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Annual Report 1978

Minnesota Housing Finance Agency



Purpose of MHFA

- **MHFA has implemented the first state-financed graduated payment mortgage program in the country.**
- **Approximately 5,800 families have purchased homes with MHFA financing.**
- **Approximately 1,650 minority families have been served by MHFA's single family ownership and rehabilitation programs.**
- **Over 20,000 homes have been repaired or improved with MHFA assistance.**
- **56 families with handicapped members have received MHFA grants to make their homes accessible.**
- **44 MHFA-financed apartment developments are completed and occupied, 53 are under construction and 75 are in process.**
- **Apartment developments financed or in process represent over 12,000 housing units located in 120 communities throughout the State.**
- **23 percent of the multifamily developments are in communities of under 2,500 population and 19 percent are in communities of over 50,000 population.**
- **Apartment developments already completed have generated an estimated $10,000,000 in wages for on-site construction workers. Developments under construction or in process will generate an estimated $26,000,000 in wages.**

The Minnesota Housing Finance Agency was created in 1971 by the State Legislature to provide housing opportunities for Minnesotans of low and moderate income. In order to ensure that Agency resources benefit people with the greatest needs who are not being served by private enterprise or other public bodies, the Agency monitors demographic trends, changes in the housing stock, local and regional needs, fluctuations in the cost and availability of mortgage financing, and housing programs sponsored by other public agencies.

The Agency places particular emphasis on assisting people with special needs such as the elderly, the handicapped and the developmentally disabled. It actively promotes equal opportunity and affirmative action to ensure that assistance is provided without regard to race, color, creed, national origin, sex, religion, marital status, age, handicapped status or reliance on public assistance.

The Agency is dedicated to ensuring that low and moderate income residents of our state are provided the opportunity to obtain decent, safe and affordable housing. To that end the MHFA has assembled the most comprehensive array of housing assistance programs of any state agency in the nation.



Board Members

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Peter L. Vanderpoel, Vice Chairman — State Planning Director, St. Paul[1]

Robert W. Mattson, Secretary — State Auditor, St. Paul (not shown)[2]

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Para-Legal, Ramsey County Legal Assistance[3]

Reverend Lawrence C. Gavin, Member — Term expires January 1, 1980
Pastor, Church of St. Edward, Austin[4]

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Alderman, City of Minneapolis

James C. Price, Member — Term expires January 1, 1981
Director of Office of Career Development and Placement, University of Minnesota, Duluth

[1]**Arthur Sidner,** Vice Chairman — State Planning Director, St. Paul (as of 1/79)

[2]**Arne Carlson,** Secretary — State Auditor, St. Paul (as of 1/79)

[3]**Robert A. Worthington,** Member — Term expires January 3, 1983
Director, Planning and Governmental Affairs, Rauenhorst Corporation

[4]Resigned February 1979 — currently vacant

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1978 Progress Report

We are pleased at this time to transmit the fifth annual report of the Minnesota Housing Finance Agency. Five years is an important milestone. We have attempted in this report to portray not only our activities during the past year, but also our accomplishments since the Agency was established.

The first years of the Agency's existence were years of pioneering, of rapid growth, of high production levels. The Agency was the first state housing agency in the country to establish home improvement loan and grant programs and a graduated payment mortgage program. It is still the only state agency in the country to operate a single family accessibility grant program and an Indian home loan program.

These accomplishments have been made possible by the competence and energy of the Agency Board and staff, the support and cooperation of lenders, labor unions, the construction industry, public interest groups and local units of government, and the strong backing and commitment of our Governors and the State Legislature.

The solid support of all these people will continue to be crucial as the Agency enters a new period where emphasis must be placed on program refinement and improved resource management.

The Agency has already begun to move in this direction. This past year we have taken steps to improve the quality and efficiency of our internal management information systems, to devote greater staff time and attention to the monitoring of existing loan portfolios and apartment developments, to consolidate our home improvement programs and to examine our current programs to ensure that they are adjusted to reflect changing needs and conditions.

The following report is a brief summary of Agency accomplishments. It is designed to show how Agency programs operate, who participates, and who benefits. It tells a story through numbers, pictures, and words. It is meant to focus on people and communities — because it is the impact the Agency's programs have on people and communities that is the justification for continuing the work of the Minnesota Housing Finance Agency.

Respectfully Submitted,

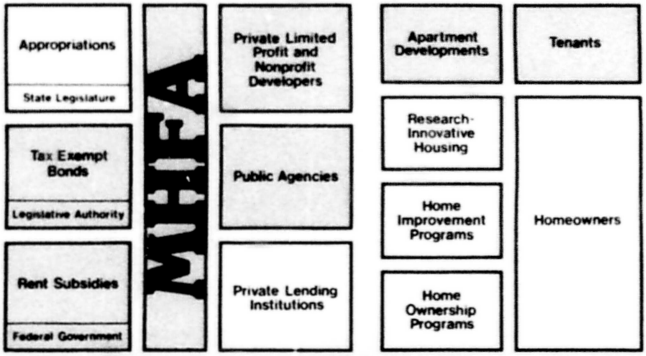
Demetrius G. Jelatis

Demetrius G. Jelatis
Chairman

James Solem

James J. Solem
Executive Director

December 29, 1978



Apartment Development Program

The MHFA Apartment Development Program provides rental housing opportunities for families and individuals of low and moderate income. Since 1975, the program has served 120 rural and urban communities throughout Minnesota. In addition to family and elderly units, some of which are designed to be accessible to the handicapped, MHFA also supports the development of group homes for the developmentally disabled. The Agency's two primary responsibilities under the Apartment Development Program include the provision of financing to developers at lower than market interest rates and the administration of federal rent subsidies to tenants residing in these MHFA-financed complexes.

Construction Loans and Mortgage Financing

High construction costs that cannot be supported by current rental market levels have resulted in a slowdown in the development of conventionally-financed multifamily rental housing. A common goal shared by state housing finance agencies nationwide is the stimulation of the rental market. To help alleviate the shortage of rental units in Minnesota, the MHFA provides both construction loans and permanent mortgage financing to private and nonprofit developers of multifamily housing.

Funds raised through the sale of tax-exempt revenue notes and bonds to private investors make MHFA financing available at terms more advantageous than conventional financing can offer. The most widely recognized aspect of MHFA mortgage loans is the below market interest rate. This lower interest rate depends on the bond market at the time of permanent financing. Consequently, the exact interest rate charged on MHFA mortgages varies according to bond market fluctuations. Other advantages of MHFA financing include a 50 percent property tax abatement, a longer repayment term, and MHFA's assumption of a greater percentage of the project's total development cost. The Agency's professional staff works closely with project sponsors on design, underwriting, construction, marketing and management.

Through the end of Fiscal Year 1978 the MHFA has issued commitments to finance 125 developments containing 9,857 rental units. Forty-four developments containing 3,399 units have been completed and are in operation. Fifty-three developments containing 4,329 units are under construction. An additional 75 developments containing over 4,800 units are currently being processed by the Agency. ***All completed developments and those under construction in 1978 represent $77,000,000 in mortgages.***



Five percent of the units in the developments which use Section 8 assistance are designed for accessibility to the handicapped. In addition, four multi-unit developments located in metropolitan areas are designed so that all units are accessible.

