Doc 918

MINNESOTA HOUSING FINANCE AGENCY ANNUAL REPORT 1974



PRELUDE TO QUALITY HOUSING

Below, the members and administrative staff of the Agency meet with representatives of the underwriters to consummate the first sale of the Agency bonds to raise $30 million for homeownership loans. Lower left, papers are signed for the final purchase of the Government National Mortgage Association (GNMA) securities which guaranteed the original $30 million funding. Left to right are Owen Carlson of Banco Mortgage Company, Steven W. Oxberry, deputy director of the MHFA, Pat Harff of Northwestern National Bank of Minneapolis, and Sherrie Pugh, MHFA administrative assistant. Lower right, Clyde E. Pemble, MHFA chairman (left); and Gerald W. Christenson, vice chairman and state planning director; receive the check for the sale of the bonds for the GNMA program from Tom Caine and Robert Hale representing the underwriters, Paine, Webber, Jackson & Curtis.







STATE OF MINNESOTA
OFFICE OF THE GOVERNOR
ST. PAUL 55155

WENDELL R. ANDERSON
GOVERNOR

TO FELLOW CITIZENS OF MINNESOTA:

The submission of this, the first annual report of the Minnesota Housing Finance Agency, represents one of the proudest moments of my Administration.

Four years ago, in a message to the 1971 Session of the Minnesota Legislature, I identified the establishment of the Housing Finance Agency as the keystone of a legislative package designed to increase the capacity of the State of Minnesota to meet its commitment to assure decent, safe sanitary housing for its citizens.

Since that time, the passage of more than ten housing-related laws and the provision of significant real estate tax relief have placed us among the Nation's leaders in providing that housing assistance.

This report describes the impressive accomplishments of the Minnesota Housing Finance Agency. The future holds even greater promise. The Agency's Homeownership loan program will make the purchase of a home a reality for many families.

Next year, the Agency's Home improvement loan and grant programs will make it possible for more families to stay in their homes. Apartment development and the use of new federal subsidy programs will be actively pursued. The Agency's experimental Basic Homes program will provide an alternative to the mobile home for rural families.

We intend to do more. We must continue to encourage the federal government to match Minnesota's commitment. The provision of decent housing must not become a victim of federal budget cuts. The Federal Reserve Board must be made to recognize the serious inflationary impact of high interest rates on housing costs, and we must continue to move aggressively at the state level to provide the needed variety of services in the housing area.

We look to the past with a feeling of genuine accomplishment. We look to the future determined to meet our commitment to help make decent housing a reality for all of our citizens.

Sincerely,

Wendell R. Anderson

Wendell R. Anderson

December 1, 1974



James F. Dlugosch
Executive Director

Clyde E. Pemble
Chairman

1974 PROGRESS REPORT

Four years ago Governor Wendell R. Anderson called on the State Legislature to take some bold initiatives to assure adequate quality housing for persons of all income groups throughout the State. Legislation establishing the Minnesota Housing Finance Agency was passed in 1971 during the peak of federal assistance in this area.

No expert in the housing field, however, could have anticipated the abrupt halt of federal involvement, or the dramatic changes in the housing market which resulted, or the government's inability to control escalating prices in a time of decreased production.

Through the creative use of governmental powers, however, states like Minnesota have developed the capacity to soften the impact of the vagaries of federal policies. While not capable of duplicating the deep level of federal subsidies necessary to bring housing within the reach of very low income families, states can have a substantive impact on the supply of housing and capital for housing through the sale of tax exempt bonds.

Likewise, the combination of state and federal powers can result in significant improvement in the ways in which housing assistance is provided.

During this past year, we believe that we have established the framework within which we can provide access to quality living environments to all Minnesotans.

The process has not been without its difficulties and frustrations. Ambivalence on the part of various federal departments to this application of "New Federalism" and to the assumption of greater responsibilities on the part of state government has frustrated our progress. The scarcity of capital and the high demand for its use have affected our ability to sell bonds and have driven up our borrowing costs as well as those of conventional lenders.

Our ability to meet the needs of lower income families has been restricted by the reluctance of the U.S. Department of Housing and Urban Development (HUD) to spend appropriated dollars to provide subsidies.

Nevertheless, we feel a strong sense of accomplishment from our activities during the year. We have successfully marketed our bonds at relatively favorable interest rates. We have made it possible for over 1,250 Minnesota families to purchase homes. We have demonstrated the feasibility of implementing and marketing apartment developments oriented to a wide range of income groups.

We have provided construction financing without which nearly 2,000 units of subsidized housing could not have been built. And we have demonstrated the capacity to finance without federal mortgage insurance.

All these things have been accomplished within the context of improving the existing housing delivery system in Minnesota through maximum use of the skills which already exist and have developed over a long period of time.

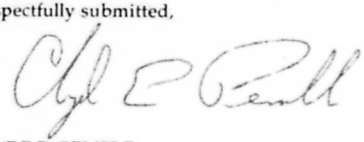
It is our belief, however, that the partnership of the state and federal governments is not, by itself, enough to improve the way in which housing is provided for our citizens. That partnership must be extended to local and regional units of government and to our partners in the private sector. Effective relationships have been forged with the Regional Development Commissions. We have established relationships with over 100 private lending institutions in our Homeownership Program, which relies both on the existing capacity of these institutions to process mortgage loan applications and on their potential to be of service to a wider range of income groups. We feel this represents creative use of governmental programs and we are committed to continue.

While feeling a sense of pride and accomplishment in our record, we know that much remains to be done. Access to our assistance must be expanded to assure that individuals from all areas of the state who need assistance have the opportunity to benefit from our activities. The needs of various population groups – including the handicapped and the developmentally disabled, the Indian Reservations, the elderly, the very low income and the rural population – must be more fully addressed. Ways must be found to direct available assistance from the state and federal government to those areas most in need and identified by regional planning bodies as targets for production. Effective partnerships with local units of government must be solidified. And we must assure the efficient use of federal subsidies which become available.

