	85,964	1,315,711	590,501
-	-	(1,338,690)	(70,012)	(1,408,702)	(873,319)
-	-	-	2,096	2,096	1,312
132	7	(34,600)	19,374	(15,226)	(226,263)
260,638	15,013	243,963	2,479	246,442	(277,593)
-	-	366,283	2,128	368,411	646,004
$260,638	$15,013	$ 610,246	$ 4,607	$ 614,853	$ 368,411

(Continued)

MINNESOTA HOUSING FINANCE AGENCY
Supplementary Information (Unaudited)
Statement of Cash Flows (in thousands)
General Reserve and Bond Funds (continued)
Year ended June 30, 2010 (with comparative totals for the year ended June 30, 2009)

Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities:

	General Reserve	Bond Funds: Rental Housing	Bond Funds: Residential Housing Finance Excluding Pool 3	Bond Funds: Single Family
Revenues over (under) expenses	$4,297	$ 4,564	$ 1,212	$ 4,924
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:				
Amortization of premiums (discounts) and fees on loans	-	(53)	1,512	(742)
Depreciation	2,590	-	-	-
Realized losses (gains) on sale of securities, net	(2)	141	486	(143)
Unrealized losses (gains) on securities, net	(25)	(48)	(7,968)	(27)
Provision for loan losses	-	(505)	26,293	(1,478)
Reduction in carrying value of certain low interest rate and/or deferred loans	-	749	-	-
Capitalized interest on loans and real estate owned	-	(179)	(6,234)	(311)
Interest earned on investments	(340)	(1,963)	(8,969)	(3,754)
Interest expense on bonds and notes	-	8,081	83,689	9,606
Changes in assets and liabilities:				
Decrease (increase) in loans receivable, excluding loans transferred between funds	-	14,293	4,420	17,691
Decrease (increase) in interest receivable on loans	-	95	(1,526)	402
Increase (decrease) in arbitrage rebate liability	-	47	141	(62)
Increase (decrease) in accounts payable	1,399	(2)	1,040	(26)
Increase (decrease) in interfund payable, affecting operating activities only	(567)	-	18,842	(528)
Decrease in funds held for others	(2,071)	-	-	-
Other	(1,575)	(1)	(33)	-
Total	(591)	20,655	111,693	20,628
Net cash provided (used) by operating activities	$3,706	$25,219	$112,905	$25,552

Bond Funds					
Homeownership Finance	Multifamily Housing	General Reserve & Bond Funds Excluding Pool 3 Total For The Year Ended June 30, 2010	Residential Housing Finance Pool 3	General Reserve & Bond Funds Year Ended June 30, 2010	General Reserve & Bond Funds Year Ended June 30, 2009
$ (1)	$(5)	$ 14,991	$ (9,102)	$ 5,889	$(13,620)
					0
-	-	717	(27)	690	1,630
-	-	2,590	-	2,590	1,966
-	-	482	(13)	469	(952)
-	-	(8,068)	(980)	(9,048)	1,021
-	-	24,310	1,220	25,530	28,817
-	-	749	8,655	9,404	20,302
-	-	(6,724)	-	(6,724)	(2,971)
(132)	(7)	(15,165)	(950)	(16,115)	(25,147)
132	7	101,515	-	101,515	112,285
-	-	36,404	(13,118)	23,286	(116,226)
-	-	(1,029)	(9)	(1,038)	(2,940)
-	-	126	-	126	472
-	-	2,411	(2,507)	(96)	(4,508)
-	-	17,747	(18,500)	(753)	4,183
-	-	(2,071)	-	(2,071)	(4,337)
-	-	(1,609)	(3)	(1,612)	(976)
-	-	152,385	(26,232)	126,153	12,619
$ (1)	$(5)	$167,376	$(35,334)	$132,042	$ (1,001)

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Location

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

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

(651) 296-7608 (general phone number)

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