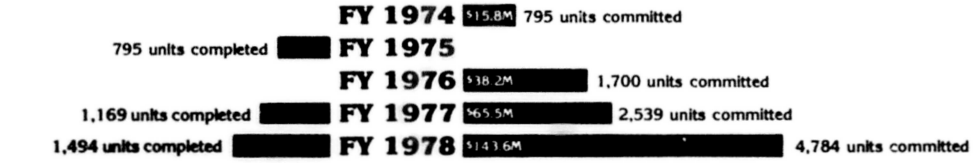
Two hundred people with developmental disabilities have also been aided under the Apartment Development Program. Twenty-one group homes throughout the State have received permanent financing from the MHFA totaling $3,104,932.

Few multifamily programs in the country can equal MHFA's record of geographic distribution and service to a large number of communities. Small towns like Blackduck as well as large cities like Minneapolis and St. Paul have benefited from the development of an MHFA financed apartment complex. The availability of community services, the need for the units, and the proximity to commercial services of the proposed development are major criteria in determining the location of developments. The MHFA development in Blackduck is being well-served in a community of 600, as are the developments in the more populous urban areas.

Each of the apartment developments is privately designed, often by local architects, and this breadth of design talent is reflected in the range of dwelling types produced and the variety of construction materials used.

The Agency's special attention to quality design, construction, and management also enables MHFA developments to attract tenants with varied incomes. Recent housing studies indicate that the design quality of the multifamily structure and the expertise of the management team are two important variables affecting the feasibility of an income-mixing policy. This economic integration in rental units financed by the MHFA meets the State Legislature's requirements of providing multifamily developments for tenants of varied economic means.

APARTMENT DEVELOPMENT PROGRAM





Federal Rent Subsidy Allocation

The MHFA receives allocations of federal Section 8 Housing Assistance funds from the Department of Housing and Urban Development for use in apartment developments financed by the Agency. The Section 8 subsidy program directly relates housing assistance to the renter's income. Under Section 8, qualified tenants pay no more than 25 percent of their adjusted income for rent. The federal government pays the difference between the tenant's contribution and the approved market rate rent. In using Section 8 rental subsidies MHFA is able to reach even lower income families, elderly, and handicapped households than was possible under previous rent supplement programs. ***During Fiscal Year 1978 the MHFA distributed $3,371,021 in Section 8 Housing Assistance payments to low and moderate income tenants.***

Affirmative Action and Equal Opportunity

Affirmative Action and Equal Opportunity Programs are an integral part of all Agency activities. In the area of multifamily housing construction, the program is implemented through written agreements with all general contractors of MHFA-financed apartment developments. The contractors' achievements are continually monitored by MHFA staff to ensure that minorities and women are included in the project's work force and to provide business opportunities for minority and female contractors and suppliers. While the major accomplishments of the program have been in the metropolitan areas, MHFA-financed developments have provided employment and business opportunities for minorities and women throughout the State.

All multifamily developments are required to incorporate into their marketing plans an Affirmative Fair Housing Marketing Plan. The purpose is to ensure that all Agency-financed apartment developments are economically and racially integrated and that the work force of the marketing firm is integrated as well. The affirmative marketing plans are focused on all protected class persons, including minorities, women, the handicapped and the elderly. Outreach efforts include advertising and information in specialized publications and media programs targeted toward protected class members.

Economic Impact on Labor and Local Business

Although not a stated goal of the Agency, the development of multifamily housing has had a significant impact on both labor and local businesses.

The newly completed Railview Apartment complex in Proctor is providing needed housing in an area of the State with a high proportion of senior citizens. Financed with MHFA mortgage money, the four-story, 60-unit complex was privately designed and built in Proctor, a town of about 3,000 located just southwest of Duluth. Ground breaking ceremonies were held in November 1977, and the last of the units was rented and occupied by June 1, 1978.

Approximately 60 percent of the tenants were homeowners prior to their move to the Railview development. The structure's low-rise design and fireproof masonry construction attracted many of the tenants. Railview's proximity to Proctor community services as well as to the commercial and retail businesses located in nearby Duluth were also incentives. A third reason given by tenants for moving to Railview was the alternative the development provides to the increasing burden of home-ownership.

One couple, Louis and Janet Gjellerstedt, believes developments like Railview offer elderly homeowners an opportunity to sell their homes to younger, larger families who can better use the space. The Gjellerstedts lived in their Hermantown home for 30



MHFA staff estimates that construction of the 125 developments committed to financing by the end of Fiscal Year 1978 will provide approximately 1,500 person years of on-site construction jobs. At an average wage of $9.00 an hour, that would mean that over $28,000,000 in wages will be paid to local construction workers.

The work on MHFA-financed developments also involves numerous developers, contractors, processing agents and management firms. Since 1975 MHFA has issued mortgage commitments of $268,000,000 for apartment developments. It is estimated that 50 to 70 percent of that mortgage total, or between $134,000,000 and $188,000,000 will be channeled directly to small businesses. Architectural and engineering firms benefit from this MHFA-sponsored building activity as well as general contractors, an array of subcontractors and building materials suppliers.

Businesses providing maintenance services to apartment developments also benefit from MHFA financial involvement in the multifamily housing market. The MHFA apartment management staff estimates that approximately $1,000,000 worth of business from MHFA developments went to small businesses in 1978. This represents betweeen one-quarter and one-third of the apartment developments' operating and maintenance expenses. The types of services purchased from these businesses include trash collection, snow removal, and appliance, heating, and plumbing repairs.

years and raised their family there. When Railview opened for occupancy, they sold their home to their son.

"It's only right to have a family in that big house," Louis explains. "I like the idea that my son is going to raise his family there. Who knows, maybe his son will take the place over someday."

In addition to MHFA low-interest construction financing, Railview's operation under the federal rent subsidy program known as Section 8 Housing Assistance Payments assures reasonable rental costs for eligible low-income tenants.

The MHFA Apartment Development Program currently provides rent-subsidized housing for the Gjellerstedts and over 1,600 other elderly households in Minnesota. With MHFA project financing and administration, more affordable and better quality housing is being made available to elderly individuals in locations throughout the State. ■



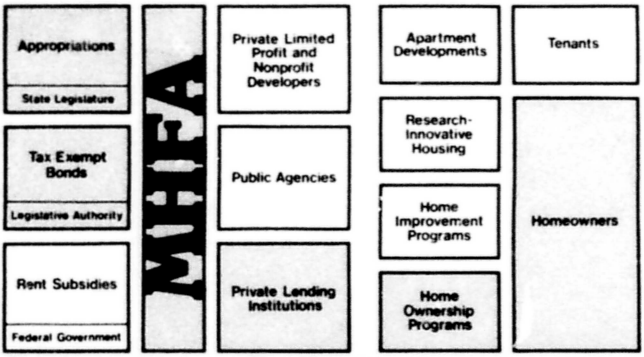
Sunrise Meadow, a townhouse development in St. Peter, is one of the first MHFA-financed townhouse complexes in southern Minnesota designed for families. Over three-fourths of the one, two and three-bedroom units are occupied by families with children.

Built in three stages beginning in October 1977, the first tenants moved in June 1, 1978. This staged construction process allows federal subsidy payments to begin with the first occupancy, while construction continues on the next stages. Shortly after completion of the final stage, the development was 100 percent occupied and a waiting list has been started to accommodate interested families. Larger two and three-bedroom apartments are in short supply in the St. Peter area. Current tenants reported they were often unable to find adequate and affordable rental housing prior to their move to Sunrise Meadow. The quickly growing waiting list attests to this housing shortage.

Sunrise Meadow residents qualify for federal rent subsidy payments which make their own out-of-pocket housing costs more reasonable. While tenants now pay up to 25 percent of their income for rent (with the federal government paying the remainder under the Section 8 Housing Assistance Program), they had previously been paying up to 50 percent of their income for unsubsidized housing.