In terms of specific program objectives, the Agency anticipates a high level of activity during the coming year. The Home Improvement loan and grant programs will commence, with commitments to finance 3,000 to 5,000 units during the year. An additional 5,000 to 6,000 apartment development units should begin construction with our financing. The Homeownership loan program should be expanded to provide financing for conventional and privately insured mortgages as well as those insured or guaranteed by the federal government. In recognition of changing life styles and the continuing need to conserve energy and natural resources, the Agency must establish a mechanism to finance condominiums as well as free-standing single family homes. At the same time, the Agency must continue to move aggressively to identify gaps in the existing system for delivering housing and find the means to fill these gaps.

All these things are possible to the extent that the Agency remains financially strong and able to attract the necessary private capital investment through its bond sales. This fact must remain an essential ingredient in evaluating our capacity to move in these areas of need. We are optimistic that innovations will remain possible within this context.

Respectfully submitted,



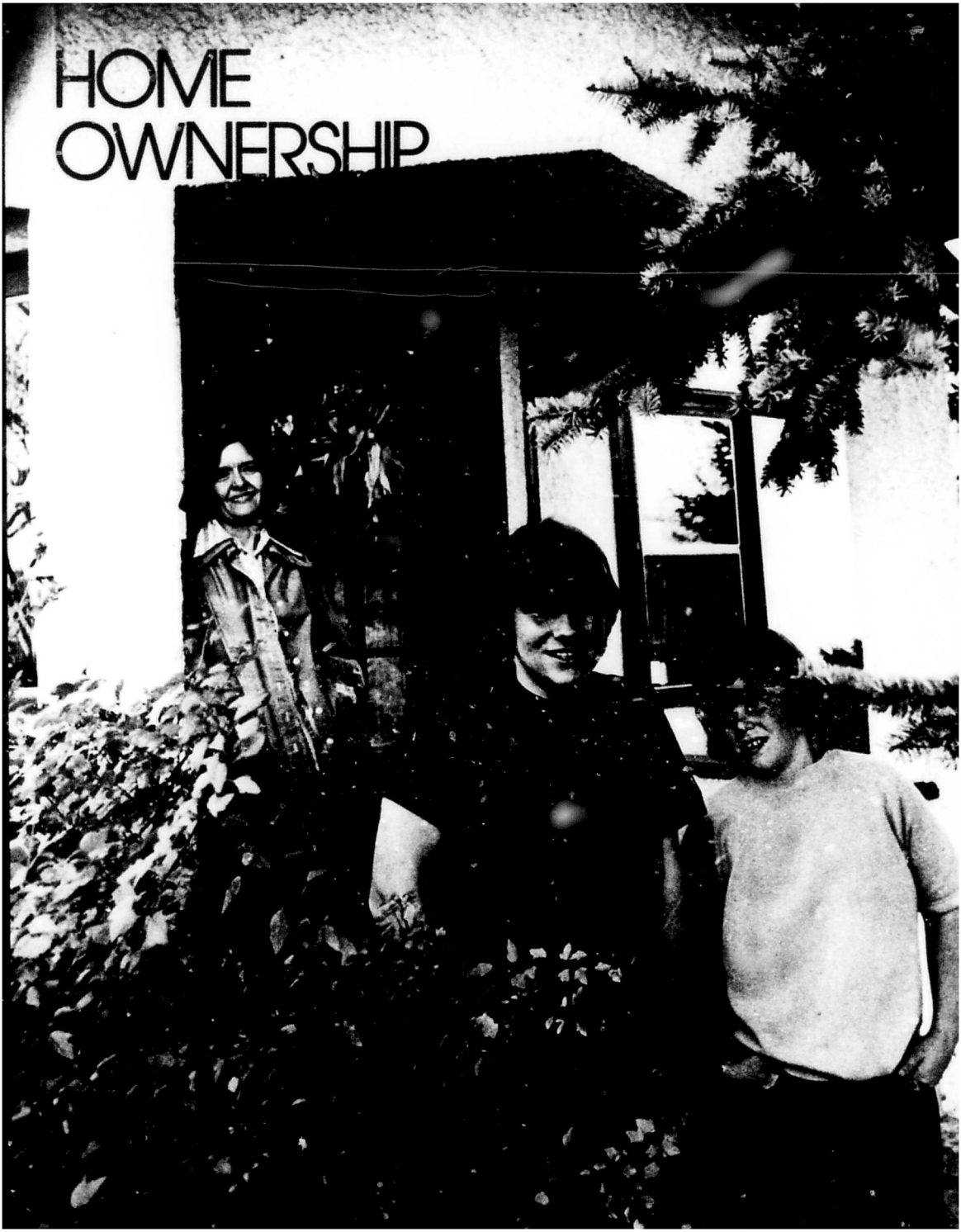
CLYDE E. PEMBLE
Chairman



JAMES F. DLUGOSCH
Executive Director

December 1, 1974

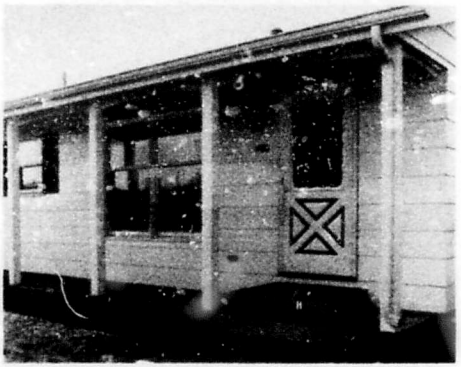
HOME OWNERSHIP



Homeownership

Mrs. Morrie Dwyer and her two sons, Tom and Tim, in front of their West Minnehaha Parkway home in Minneapolis which was purchased with the help of the Minnesota Housing Finance Agency. Below are three other representative houses in the Minneupolis/St. Paul area and outstate Minnesota which benefited from MHFA mortgages.