Located on the northern edge of St. Peter, the 63 units are sited on a five-acre lot. The architects who designed the development responded to the local popularity of two-level townhouse designs. Active living spaces on the ground level are separated from the quieter sleeping spaces above. While groups of units are clustered together on the site, the two-level townhouse design provides greater privacy for tenants than a traditional multi-unit apartment design.

Ed and Pam Thuringer, one of the first families to move to Sunrise Meadow, are pleased with the development. With three children and another expected, the Thuringers regard a three-bedroom apartment as a necessity rather than a luxury. They also appreciate the design quality of Sunrise Meadow's townhouses. Pam Thuringer believes, "For people like us who can't afford our own home just yet, this development is the next best thing."■



Homeownership Programs

Minnesota has always had a high percent of homeownership among its families. In 1977, approximately 75 percent of all occupied housing units were owner-occupied. However, the rising costs of land, construction, utilities and financing are effectively pricing many families out of the single family, owner-occupied housing market. In order to ensure that low and moderate income families are provided with ownership opportunities, the MHFA has developed the Affordable Home Mortgage Program, the Homeownership Assistance Fund, and the Indian Housing Program. In implementing these programs the Agency makes special efforts to ensure that minorities and handicapped people are informed about the Agency's single family programs. The efforts include training sessions and frequent mailings to community organizations and special interest groups that work with protected class persons.

Affordable Home Mortgage Program

The Affordable Home Mortgage Program provides mortgage loans at below market interest rates for existing and newly constructed homes. Eligible structures include owner-occupied one to four-family units, either single family homes, townhouses or condominiums. The maximum sales price for an existing single family dwelling is set at $37,500. For a newly constructed single family dwelling, the maximum is $37,500 plus land purchase costs. Sales prices for two, three and four-family dwellings are $60,000, $75,000 and $90,000 respectively. MHFA will finance home mortgage loans that are FHA-insured, VA guaranteed or conventional loans that are privately insured. A conventional loan may be uninsured if the equity investment exceeds 25 percent of the sales price or appraised value, whichever is less. The maximum repayment term of the loan is 30 years.

Minnesota residents with an annual adjusted income of $16,000 or less who are a reasonable credit risk and who intend to be owner-occupants are eligible for the program. Proceeds from the sale of MHFA tax-exempt revenue bonds finance the Affordable Home Mortgage Program. In 1978 the effective mortgage interest rate was set at 6-3/4 percent. Compared to the 9-3/4 percent interest rate charged on conventional home mortgages for the same period, this reduced Affordable Home interest rate will save a family about $78.75 a month in principal and interest payments over a 30-year mortgage term on a home valued at $37,500.

Affordable Home Mortgage funds are distributed throughout Minnesota based largely on an analysis of regional needs. Private lending institutions are invited to participate in the program by requesting a commit-





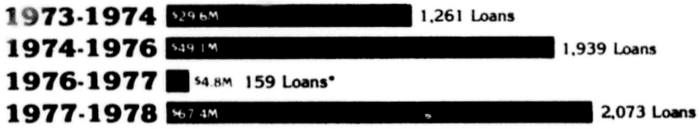
ment of funds from MHFA. In the spring of 1978, 240 banks, savings and loan associations, and private mortgage companies participated in the program. The local lender contracts with the MHFA to accept Affordable Home Mortgage applications, determines eligibility and affordability, secures federal or private mortgage insurance and charges a limited service fee to the borrower. The mortgage loan is closed in the lender's name and is then purchased by MHFA. This partnership between the Agency and private lenders has proven to be an accessible, flexible and efficient means of distributing funds. ***In Fiscal Year 1978, 2,045 homebuyers were approved for Affordable Home Mortgages totaling $66,654,514.***

Homeownership Assistance Fund

For many first time homebuyers, even the lower interest rate charged under the Affordable Home Mortgage Program cannot provide a large enough reduction in payments to make homeownership possible. To provide additional financial assistance, the State Legislature appropriated $7.5 million in 1977 for the creation of a revolving Homeownership Assistance Fund (HAF). Instead of having the same monthly principal and interest payment over a 30-year period, a no-interest HAF loan can help lower the monthly payments in the early years of the mortgage term and provide for gradual increases as the family's household income rises. The HAF loan can also provide downpayment assistance to homebuyers who are unable to make substantial cash downpayments.

The "piggyback" HAF loan, secured by a second mortgage on the property, provides up to $1,000 in downpayment assistance and up to $75 per month toward principal and interest payments. The monthly assistance payments decrease annually by $5 per month. When the full

HOMEOWNERSHIP PROGRAM



*Affordable Homes Demonstration Direct Loan Program



loan is advanced the repayments on the monthly and downpayment assistance begin to increase annually by $10 per month until full repayment is made or until the property is sold.

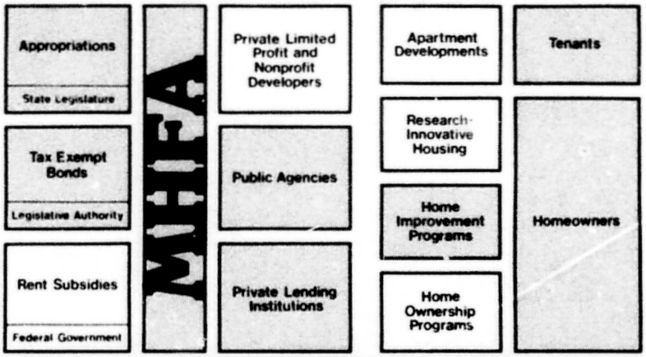
HAF monthly assistance is dependent on a family's annual income, with a maximum adjusted income figure set at $13,000. A low income homebuyer may receive up to $8,200 in downpayment and monthly assistance under the program. As an example, an MHFA borrower would typically need an adjusted income of $14,866 to afford a $33,250 mortgage. HAF assistance would enable families with adjusted incomes as low as $10,000 to assume a similar size mortgage. Without HAF assistance a family with a $10,000 adjusted income could only afford an MHFA mortgage of $22,155. Given today's housing costs, they probably would not be able to find a home they could afford.

HAF loans may only be used in conjunction with the Affordable Home Mortgage Program. At least one-quarter of all borrowers obtaining Affordable Home Mortgages will receive HAF assistance.

Indian Housing Program

The special housing needs of low and moderate income American Indians both on and off reservations are addressed by the MHFA's Indian Housing Program. State appropriations are committed on a revolving loan basis to finance the purchase of new and existing homes and to finance home improvements. The program is administered by the three major tribal organizations in the State: the Minnesota Chippewa Tribe, the Red Lake Band of Chippewa Indians and the Minnesota Sioux Tribe. The tribal housing groups accept loan applications, determine eligibility, approve, and then service the loans. Interest rates are set by the individual tribal organization and vary between three and one-half and five percent. Mortgage terms are set for a maximum of 30 years and the repayment period for rehabilitation loans cannot exceed 15 years. In addition, low and moderate income Indians are eligible to participate in all other Agency programs. Continuous outreach efforts to encourage participation are carried out by Agency staff as well as American Indian organizations.

In Fiscal Year 1978 at least 73 American Indian homebuyers were approved for mortgages, 11 homeowners were approved for rehabilitation loans, and 7 homebuyers were approved for combination homeownership and rehabilitation loans.



Home Improvement Programs

The rehabilitation and preservation of existing housing has become an important public issue in recent years. Increased physical development costs, land shortages, energy considerations and high mortgage interest rates are enhancing the value and desirability of existing housing, yet much of this housing needs basic repairs. Home improvement financing is available in the private market, but usually for short terms and at interest rates that are excessive for many low and moderate income homeowners.