Minnesota ranks third in the Nation in the ratio of homeownership among its families. In 1970, about 74 per cent of all housing units in the state were owner-occupied. Since that time, over 60 per cent of all newly constructed units have been rental units. The reasons for this shift are complex and varied.

Limited natural resources and the need for conservation of energy, for example, increase the need to provide more efficient housing. The primary cause, however, is the increased cost of housing resulting from increases in land, construction, utility and interest costs. Clearly, large numbers of Minnesota families are being denied the realization of their desire for homeownership because of these factors.

In August of 1973, the Housing Finance Agency moved to increase the opportunity for families of moderate income to purchase homes. Basically, the Agency utilizes its status as a governmental agency to secure capital from private investors through the sale of tax exempt bonds. These bonds represent debts of the Agency, and not of the State of Minnesota, so the credit of the State is not impaired. The bonds are paid off from the proceeds of mortgage loans made by the Agency. The mortgages represent the security pledged to the purchasers of the bonds. Proceeds of the loans are also sufficient to establish reserves and to pay Agency operating expenses. Consequently, the operation of the Agency does not require State appropriations.

Agency borrowing costs are directly affected by the quality of the mortgages pledged for security. Therefore, in order to pass along the maximum savings to the eventual home buyer, the Agency must take care in structuring that security. The Agency's 1973 homeownership loan issue was unique in the nation in that respect. The basic security was represented by Government National Mortgage Association (GNMA) securities purchased from private institutions and backed by mortgages made to qualifying families under Agency established terms and conditions at an interest rate of 6¾ per cent.

This program provided $30 million in new mortgages to more than 1,250 families throughout the state. Over 450 of the loans were made to families buying homes outside the seven-county Twin City area. The loans were made through seven lending institutions. This program provided the basis by which the Agency was able to expand the number of participating institutions and to increase the accessibility of its programs.

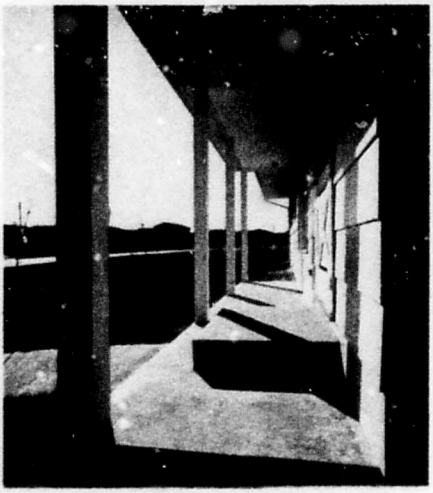
In 1974, the Agency issued bonds to provide an additional $50 million in FHA or VA insured home mortgages. By this time, the Agency was able to attract over 100 lenders to make application for commitments in excess of $114 million. While bond market conditions didn't allow acceptance of all applications, 83 lenders – more than half of them from outstate areas – were given commitments.

Following the issuance of commitments and the execution of purchase agreements, these institutions will process individual loan applications and provide badly needed new money to a severely depressed housing market. Upon closing the mortgage, the loan is assigned to the Agency, and the private lender provides the servicing. Families with adjusted gross incomes of up to $16,000 can qualify for the purchase of homes with values of up to $36,000.

The continued slump in the housing market with its attendant inflationary impact will result in a continued need for the Agency to carry out this program. Expansion to conventional and privately insured loans will increase the Agency's capacity to provide this assistance and will attract additional institutions to the program.

The Agency also will be exploring ways to provide financing for condominiums and other alternative types of homeownership. At the same time, the development of an effective home improvement loan program will make it possible for more people to stay in their current homes, improve the quality of life in older neighborhoods, and avoid the necessity for more substantial public investments in the form of future urban renewal activities.



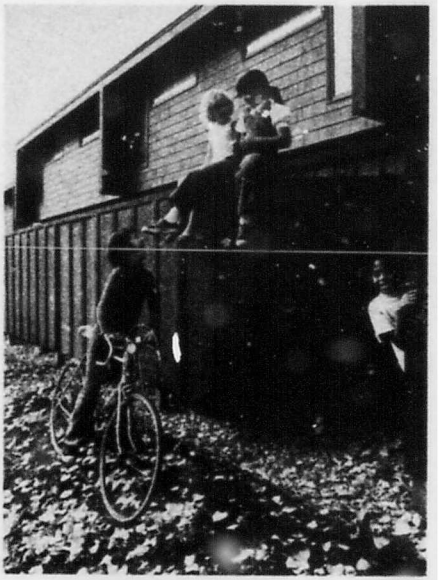





APARTMENT
DEVELOPMENT

Apartment Development

Scenes from the MHFA's Apartment Development program. Children at play in a south Minneapolis complex; one view of the Clearwood Apartments at St. Cloud and its playground facilities; and MHFA Chairman Pemble presides at ground-breaking for a 70-unit apartment development for the handicapped. To be owned by the United Handicapped Federation, the facility, located in a Minneapolis urban renewal area, received a 236 HUD/FHA subsidy, the first such use of 236 funds in Minnesota.





Vacancy rates in housing available for rent in Minnesota have never been particularly high. This past year, however, has seen a decline in the number of new units coming on the rental market. This has resulted in a substantial decline in vacancies to a turnover rate of nearly 3 per cent, increased competition for available units, and severe inflationary pressure on rental rates.