In 1974 the State Legislature established the first state-sponsored rehabilitation program in the country. It authorized the Agency to finance the rehabilitation of homes owned by families of low and moderate income through the use of low interest loans and outright grants. The purpose of the legislation was to help eliminate blight in urban and rural areas, preserve old neighborhoods, minimize displacement of low and moderate income people and improve the quality of the existing housing stock.

The legislation directed that loans and grants be used to "increase the marketability, livability, code compliance or energy efficiency of housing". In implementing the program, MHFA has developed eligibility requirements, loan terms, lender requirements, detailed allocation plans, and locally oriented delivery systems.

To ensure that minorities and handicapped persons are aware of these programs and encouraged to participate the Agency conducts special training sessions and sends frequent mailings to organizations working with protected class persons.

Home Improvement Loan Program

MHFA makes FHA Title I insured home improvement loans at below market interest rates through local lenders. Residences of one to six units are eligible under the program. The loans are financed with the proceeds from revenue bond sales and legislative appropriations. Loans are available to homeowners with adjusted incomes of $16,000 or less. The interest rate varies from one to eight percent depending on the recipient's annual adjusted income. Individual home improvements eligible under the loan program include energy conservation measures, structural additions, interior and exterior remodeling, roofing repairs, plumbing, heating and electrical repairs and improvements which make homes more accessible to the handicapped. The maximum loan amount is $15,000 on a single family home and the repayment term can



be as long as 15 years. Owners of two to six-unit structures can borrow up to $5,000 per unit with a maximum loan total of $25,000 for up to 12 years.

The Home Improvement Loan Program is currently administered at the local level by 224 financial institutions and public housing agencies located in 78 counties throughout the State. These organizations receive a fee from the Agency for originating and processing loans. The loans are then purchased from the lender by the MHFA.

This program's simple operating procedures and the widespread participation of local lenders make the Home Improvement Loan Program an efficient and popular vehicle for conserving Minnesota's valuable housing stock. ***In Fiscal Year 1978 a total of 6,040 home improvement loans were made in the amount of $26,815,444.***

Home Improvement Grant Program

The MHFA Home Improvement Grant Program provides assistance to very low income people who live in their own homes. Grants of up to $5,000 are made to eligible homeowners with adjusted gross incomes of $5,000 or less for improvements to increase energy efficiency, for necessary repairs and improvements, or for structural modifications that will increase the accessibility for the handicapped. Grants of up to $7,500 are approved for those improvements that will facilitate the mobility of a handicapped occupant. Repayment of all or part of the home improvement grant (except accessibility grants) is required if the homeowner sells or transfers his residential property within seven years of the date the grant is issued.

HOME IMPROVEMENT PROGRAMS





Seventy-two housing and redevelopment authorities (HRAs) and Community Action Agencies (CAAs) serve as grant administrators in all regions of the State. Prospective grantees apply to the grant administrator in their area. The local grant administrator determines the applicant's eligibility and forwards the application to MHFA for review. Property inspections prior and subsequent to the repairs assure that all work has been satisfactorily completed.

In Fiscal Year 1978, 56 homeowners received assistance from the accessibility fund. Most of them used the funds for bathroom modifications. Approximately half constructed ramps, and approximately one-fifth modified kitchens or relocated bedrooms. For many of these people it is the first time in years that they can function independently within their own homes.

A total of $9,166,905 was distributed to 2,563 homeowners in Fiscal Year 1978. This represents 43 percent of the $21,500,000 appropriated for the 1978-1979 biennium.

In February 1978, the Arrowhead Economic Opportunity Agency (AEOA), a Community Action Agency serving Cook, Lake, and St. Louis counties, became an approved FHA Title I Lender authorized to make MHFA Home Improvement Loans to homeowners in northeastern Minnesota.

AEOA's decision to become a Title I Lender is an outgrowth of a needs identification study conducted under a special HUD-sponsored program called the "Rural Innovative Housing Project". Administered by the Minnesota Department of Economic Security, the research project stressed the importance of developing better systems for delivering housing services to rural areas.

Existing banks and savings and loan associations in the Arrowhead Region have found it difficult to adequately serve the predominantly rural population spread out over the 9,500 square-mile area. Processing of MHFA Home Improvement Loans by these private lenders has consequently not been inclusive of much of the region.

According to AEOA staff member, Pat DeWitt, even if people are aware that low-cost housing rehabilitation financing may be available through a private lender, they are often reluctant to pursue the program on their own.

"We feel that very few of the people we're now serving under the



MHFA Loan Program would actually go into a lending institution and request assistance," DeWitt says.

Homes improved in this area under the loan program are generally between 40 and 60 years old. AEOA describes many of these residences as the old "main houses" of former Arrowhead farmsteads. Energy-saving improvements are among the most common improvements for which loan applications are made. Although infrequent, the loan program can also help in emergency situations. AEOA believes the MHFA Home Improvement Loan Program is in fact the quickest means of financing emergency services such as furnace and water heater repairs.

During the first six months of 1978, the AEOA processed loans amounting to approximately $123,000 in MHFA funds at income-adjusted interest rates. A wide variety of homeowners have been assisted including several nine and ten-member families. Because of the income adjustment allowances (based on family size) made by the MHFA Loan Program, DeWitt says this is the first home improvement program operating in the Arrowhead Region that is capable of serving large families who would otherwise be ineligible for assistance.

In becoming a Title I Lender, the Arrowhead Economic Opportunity Agency joins 224 banks, savings and loans, and public housing agencies located in 78 counties across Minnesota who are participating in the MHFA Home Improvement Loan Program. ■

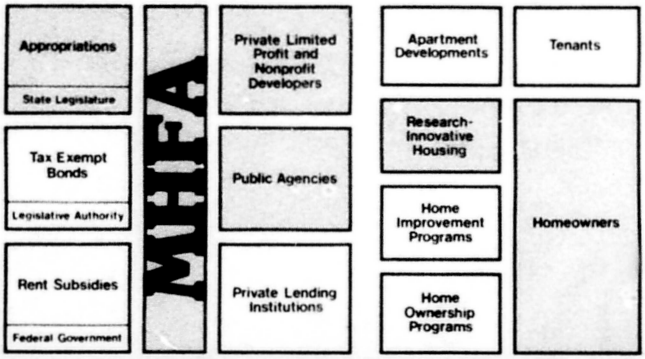


Merriam Park Neighborhood Housing Services (NHS), a non-profit partnership of private lenders, neighborhood residents and the St. Paul Housing and Redevelopment Authority, is promoting what they call a "no strings attached" method of repairing and improving owner-occupied homes in the neighborhood. One of the major financing programs explained to area residents unable to afford conventional financing is the MHFA Home Improvement Grant Program. Since August of 1976, the Merriam Park NHS has used about $100,000 in MHFA grant monies to help homeowners make needed repairs.

Concentrating in small-scale target areas within the 180-block neighborhood, NHS staff members have contacted over 1,500 homeowners to discuss the physical condition of their residences. Because most of the wood frame structures were built around the turn of the century, original wiring and plumbing systems are outmoded and in many cases unsafe. More visible problems include leaky roofs, deteriorating window casements and inadequate insulation. The homeowners are encouraged to have a complete "home evaluation" prepared by city housing inspectors to determine the extent of needed home improvements. Reid McFarlane, NHS Executive Director says this evaluation process is achieving lasting results because it encourages whole house improvement rather than spotty repairs.

In some instances, the MHFA Grant Program completely covers the cost of all home repairs. Oftentimes, however, more extensive improvements than those covered by the grant are needed to recondition the structure. For these cases, the NHS arranges for the repair costs above the MHFA grant maximum of $5,000 to be financed with a low-interest or no-interest Merriam Park Revolving Fund Loan. Residents who are not eligible for either of these programs are encouraged to apply to one of the twelve local lenders participating in the NHS organization. According to McFarlane, this fitting together of home improvement programs illustrates the ability of MHFA financing to meet unique local housing needs.

The Merriam Park NHS is one of 72 agencies throughout the State that participate in the Home Improvement Grant Program. Since its inception in August of 1976, this MHFA Program has assisted over 5,000 homeowners in improving the quality of their living environments. ■



Research/Innovative Housing

Housing research activities are an important part of the MHFA program. Data collection and analysis, policy planning and analysis, and program evaluation are conducted to ensure that Agency programs are effectively meeting the housing needs of low and moderate income people. Where appropriate, demonstration programs are established to pioneer new approaches and encourage better utilization of existing resources.

Innovative Housing Loan Program

The MHFA's Innovative Housing Loan Program encourages innovations in construction techniques, materials, equipment, design and marketing methods. A $500,000 State Legislative appropriation established this program in 1977, providing financing to nonprofit organizations throughout Minnesota for demonstrating new approaches to the development or renovation of single and multifamily residences.

The proposed projects must be intended primarily for occupancy by persons and families of low to moderate income. The criteria used to evaluate Innovative Home Loan applications include measuring the project's potential to conserve energy or to use energy sources not commonly employed by the housing industry, assessing the likelihood and ease with which the project could be applied in other areas, and estimating the time period that is required to complete the project.

Innovative Home Loans are set for a maximum of two years and for that period are interest-free. Applications are considered on their individual merits and loans are negotiated when adequate funds are available.

Solar/Earth Sheltered Demonstration Housing Program

In 1977 the State Legislature allocated $500,000 to the MHFA to be used for housing that demonstrates new technologies for conserving energy including "passive energy systems, use of underground construction and solar energy heating and cooling systems". During Fiscal Year 1978, design and development teams were chosen for the five structures to be constructed and sold in the private market as well as for the four residences that are to be occupied by state park managers.

Four major goals have been set for the Solar/Earth Sheltered Demonstration Program. First, the homes are intended to demonstrate reduced annual energy demand and reduced dependence on offsite sources of energy. Second, the structures will make use of proven construction techniques and energy systems which can be utilized in future

Seward West Redesign, Inc., is a south Minneapolis nonprofit neighborhood corporation embarking on the development of earth-sheltered, solar assisted townhouses with the help of MHFA innovative housing funds. Under the Innovative Loan Program, the MHFA made a one year loan of $130,000 to this nonprofit developer to partially cover construction costs. A second type of Agency financing made available to Seward West is in the form of a grant under the MHFA Solar/Earth Sheltered Demonstration Housing Program. A total grant of $30,000 was made to help cover various "extraordinary" construction costs (such as nontraditional heating system costs) associated with innovative home designs. Private sources have also made interest-free loans to the neighborhood corporation. The Seward West staff sees this combination of financing as vital in order to keep sales prices in a reasonable range.

Referring to themselves as "developers of last resort," Seward West is involved in providing adequate and economical housing on marginal residential lots. The particular site for the 12 earth-sheltered townhouses is a 600' long by 100' deep lot at 24th Avenue and South 9th Street, adjacent to Interstate Highway I-94. The noise



low and moderate-cost housing. Third, reliable data systems will gather information on the homes concerning annual energy consumption, construction costs, construction techniques, public and institutional responses to the project, and the impact of the demonstration on the occupants' lifestyle. The fourth goal is to provide a high level of visibility and good public access to the homes so that a greater public awareness and acceptance of the solar/earth sheltered technology will be generated.

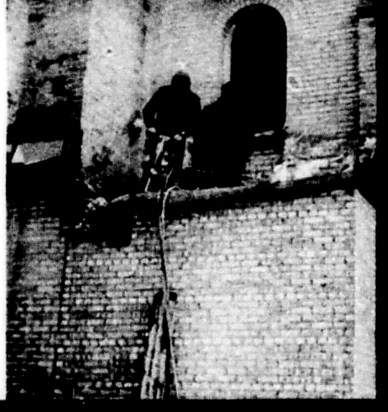
The University of Minnesota Department of Civil and Mineral Engineering has provided a technical review of the program's feasibility study in its early stages and the newly-formed Underground Space Center at the University will provide a continuing technical review of the program as well as monitoring services for technical data.

generated by freeway traffic is a prime motivation for Seward West to propose burrowing the housing units into the ground. The proposed design calls for a two-story structure set into the ground on the north side and exposed to the sun on the south. Landscaped berms and a single entrance with no windows or other openings help insulate the north side of the structure against winter cold. Radiant energy from the sun striking the south wall will be converted for home heating use by a solar energy system funded in part by the federal Department of Energy.

Two and three [illegible] go on the [illegible] of $59,000 [illegible] 12 units [illegible] sale to a family [illegible] income of [illegible] $16,000.

MHFA's financing [illegible] programs such as Section 8 [illegible] represents the only state housing finance agency activity of this kind in the nation. According to state legislators supporting MHFA's financing efforts, by encouraging the State's active commitment to innovative housing concepts, Minnesotans are beginning to "work for our future best interests." ■





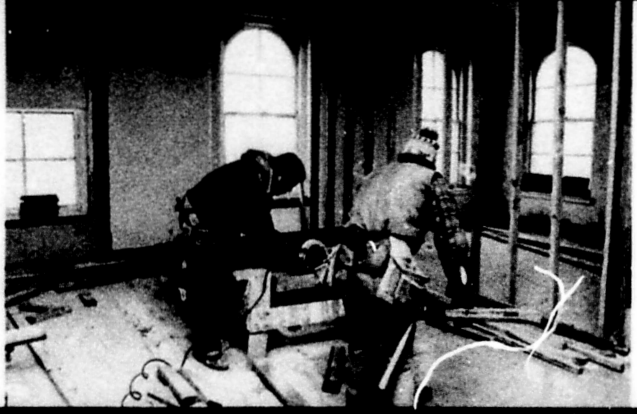
Local Impact

One measure of success for the Minnesota Housing Finance Agency is the impact Agency efforts have on local communities and neighborhoods. Working closely with local government officials, the Agency encourages maximum utilization of limited housing resources to meet local needs. This interagency cooperation results in local organizations and units of government administering certain MHFA single family programs, in some instances covering a portion of the administrative costs connected with the grant program, and generally assisting multifamily developments by permitting land write-downs and favorable zoning.

The variety and volume of MHFA program activities have had a beneficial impact on local communities and neighborhoods in three major ways. New housing financed by the MHFA increases the community's housing stock. Home improvements financed by the Agency as well as substantial rehabilitation of multifamily developments and new construction all help to revitalize aging or deteriorating neighborhoods. In addition to the physical improvements prompted by MHFA programs, there is a substantial economic uplift experienced by the construction industry and the local businesses which provide construction services and supplies.

The assessment of local impact must be both qualitative and quantitative. MHFA programs make a difference in the vitality of hundreds of Minnesota communities by creating new opportunities to provide Minnesotans with safe and decent housing. While not always quantifiable, these benefits are nevertheless significant. The following examples highlight some of the ways in which MHFA activities have contributed to local communities and neighborhoods throughout the State.