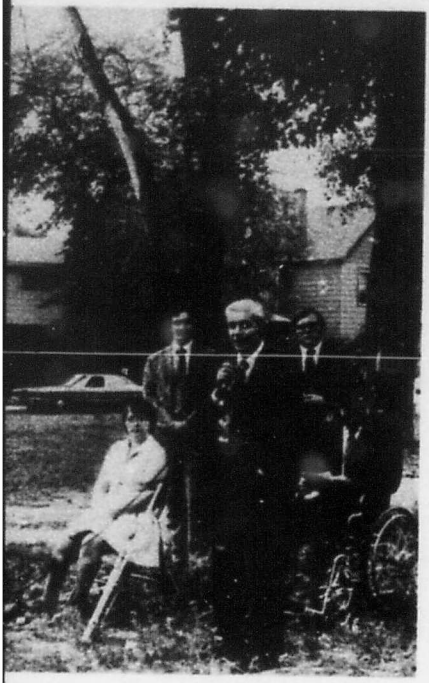
The primary cause of the slowdown in rental construction has been the restrictive credit policy of the Federal Reserve. This has resulted in record high construction financing costs, making many developers shelve plans for new developments because of an inability to recapture these high financing costs within existing rent structures. As is so often the case, families of low and moderate incomes are most severely affected by the lack of available units. Rural areas are also seriously damaged. The lack of housing in these areas has led to out-migration and has created a reluctance of many industries to locate in areas without an adequate supply of housing for employees.

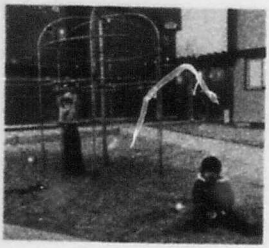
During this past year, the Housing Finance Agency has established the capability to achieve a high level of quality development of rental housing. The Agency adopted a 14-point set of project selection criteria, designed to assure that developments selected for financing will meet a broad range of public purposes. These include the assurance of equal employment and housing opportunity, avoidance of overconcentration of lower income families, coordination with local and regional planning objectives, avoidance of adverse environmental impact, provision of assistance on a statewide basis, and consistency with statutory and legislative mandates.

Each development is subjected to an intense review of its economic feasibility, including cost evaluation, market comparability, market, and rental economics. Only after the Agency is fully satisfied will commitments for permanent financing be issued. The Agency has provided construction financing for a large number of developments, with and without an Agency commitment for permanent financing.

Construction Loans

The short supply and high cost of construction financing threatened the feasibility of 22 new federally subsidized apartment developments. The Agency, through the sale of short term notes and the purchase of 90 per cent interest in the construction loans from private lenders, provided the financing at rates which were sufficiently low to allow these developments to proceed. All the developments are receiving permanent financing from the Government National Mortgage Association. Construction loans totalling over $28 million will finance nearly 1,900 units through this program. The Agency recently sold notes to provide construction financing for an additional $10 million in construction costs under this program. Once the developments are completed and occupied, the Agency will be reimbursed for its loans and will recapture an equivalent amount of bonding authority.





Permanent Financing

The Agency is providing both construction and permanent financing for 11 additional apartment developments, nine of which are receiving at least partial federal subsidies. These developments will provide 794 new housing units at a total cost of $15,673,745.

The developments are located throughout the state. In each case the new units will provide significant relief to a depressed housing market. A wide variety of needs are being met, including units specially designed for the handicapped, for the elderly and for families.

Wherever market conditions permit, the Agency combines market rate units with units receiving subsidies. At the same time, subsidies are provided at varying levels, thereby creating opportunities for the integration of a full range of income groups. In this way, it is expected that overconcentration of lower income families can be avoided. To further enhance this economic integration, Agency regulations permit up to 25 per cent of the units in any development financed by the Agency to be occupied by families whose incomes exceed Agency established limits.

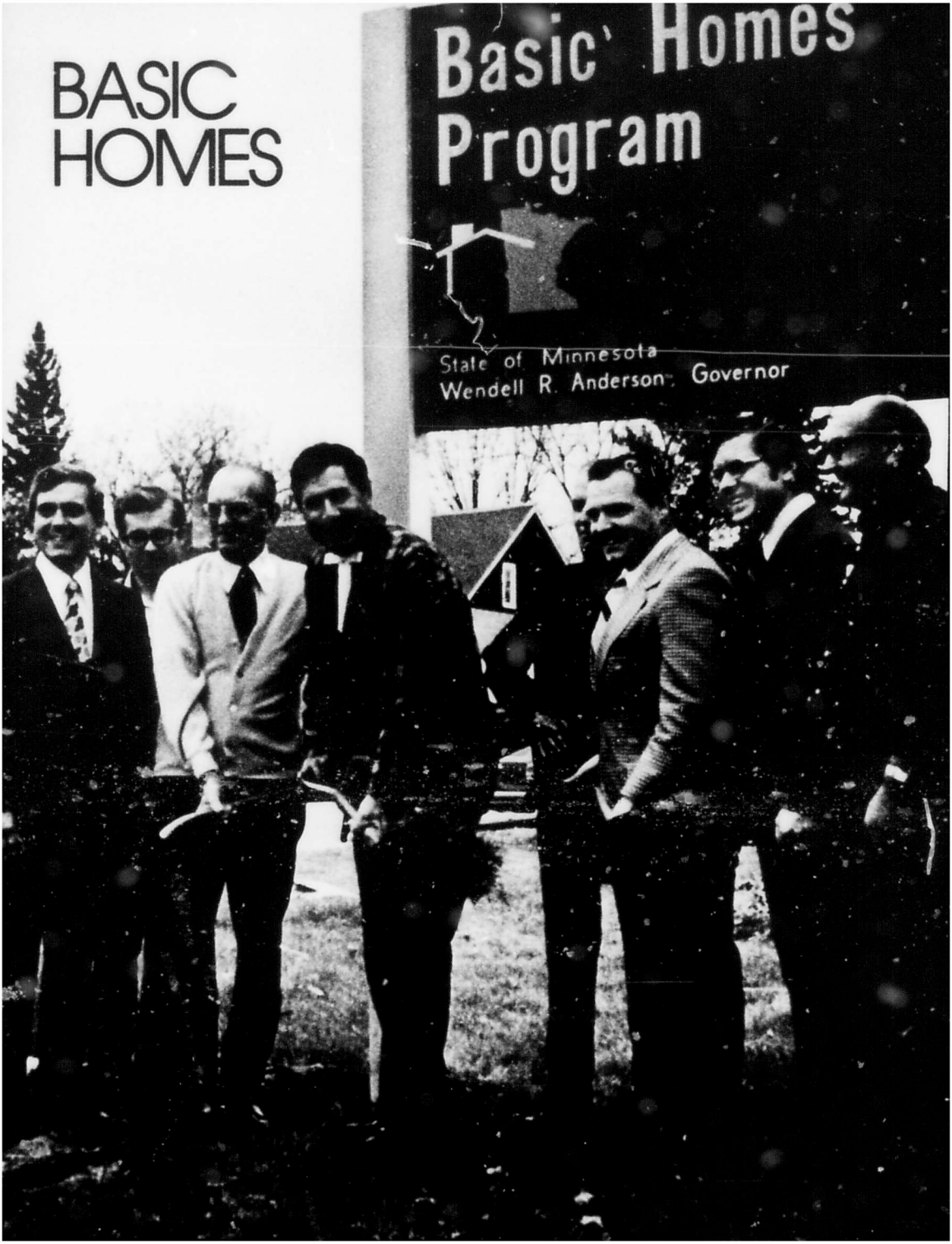
Projects currently being financed with Agency commitments for the permanent mortgage range in size from a 12-unit development in Minneapolis to 234-unit development located in a planned residential development area in Golden Valley. The small development in Minneapolis is being sponsored by a project area committee in an urban renewal area and is an attempt to demonstrate the feasibility of building architecturally compatible structures in a neighborhood consisting primarily of historical older homes.