Moorhead — With an estimated 32,000 residents, Moorhead is the largest community in northwestern Minnesota. Home mortgages authorized under the MHFA Homeownership Programs have resulted in over $3.6 million being directed through four local Moorhead financial institutions to area residents since 1976. One bank, First National of Moorhead, has increased its mortgage loan commitment 47 percent in the past two years. MHFA Home Improvement loans have also been administered through these local banks and savings and loans. In the first six months of 1978, Moorhead lending institutions provided home improvement loans totaling over $159,000. A cumulative total of $978,000 in MHFA home improvement loans and grants have been made available to qualified low and moderate income residents in the Moorhead area.



MHFA's Apartment Development Program is also operating in Moorhead, having provided mortgage financing for Parkview Apartments, a 121-unit housing development for the elderly. Completed and available for occupancy in mid-1977, all of the units in Parkview are eligible to receive Section 8 Housing Assistance Payments. The development is currently fully occupied.

Minneapolis — The Nicollet Towers complex on the edge of downtown Minneapolis is one of the first residential developments to be constructed in the Loring Park Development District. The $9.6 million project consists of two low-rise structures and two towers that will provide a total of 306 units, all eligible for rent subsidies under the federal Section 8 Housing Assistance Payments Program. A little over one-half of the units will be exclusively available to elderly tenants with the remaining units open for general occupancy. The Agency gave commitment approval to the project in August of 1977 and the city of Minneapolis showed its strong support by providing land for the development at reduced cost. Completion is expected in the summer of 1979.

MHFA rehabilitation efforts are resulting in the reclamation of a variety of structures. Stonehouse Square is a $2 million project in northeast Minneapolis that will transform a home previously operated by the Little Sisters of the Poor into a 71-unit rental complex. The three structures comprising the former nursing home facility have recently been placed on the National Register of Historic Places. The main building, which housed the chapel, will be redesigned as 64 apartments, and the old laundry and carriage house will be converted to seven townhouse units. Over one-quarter of the units will be occupied by low-income households and the remainder by moderate income families. A commitment to rehabilitate the structures was made by the MHFA in June of 1978 and completion of the new residential units is expected in the fall of 1979.

Browerville — Situated in the heart of Todd County, Browerville is a small community in the west central farming region of the State. MHFA single family programs have been operating through local lenders in Browerville since 1976. By July of 1978, over $916,000 had been authorized for low-interest home mortgage and home improvement loans. In addition to the loans, over $40,000 has also been used under the Home Improvement Grant Program to rehabilitate 23 homes in the area. Browerville is a good example of the Agency's efforts at providing rural as well as urban areas with the resources needed to maintain and increase their housing stock.



Brooklyn Center —Three MHFA-financed multifamily projects received commitment approval or started construction during Fiscal Year 1978 in this metropolitan suburb located just north of Minneapolis. Total development costs for the Emerson Chalet, Ewing Square, and The Ponds will approximate $5.6 million. Emerson Chalet, the first of the developments to be completed, provides one and two-bedroom units for general occupancy. The other two complexes will provide a total of 135 units, of which 74 are two, three and four-bedroom units especially suitable for large families. Three and four-bedroom units are in short supply locally, and Ewing Square and The Ponds are being developed in response to these family housing shortages.

Spring Valley — Providing housing opportunities for the elderly in smaller Minnesota communities is an important priority for the MHFA. Hillside Homes Apartments in Spring Valley, a small community in the southeastern corner of the State, reports that three-fourths of its residents are from Spring Valley. For many of these tenants, the federally-subsidized complex is a housing opportunity far superior to their former situations. As an example, one woman now residing at Hillside Homes was living in a single family home which had no water or sewer service. Many residents report having relied solely on space heaters prior to their move to Hillside. The development is located just four blocks from the main business district, which helps make residents feel more a part of the community. Civic leaders actively promoted the development and citizen response has been favorable since the complex opened in December of 1978.

Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Chairman and Members of the
Minnesota Housing Finance Agency:

We have examined the combined balance sheets of the various funds of the Minnesota Housing Finance Agency as of June 30, 1978 and 1977, and the related combined statements of revenues and expenses, changes in fund balances and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Notes 2 and 3, the financial statements combine all of the individual funds maintained by the Agency. They are not intended to be presented in conformity with present generally accepted accounting principles, which currently require states and local units of government to present separate financial statements for each fund and group of accounts. The accompanying financial statements are a concise presentation of important financial information concerning the economic entity.

In our opinion, the aforementioned financial statements present fairly the combined financial position of the Minnesota Housing Finance Agency at June 30, 1978 and 1977, and the combined results of operations and changes in financial position for the years then ended, all on the basis of accounting described in Notes 2 and 3, which basis has been consistently applied, after giving retroactive effect to the change, with which we concur, in the method of reporting the Appropriated Accounts of the Housing Development Fund as described in Note 7 to the financial statements.

Coopers & Lybrand
Certified Public Accountants

Saint Paul, Minnesota
November 2, 1978

COMBINED BALANCE SHEET

ASSETS	June 30 1978	1977
Cash and temporary investments:		
Agency held funds	**$ 47,078,260**	$ 53,038,479
Trustee-held funds	**353,658,693**	136,850,941
	400,736,953	189,889,420
Government National Mortgage Association (GNMA) mortgage backed securities	**22,744,970**	26,168,159
Construction loans	**77,601,313**	48,390,144
Permanent loans	**219,957,292**	94,889,791
Unamortized (discounts) premiums	**(833,595)**	(1,141,051)
Allowance for loan losses	**(333,000)**	(38,000)
Receivables, interest and other	**7,042,422**	3,408,063
Furniture and fixtures, at cost, less depreciation	**88,364**	67,487
Deferred loan origination costs, net	**930,321**	567,671
Deferred financing costs, net	**7,257,103**	3,815,811
Deferred debt extinguishment costs, net	**8,176,480**	
Total assets	**$743,368,623**	$366,017,495

LIABILITIES AND FUND BALANCES	June 30 1978	1977
Liabilities:		
Bonds payable	$651,955,000	$285,380,000
Notes payable		40,240,000
Interest payable	13,041,831	7,322,262
Deferred income	311,347	728,753
Accounts payable	854,917	149,687
Escrow reserve accounts	6,357,213	2,446,511
	672,520,308	336,267,213
Unexpended appropriations:		
Home improvement grants	17,563,263	1,417,632
American Indian Program	1,303,246	2,926,561
Basic Homes	5,044,404	5,059,962
Research	92,716	121,423
Housing Assistance	7,953,969	
Innovative Development	1,025,267	
	32,982,865	9,525,578
Total liabilities	705,503,173	345,792,791
Fund balances:		
Unappropriated	10,602,232	3,074,377
Appropriated:		
Reserve for debt service and bond redemption premiums:		
Home improvement	1,099,699	1,000,000
Multifamily and single family	3,382,987	3,729,939
Home improvement loans	22,780,532	12,420,388
	27,263,218	17,150,327
Total fund balances	37,865,450	20,224,704
Total liabilities and fund balances	$743,368,623	$366,017,495

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF REVENUES AND EXPENSES

	Year Ended June 30	
	1978	**1977**
REVENUES		
Interest income on GNMA securities and mortgage and construction loans	**$18,636,677**	$10,492,022
Mortgage loan discounts and (premiums), net	**139,474**	142,447
Fee income	**3,723,452**	855,430
Income (interest and gains and losses, net) on temporary investments	**17,858,774**	8,337,999
Miscellaneous income		17,097
Total revenues	**40,358,377**	19,844,995
EXPENSES		
Interest	**26,946,405**	15,802,719
Amortization of deferred financing costs	**344,885**	190,354
Amortization of deferred loan origination costs	**148,650**	76,779
Amortization of deferred debt extinguishment costs	**385,203**	
Professional and other contracted services	**1,194,559**	754,428
Salaries	**1,359,312**	975,793
General and administrative	**367,369**	290,320
Provision for loan losses	**320,324**	38,000
Total expenses	**31,066,707**	18,128,393
Revenues over expenses	**$ 9,291,670**	$ 1,716,602