Other developments being financed are being sponsored by the United Handicapped Federation in Minneapolis, church or fraternal related organizations in Northfield, St. Cloud and Virginia, and by a community based non-profit organization in Duluth. Non-profit groups are used as catalysts to initiate the development and to provide management services during occupancy. In all cases, except for the Duluth project, the developments will be owned by limited dividend entities which will attract strong general partners, who will then syndicate the developments to a variety of limited partners.

Commitments for Permanent Financing

Project	Units	Loan Commitment
Townview South, Duluth (new low-rise housing and rehabilitation)	26	$ 557,700
Cover Hill, Golden Valley, (planned unit development, elderly, handicapped, family townhouses)	234	5,888,156
Viking Terrace, Worthington (apartment housing for families)	60	1,101,955
Milwaukee Avenue, Minneapolis (new family units)	12	277,625
2100 Bloomington, Minneapolis (handicapped housing)	90	1,833,678
Minnesota Odd Fellows Northfield (senior citizens home)	80	1,205,390
Northwood Apartments, Glencoe (family housing)	39	715,269
Delton Manor, Bemidji (family housing)	60	982,786
Virginia Rotary, Virginia (family housing)	31	486,900
Riverside Apartments, St. Cloud (housing for elderly)	85	1,268,780
Summit Square, Duluth (family housing)	77	1,375,506

BASIC HOMES


Basic Homes
Program
State of Minnesota
Wendell R. Anderson, Governor

Shovels Away!

Ground-breaking for Basic Homes models at Bagley drew a number of shovel-wielding officials. Left to right, Richard Pearson, executive director, Headwaters Regional Development Commission; Gary Nicol, MHFA staff; Albert Gorden, Clearwater county commissioner; Al Monico, chairman of the Headwaters Commission; Earl Swenson, mayor of Bagley; Douglas St. Onge, state representative from Bemidji; Roger Moe, state senator from Ada; and Jack Sorenson, MHFA staff.

An experimental program launched in five northwestern counties by the Minnesota Housing Finance Agency holds potential for delivering low cost, acceptable new homes for thousands of families in often neglected rural areas.

Minnesota is one of seven governmental units selected nationally from a field of more than 100 agencies to participate in the program, funded under a grant from the U.S. Department of Housing and Urban Development. Minnesota's program is the only one located in north central states.



An architect's rendering of a Basic Homes model contrasts with rural homes illustrative of those the program is designed to replace. Design by Inter Design, Inc.









Based on preferences and needs determined from low income user studies, the Basic Homes program offers new home ownership to rural families now forced to live in substandard quarters. Purchase of a Basic Home carries no income restrictions.

A Basic Home is designed as a dwelling unit that is structurally sound and provides minimum requisites such as plumbing, hot and cold running water and electricity. Design characteristics are those which research determined will be acceptable to the greatest percentage of low income families.

Buyers have a choice of several units, all designed for maximum flexibility. Models range from 340 square feet in floor space for an efficiency unit to 1,040 square feet for a five bedroom home. Flexibility advantages, besides the material facility options of the house itself, include buyer determination of site and financing. The present policy is to avoid building homes as part of subdivisions.

Prices for these homes will be substantially lower than other new homes built today and will be competitive with cost of mobile homes.

Groundbreaking ceremonies for five model basic homes, four in Bagley and one in Park Rapids, were held in October. They are scheduled to be finished and open for inspection by interested buyers early in 1975.

Preliminary forecasts call for the construction and sale of up to 200 units during 1975 in the five selected Mississippi River headwaters counties – Beltrami, Hubbard, Clearwater, Mahnomen and Lake of the Woods. If this initial phase of the program is successful, the agency intends to expand it to the entire state.

Besides fulfilling the need for upgrading rural living standards, the Basic Homes program also holds significant potential for strengthening the economy in target areas. Sub-contractors will be local firms, thus stimulating employment and enabling workers to develop new skills.