	Year Ended June 30	
	1978	**1977**
Unappropriated fund balances, beginning of year	**$ 3,074,377**	$ 2,247,387
Revenues over expenses	**9,291,670**	1,716,602
Transfer of earnings on appropriations from State of Minnesota to:		
Appropriated fund balance	**(821,321)**	(957,656)
Unexpended appropriations liability	**(1,841,653)**	(340,995)
Transfer from Appropriated Accounts unexpended appropriations liability	**190,729**	266,745
Transfer from Appropriated Accounts fund balance	**269,129**	481,294
Transfer (to) from appropriated fund balance	**439,301**	(339,000)
Unappropriated fund balances, end of year	**10,602,232**	3,074,377
Appropriated fund balances, beginning of year	**17,150,327**	16,334,965
Appropriation from State of Minnesota	**10,000,000**	
Transfer of earnings on state appropriations from unappropriated fund balances	**821,321**	957,656
Transfer (to) General Reserve Account	**(269,129)**	(481,294)
Transfer (to) from unappropriated fund balance	**(439,301)**	339,000
Appropriated fund balances, end of year	**27,263,218**	17,150,327
Total fund balances, end of year	**$37,865,450**	$20,224,704

The accompanying notes are an integral part of the financial statements.

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended June 30	
	1978	1977
SOURCES		
From operations:		
Revenues over expenses	$ 9,291,670	$ 1,716,602
Amortization of loan discounts and premiums, bond premiums and issuance costs, net	(507,950)	(413,367)
Depreciation	10,246	6,562
Changes in accounts:		
Receivables, interest and other	(3,634,359)	(1,751,372)
Allowance for loan losses	295,000	38,000
Deferred loan origination costs	(362,650)	(404,797)
Interest payable	6,699,083	2,261,691
Deferred income	(417,406)	659,081
Accounts payable	710,230	81,200
Cash and temporary investments provided from operations	12,083,864	2,193,600
Principal repayments on loans	21,166,115	16,381,978
Increase in escrow reserve accounts	3,910,702	1,540,252
Proceeds from sale of bonds and notes	453,467,190	207,198,443
Appropriation, State of Minnesota	40,000,000	
Total	530,627,871	227,314,273
USES		
Purchase of loans	172,021,597	73,616,241
Repayments of bonds and notes payable	52,543,000	86,925,000
Purchase of furniture and fixtures	31,123	28,933
American Indian disbursements	1,727,934	2,342,362
Home improvement grants	6,465,703	7,582,368
Defeasance of bonds (Note 6)	86,990,982	
Total	319,780,339	170,494,904
Increase in cash and temporary investments	210,847,532	56,819,369
Cash and temporary investments, beginning of year	189,88[illegible],420	133,070,051
Cash and temporary investments, end of year	$400,736,[illegible]52	$189,889,420

The accompanying notes are an integral part of the financial statements.

1. Authorizing Legislation and Funds

Authorizing Legislation:

The Minnesota Housing Finance Agency was created in 1971 by an Act of the Minnesota Legislature. The Agency was established to facilitate the construction and rehabilitation of housing projects for families of low and moderate income by providing for mortgage loans, development loans and technical assistance to qualified housing sponsors to be used for such construction and rehabilitation. The Agency is authorized to issue bonds and other obligations to fulfill its corporate purposes up to an aggregate amount of $900,000,000. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

Funds:

Fund accounting is the procedure by which resources for various purposes are combined into groups of funds with similar characteristics for accounting and reporting functions. This is done to ensure that activities or objectives are supported in accordance with authorizing legislation and bond and note resolutions. Funds maintained by the Agency are the Housing Development Funds which consist of the General Reserve Accounts and Appropriated Accounts, and the Program Funds which consist of Construction Loan, Multifamily Housing, Housing Development Bonds, Housing Development Notes, GNMA, Single Family Housing, Home Mortgage, Residential Mortgage, Home Improvement, and State-Assisted Home Improvement Funds.

2. Summary of Significant Accounting Policies

Basis of Accounting:

The Agency follows the accrual basis of accounting.

Investments:

Temporary investments are carried at the lower of amortized cost or market. At June 30, 1978, the cost of temporary investments approximated quoted market values. Permanent investments in GNMA securities are carried at cost. Construction and permanent loans are recorded as amounts are disbursed.

Mortgage Loan Discounts and Premiums:

Discounts or premiums from the purchase of mortgages at other than face value are being amortized ratably over the estimated average remaining lives of the related mortgages.

Fee Income:

Fees collected for the purpose of reimbursing the Housing Development Fund for costs incurred in developing and implementing the programs of the Agency and for other specific services are recorded as income in the period in which the

2. Summary of Significant Accounting Policies, continued

related loans are processed. Inspection fees collected for the purpose of reimbursing the Housing Development Fund for monitoring the multifamily projects during the interim construction period are deferred and recorded as income over the respective construction period of the multifamily project on the straight-line method.

Deferred Financing Costs:

Issuance costs, premiums and discounts on bonds and other obligations are amortized over the life of the issue.

Deferred Loan Origination Costs:

Costs of obtaining home improvement loans are amortized ratably over the estimated average remaining lives of the related loans.

Provision for Possible Loan Losses:

Provisions for possible loan losses are made through charges against operations based on a periodic evaluation of the loan portfolios. Actual losses that may occur will be charged against such valuation reserves.

Grants:

Grants made under appropriations from the state legislature for home improvements and the American Indian program are charged directly to the applicable unexpended appropriations liability.

Interfund Transfers:

The Agency may transfer surplus amounts of investment earnings from Program Funds (except State Assisted Home Improvement Program Funds) to the General Reserve Account in the Housing Development Fund. To the extent of available funds, the Agency may transfer to the General Reserve Account from the State Assisted Home Improvement Program Funds an annual amount not to exceed 1/2% of the bonds outstanding as reimbursement for the costs of administering the program. All interfund transfers are approved by the Board of Directors.

Transfers from Appropriated Accounts:

The Agency may charge the State Appropriated Accounts for the direct and indirect costs of administering the programs funded by the appropriations. Amounts covering such charges are regularly transferred from the State Appropriated Accounts to the General Reserve Account as interfund transfers.

Appropriations:

Appropriations from the State of Minnesota which are pledged to specific bond funds or which may be used to pay debt service on

2. Summary of Significant Accounting Policies, continued

particular bonds and notes are classified as appropriated fund balances. State appropriations which cannot currently be used for any bond or note funds are classified as unexpended appropriations and are treated as liabilities.

Advance Refundings:

For advance refundings consummated prior to June 30, 1978, the Agency is amortizing the excess of the investments in the escrow account over the net carrying value of the refunded bonds to expense over the remaining term of the bonds so refunded. Advance refundings, if any, consummated subsequent to June 30, 1978 will require that the above mentioned excess be expensed in the period in which the transaction is consummated.

Combined Funds Policy:

The combined financial statements include the accounts of all of the funds maintained by the Agency (see Note 1). In combination, all interfund accounts and transactions are eliminated.