MINNESOTA HOUSING FINANCE AGENCY
BALANCE SHEET
June 30, 1974 and 1973

	1974					1973
	HOUSING DEVELOPMENT FUND	DEBT RESERVE FUND	CONSTRUCTION LOAN FUND	BOND FUND	TOTAL—MEMORANDUM ONLY	HOUSING DEVELOPMENT FUND
ASSETS						
Government National Mortgage Association (GNMA) 6¼% mortgage-backed securities	—	—	—	$11,470,833	$11,470,833	—
Construction mortgage loans	$ 66,171	—	$ 9,794,289	—	9,860,191	—
Temporary investments in short-term United States Government and bank obligations	186,119	$ 986,413	15,381,545	20,604,115	37,018,192	—
Accrued interest receivable	4,329	14,447	210,668	169,613	398,444	—
Cash	84,184	3,587	91,036	11,265	130,072	$143,664
Furniture and fixtures, at cost less accumulated depreciation of $477 in 1974	7,575	—	—	—	7,575	3,398
Deferred debt issuance costs	—	—	—	79,782	79,782	—
Inter-fund accounts	14,447	(14,447)	—	—	—	—
Total assets	$291,804	$1,000,000	$25,388,537	$32,335,608	$58,964,949	$147,062
LIABILITIES AND FUND BALANCES						
Notes payable, maturing on November 1, 1974 (Note 4)	—	—	24,000,000	—	24,000,000	—
Bonds payable, $295,000 maturing within one year (Note 3)	—	—	—	30,000,000	30,000,000	—
Accrued interest payable	—	—	791,738	1,459,381	2,161,119	—
Accounts payable	17,750	—	—	—	17,750	15,084
Total liabilities	17,750	—	24,791,738	31,459,381	56,178,869	15,084
Fund balance:						
Unappropriated balance	274,054	—	604,922	307,832	1,186,808	131,978
Reserve for potential loan losses	—	1,000,000	—	—	1,000,000	—
Reserve for debt service and bond redemption premiums (Note 3)	—	—	—	568,795	568,795	—
Total fund balance	274,054	1,000,000	604,922	876,627	2,755,603	131,978
Total liabilities and fund balances	$291,804	$1,000,000	$25,388,537	$32,335,608	$58,964,949	$147,062

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

MINNESOTA HOUSING FINANCE AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
for the years ended June 30, 1974 and 1973

	1974					1973
	HOUSING DEVELOPMENT FUND	DEBT RESERVE FUND	CONSTRUCTION LOAN FUND	BOND FUND	TOTAL — MEMORANDUM ONLY	HOUSING DEVELOPMENT FUND
REVENUES						
Interest income:						
Short-term investments	$ 12,397	$ 14,447	$ 1,115,083	$2,018,374	$ 3,160,080	—
GNMA securities and construction loans	918	—	170,986	107,392	279,378	—
Fee income	349,399	—	—	114,920	464,319	—
Total revenues	362,314	14,447	1,286,069	2,241,186	3,903,967	—
EXPENSES						
Interest expense	—	—	981,169	1,349,231	2,330,339	—
Amortization of debt issuance costs	—	—	—	22,719	22,719	—
Professional and other contracted services	109,877	—	—	—	109,877	$ 26,947
Salaries	91,913	—	—	—	91,913	49,394
General and administrative expenses	32,895	—	—	—	32,895	7,795
Total expenses	234,685	—	981,169	1,364,949	2,580,743	84,136
Revenues over (under) expenses	127,629	14,447	304,900	876,237	1,323,345	(84,136)
Inter-fund transfer	14,447	(14,447)	—	—	—	—
Appropriation from State of Minnesota	—	1,000,000	—	—	1,000,000	—
Reserve for potential loan losses	—	(1,000,000)	—	—	(1,000,000)	—
Reserve for debt service and bond redemption premiums	—	—	—	(666,720)	(666,720)	—
Unappropriated fund balances, beginning of year	131,978	—	—	—	131,978	216,114
Unappropriated fund balances, end of year	$274,054	—	$ 304,900	$ 207,517	$ 1,186,471	$131,978

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

NOTES TO FINANCIAL STATEMENTS
June 30, 1974

1. Authorizing Legislation and Funds:

AUTHORIZING LEGISLATION:

The Minnesota Housing Finance Agency is a public body corporate and politic 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 purpose up to an aggregate amount of $600,000,000. Amounts so issued shall not be deemed to constitute a debt of the State of Minnesota or any political subdivision thereof.

FUNDS:

The following describes the funds maintained by the Agency, all of which conform with the authorizing legislation and bond and note resolutions. Prior to July 1, 1973, the Housing Development Fund was the only Agency fund in operation.

Housing Development Fund:

This fund, established by the enabling legislation, was initially funded in 1971 by a $250,000 appropriation from the State of Minnesota. Funding on an on-going basis is derived principally from loan origination and other fees, allowable transfers from other funds or groups of accounts, and investment income. Authorized activities of this fund include the following:

- to provide temporary loans to "nonprofit" sponsors to defray development costs;
- to make planning grants to local communities;
- to make rehabilitation grants and expenditures for correction of residential housing defects;
- to pay general and administrative expenses and other costs and expenses not payable by other funds or groups of accounts of the Agency.

Bond Fund:

This fund established under the Housing Finance Bond Resolution adopted August 23, 1973, is prescribed for accounting for the proceeds from the sale of the Housing Finance Bonds, the debt service requirements of the bond indebtedness, and the reserve for possible bond redemption premiums. Activities of this fund are, in general, limited to the following:

- to invest in Government National Mortgage Association (GNMA) mortgage-backed securities or, pending such purchases: a) temporary investment in securities which are general obligations of the United States or obligations which are guaranteed by the United States; b) temporary deposits in interest-bearing bank time deposits;
- to pay interest, principal and redemption premiums at or prior to maturity or redemption;
- to transfer surplus amounts of investment earnings to the Housing Development Fund, which sums may be used by the Agency for any lawful purpose.

Construction Loan Fund:

This fund, established under the Construction Loan Notes Resolution, adopted in 1973, is prescribed for accounting for the proceeds from the sale of the Notes and for the construction loans disbursed from such proceeds. The resolution imposes the following restrictions:

- advances on construction loans must be insured by the Federal Housing Administration;
- excess funds may only be invested in direct obligations of the United States or interest-bearing bank time deposits.

Debt Reserve Fund:

In 1974, the state legislature appropriated $1,000,000 to originate an Agency reserve fund for the security of bonds and notes to be issued for the purpose of providing funds for residential rehabilitation loans. At June 30, 1974, no bonds or notes had been issued for such purpose.

2. Accounting Policies:

The following is a summary of the significant accounting policies applied in the preparation of these statements. The policies conform to that stipulated in the authorizing legislation and bond and other obligation resolutions.

The Agency follows the accrual basis of accounting.

Investments in GNMA securities are carried at amortized cost. Construction mortgage loans are recorded as amounts are disbursed. Temporary investments of the Agency are carried at cost, except for debt service account investments which are carried at the lower of cost or par value. Market value of short-term investments at June 30, 1974 was as follows:

Housing Development Fund	$ 159,857
Debt Reserve Fund	1,011,075
Construction Loan Fund	15,280,535
Bond Fund	20,653,531
	$37,104,998

Costs of issuing bonds and other obligations of the Agency are amortized over the life of the issue.

Commitment fee and service charge fee income is recorded in the period assessed and the associated administrative costs are expensed as incurred. Financing fees, collected

for the purpose of funding reserves for debt service and redemption premiums on debt obligations, are recorded as income in the period assessed. Premiums paid on such redemptions, if any, will be charged to expense when incurred.

A provision for possible loan losses will be made through charges against operations based on a periodic evaluation of the loan portfolio. Actual losses that may occur will be charged against such valuation reserves. No provisions were considered necessary at June 30, 1974.

3. Bonds Payable:

At June 30, 1974 bonds payable consisted of:

	Interest Rates	Maturity Dates	Aggregate Principal Amount
Serial bonds, maturing in scheduled annual amounts ranging from $295,000 to $1,240,000	5.75-8%	Sep. 1, 1974 to Mar. 1, 1983	$ 8,575,000
Term bonds, subject to redemption on or after September 1, 1978 at prices ranging from 101 to 100%	5.25%	Sep. 1, 1983	4,935,000
Term bonds, subject to redemption on or after September 1, 1983 at prices ranging from 102 to 100%	5.70%	Sep. 1, 2004	16,490,000
			$30,000,000

The aggregate effective interest rate for the year ended June 30, 1974 was 5.86% and the effective interest rate over the life of the issue is 5.71%. Interest is payable semi-annually. The assets of the Bond Fund are pledged as collateral for the payment of principal and interest on the bonds. The reserve for debt service and bond redemption premiums must be maintained at a level equal to one and one-half times the aggregate amount of the premium that would be required for the redemption of bonds if they were redeemed at the earliest possible date.

4. Notes Payable:

The notes mature on November 1, 1974 and bear interest at an annual rate of 4.41%, with interest payable at maturity. The assets of the Construction Loan Fund are pledged as collateral for the payment of principal and interest on the notes.

5. Commitments:

As of June 30, 1974 the Agency was committed to purchase 6¼% GNMA securities aggregating $18,564,782 and to provide additional construction mortgage loans aggregating $18,475,260 bearing 7% interest. In addition, the Agency was committed or had conditional loan commitments outstanding to provide interim and permanent financing on mortgage loans aggregating $15,197,518, at interest rates not yet determined.

6. Subsequent Event:

In August 1974, the Agency issued $15,000,000 principal amount of Housing Bond Anticipation Notes. The funds will be used for interim financing of multi-family housing projects scheduled to be permanently financed by the Agency through a later sale of bonds. The notes bear interest of 7¾%, payable semiannually and mature on July 11, 1975.

Auditor's Report:

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

We have examined the balance sheet comprising the various funds of the Minnesota Housing Finance Agency as of June 30, 1974 and 1973, and the related statements of revenues, expenses and changes in fund balances for the years then ended. Our examination was 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.

In our opinion, the aforementioned financial statements present fairly the financial position of the various funds of the Minnesota Housing Finance Agency at June 30, 1974 and 1973, and the results of operations for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota
August 2, 1974

Coopers & Lybrand
Certified Public Accountants

IN HARMONY WITH HISTORY

A significant MHFA financing commitment is for a 12-unit townhouse development located on Milwaukee Avenue in the Seward West urban renewal area of Minneapolis. The wood townhouses are designed to be architecturally compatible with some row houses built at the turn of the century on the same block, which have been selected for historical preservation. Architect rendering by Stanley Fishman Associates.



The Minnesota Housing Finance Agency Members

CLYDE E. PEMBLE, Chairman – Term expires January 1, 1979 – Burnsville, Minnesota – President, Inland Construction Company

GERALD W. CHRISTENSON, Vice Chairman New Brighton, Minnesota – State Planning Director

REV. LAWRENCE C. GAVIN, Member – Term expires January 1, 1976 – Wilmont, Minnesota – Pastor, Church of Our Lady of Good Counsel