3. Departures from Generally Accepted Accounting Principles

The accompanying financial statements have been prepared on a consolidated basis in accordance with the recommendations set forth in ***Financial Disclosure Practices of the American Cities – A Public Report,*** published jointly by our auditors, Coopers & Lybrand, and the University of Michigan. Although these statements differ significantly from those prepared on the fund basis as currently required by generally accepted accounting principles for government units, they do present the financial information of the Agency in a single, concise set of financial statements designed to provide a clear overview of the Agency's financial position, revenues, expenses, changes in fund balances, and changes in financial position.

The significant differences between the accompanying financial statements and those prepared under generally accepted accounting principles (which are not presented herein but which are available from the Agency) are as follows:

- Separate financial statements and related footnotes for the various funds and groups of accounts have been omitted.
- All significant interfund transactions are eliminated.

The audited Annual Financial Report of the Minnesota Housing Finance Agency for the years ended June 30, 1978 and 1977, prepared primarily for internal and statutory purposes and conforming with present generally accepted accounting principles, should be used by those readers requiring conventional financial statements.

4. Bonds Payable

Bonds payable consist of:

Multifamily Housing Program Funds:

	Aggregate Principal Amount
1976 Series A, 5.7% to 7% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1998 and on February 1, 2018, subject to redemption after various dates at prices ranging from 103 to 100	$ 11,185,000
1977 Series A, 4% to 6.375% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1997 and on February 1, 2008 and February 1, 2020, subject to redemption after various dates at prices ranging from 103 to 100	83,535,000

Housing Development Program Funds:

1976 Series A, 4.2% to 7.25% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1999 and on February 1, 2006 and February 1, 2018, subject to redemption after various dates at prices ranging from 103 to 100	18,700,000
1976 Series B, 4.0% to 7.25% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1996 and on February 1, 2019, subject to redemption after various dates at prices ranging from 103 to 100	27,530,000
1977 Series A, 3.75% to 6.25% interest, maturing in scheduled annual installments from February 1, 1980 to February 1, 1997 and on February 1, 2020, subject to redemption after various dates at prices ranging from 103 to 100	59,590,000

4. Bonds Payable, continued:

Bonds payable consist of, continued:

Housing Development Program Funds, continued:

	Aggregate Principal Amount
1978 Series A, 5.40% to 7.125% interest, maturing in scheduled annual installments from February 1, 1981 to February 1, 1998 and on February 1, 2020, subject to redemption after various dates at prices ranging from 103 to 100	$ 68,190,000
GNMA Program Funds:	
1973 Series A, 5.25% to 8% interest, maturing in scheduled semiannual installments from September 1, 1978 to September 1, 1983 and on September 1, 2004, subject to redemption after various dates at prices ranging from 102 to 100	26,890,000
Home Mortgage Program Funds:	
1977 Series A, 4.6% to 8% interest, maturing in scheduled annual installments from January 1, 1979 to January 1, 1997 and on January 1, 2008, subject to redemption after various dates at prices ranging from 103 to 100	80,000,000
Residential Mortgage Program Funds:	
1978 Series A, 4.75% to 8% interest, maturing in scheduled annual installments from July 1, 1979 to July 1, 1997 and on July 1, 2009, subject to redemption after various dates at prices ranging from 103 to 100	200,000,000

4. Bonds Payable, continued:

Bonds payable consist of, continued:

State Assisted Home Improvement Program Funds:

	Aggregate Principal Amount
1976 Series A, 4.9% to 7% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1989, subject to redemption after various dates at prices ranging from 101-3/4 to 100	$ 14,405,000
1977 Series A, 3.5 % to 6.5% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1990, subject to redemption after various dates at prices ranging from 101-3/4 to 100	23,670,000
1978 Series A, 4.6% to 7% interest, maturing in scheduled annual installments from February 1, 1979 to February 1, 1994, subject to redemption after various dates at prices ranging from 102-3/4 to 100	38,260,000
	$651,955,000

The income and assets of each of the groups of program funds listed above are pledged for the payment of principal and interest on the bonds issued and to be issued by the respective programs. Interest on all outstanding bonds is payable semiannually.

As of June 30, 1978 the assets of all funds and accounts in the various Program Funds equalled or exceeded the requirements as established by the respective bond resolutions.

Amounts of bonds maturing in the five years subsequent to June 30, 1978 are as follows:

1979	1980	1981	1982	1983
$8,095,000	$14,680,000	$18,415,000	$21,500,000	$24,130,000

5. Commitments

At June 30, 1978, the Agency was committed to (a) provide mortgage financing on multifamily mortgage loans aggregating approximately $109,110,000; (b) purchase single family mortgage loans under the Residential Mortgage Program aggregating approximately $128,887,000; (c) make home improvements grants aggregating approximately $15,000,000; and, (d) pay from the Housing Development Fund $100,000 for the rental of office space.

6. Advance Refundings

The Agency advance refunded three bond issues during the year ended June 30, 1978. The proceeds used for the refundings were deposited in an Escrow Account. The Escrow Account is used to purchase direct or guaranteed obligations of the United States the principal of and interest of which will be sufficient to pay the principal, interest and redemption premium (if any) on the bonds being refunded. The excess of the investments deposited in the Escrow Account to defease the refunded bonds over the net carrying value of the refunded bonds is shown on the balance sheet under the caption "Deferred Debt Extinguishment Costs", and is being amortized to expense over the remaining life of the refunded bonds. The following table presents other pertinent data with regard to the advance refundings as of June 30, 1978:

Description of Refunded Bonds	Description of Refunding Bonds	Outstanding Refunded Debt	Escrow Account Balance
Multifamily Housing, 1975 Series A	Multifamily Housing, 1977 Series A	$18,570,000	$21,145,835
Home Improvement, 1975 Series A	State Assisted Home Improvement, 1977 Series A	7,840,000	8,140,521
Single Family Housing, 1974 Series A	Residential Mortgage, 1977 Series A	52,175,000	57,040,800

7. Appropriated Fund Balance Restatement

As of June 30, 1978, the Agency has determined that it would be preferable to segregate those State appropriations which cannot currently be used for debt service on any bond or note fund of the Agency and to treat those amounts as liabilities (unexpended appropriations) as opposed to appropriated fund balances. Accordingly, the Agency's June 30, 1977 financial statements have been restated to reflect this segregation. Amounts disbursed for appropriated purposes will be recorded as receipts and disbursements on the date of such action.

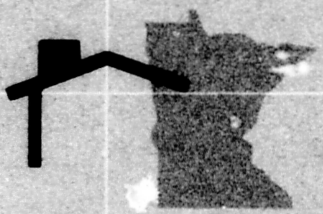
8. Subsequent Event

In September 1978, the Agency issued $104,070,000 of Housing Development Bonds, 1978 Series B, the proceeds of which will be used to finance the construction of 41 apartment developments. The bonds bear interest at rates ranging from 5.4% to 7.1% payable semiannually, and mature in scheduled annual installments from February 1, 1981 to February 1, 1998 and on February 1, 2004 and February 1, 2021.

Financial statements which are prepared on the fund basis of accounting and which report on individual funds as listed in Note 1 of the financial statements are available upon request from the Agency's office.

Written, designed and produced by Team 70 Architects, Inc., Minneapolis
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Photograph p. 5 provided by Oliver Management Services, Duluth
Photograph p. 14 provided by the Arrowhead Economic Opportunity Agency, Virginia

Minnesota Housing Finance Agency



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Who to Contact

General Information —
(612) 296-7608

Affordable Home Mortgage
Program — (612) 296-7612

Home Improvement Loan
Program — (612) 296-7615

Home Improvement Grant
Program — (612) 296-9807

Apartment Development
Program — (612) 296-7618

Affirmative Action Division —
(612) 296-5602

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