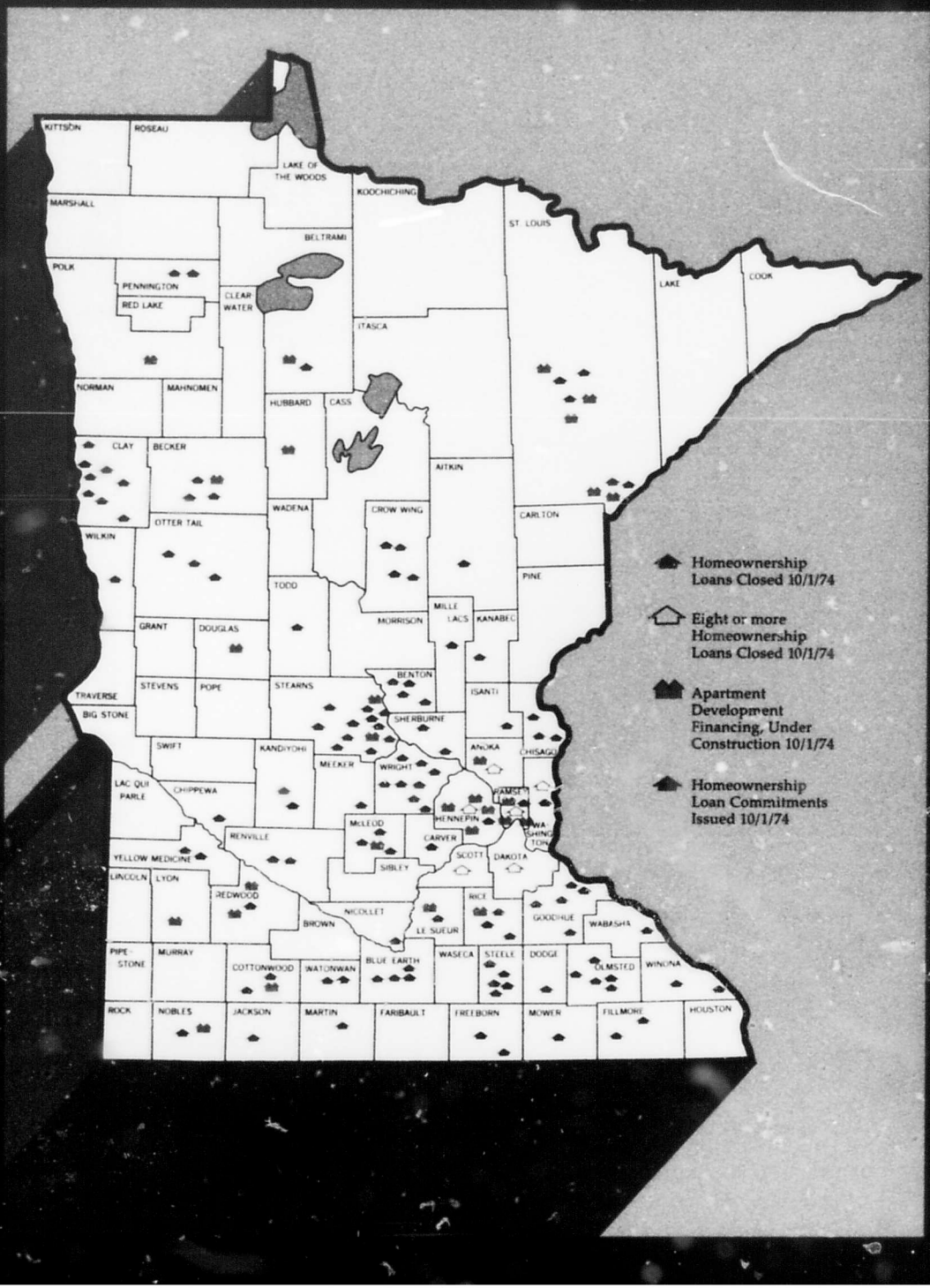
GERALDINE GERMANN, Member – Term expires January 1, 1977 – Sandstone, Minnesota – Member, Commission for Minnesota's Future

ROLLAND F. HATFIELD, Secretary St. Paul, Minnesota – State Auditor

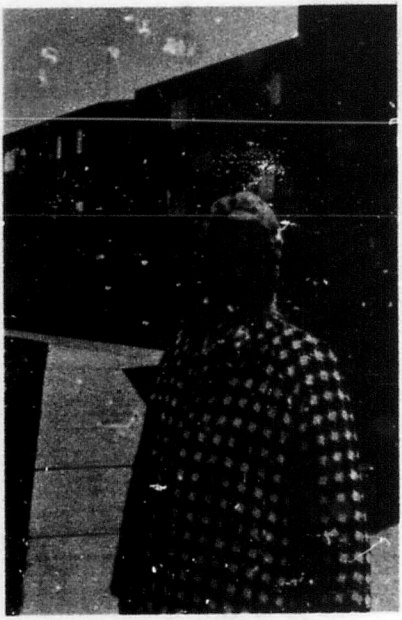
DEMETRIUS G. JELATIS, Member – Term expires January 1, 1977 – Red Wing, Minnesota – Mayor, City of Red Wing

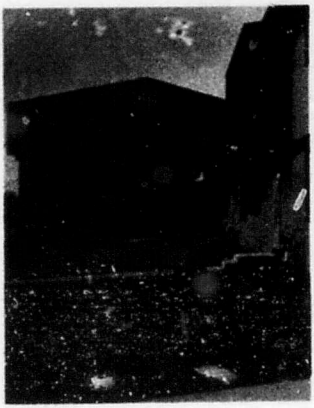
CHARLES M. SLOCUM, Member – Term expires January 1, 1975 – Minneapolis, Minnesota – President, Unisource Corporation

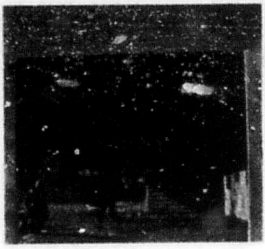
JAMES F. DLUGOSCH, Executive Director New Brighton, Minnesota


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KOOCHICHING
MARSHALL
BELTRAMI
ST. LOUIS
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COOK
POLK
PENNINGTON
RED LAKE
CLEAR WATER
ITASCA
NORMAN
MAHNOMEN
HUBBARD
CASS
CLAY
BECKER
AITKIN
WADENA
CROW WING
CARLTON
WILKIN
OTTER TAIL
PINE
TODD
MILLE LACS
KANABEC
MORRISON
GRANT
DOUGLAS
BENTON
TRAVERSE
STEVENS
POPE
STEARNS
ISANTI
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SHERBURNE
SWIFT
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STEELE
DODGE
OLMSTED
WINONA
ROCK
NOBLES
JACKSON
MARTIN
FARIBAULT
FREEBORN
MOWER
FILLMORE
HOUSTON
Homeownership Loans Closed 10/1/74
Eight or more Homeownership Loans Closed 10/1/74
Apartment Development Financing, Under Construction 10/1/74
Homeownership Loan Commitments Issued 10/1/74









minnesota housing finance agency
480 cedar street, saint paul, minnesota 55101