

Annual Financial Report

Fiscal Year 2020



MINNESOTA HOUSING FINANCE AGENCY
Annual Financial Report as of and for the year ended June 30, 2020

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MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report

What a year it was. Between the COVID-19 pandemic, civil unrest, and the quest for racial and housing justice, an unprecedented and unrelenting series of shocks disrupted the affordable housing system. Yet, through it all, Minnesota Housing completed another year with strong financial and programmatic results. Stable and affordable housing situations provide for flourishing communities. When we have safe, secure and affordable places to live, parents earn more, kids learn better, health and well-being improve, and neighborhoods prosper. In conjunction with many partners throughout the State, Minnesota Housing is proud to have delivered the following outcomes in the last year:

- It was a record year for home mortgages. Minnesota Housing's homeownership programs continue to support -families making their first home purchase, as well as those homeowners stepping up to buy another home. In fiscal 2020, these programs provided over \$825 million in mortgage financing for almost 4,400 first-time homebuyers, and an additional \$300 million in financing enabled 1,350 more families to purchase their next home because the lack of accumulated wealth to afford down payments and closing costs is a significant barrier to homeownership, Minnesota Housing programs also provided over \$51 million in loans to cover these down payment and closing costs. Almost 95% of homeowners who use Minnesota Housing homeownership programs also use our down payment/closing cost assistance programs. Taken together, these loan programs enable us to reach a substantial number of people of color and indigenous communities, as almost 35% of these loans were made to households in these communities.
- Minnesota Housing remains committed to funding its single-family home mortgage production using a "best execution" strategy, using bond sales as well as selling loans directly into the capital markets to provide the financing for these programs. As the demand for tax-exempt bonding authority to be used for multifamily transactions has grown, Minnesota Housing has increased the amount of taxable bonds used to support single family bond transactions. These and other strategies allow Minnesota Housing to address the growing demand for mortgages and down payment assistance for first-time homebuyers while also supporting an increasing demand to finance new construction or preservation of rental housing using tax-exempt bonds and 4% housing tax credits.
- Minnesota Housing also provides substantial assistance to homeowners seeking to improve or rehabilitate their existing homes. In the year just ended, over 1,050 borrowers accessed over \$23 million in capital from Minnesota Housing for these purposes.
- The demand for affordable rental housing in Minnesota remains very high. Vacancy rates are low in many communities throughout the state, especially with the broad range of needs including senior, workforce and supportive housing. At the same time, significant resources are necessary for preserving existing affordable housing, as well as keeping naturally occurring affordable housing safe and available for households everywhere. In support of all types of rental housing, Minnesota Housing selected 38 projects, with total development costs of almost \$540 million, in the annual consolidated RFP for 2019. In addition, Minnesota Housing continues to develop its pipeline multifamily first mortgage lending capacity, as well as fund a variety of rehabilitation and preservation activities throughout the year.
- In addition to direct lending, Minnesota Housing also administers a variety of programs that provide rental assistance to individuals and families who are homeless or who face housing instability, as well as individuals experiencing mental or behavioral health issues. Also, Minnesota Housing runs grant programs providing resources aimed at making homelessness rare, brief and one-time. Cumulatively, these resources reached over 10,000 individuals and families in the last year.
- Minnesota Housing also manages the federal Section 8 and performance based contract programs in the State, distributing, over the last year, roughly \$200 million in assistance on behalf of households in communities across the State.

MINNESOTA HOUSING FINANCE AGENCY

Commissioner's Report (continued)

- Minnesota Housing continues to amplify its efforts with support from the Governor and State Legislature, evidenced most recently by the award of \$100 million to Minnesota Housing to establish an emergency COVID-19 Housing Assistance Program.
- Financially, Minnesota Housing's results for the fiscal year ended June 30, 2020 were impressive. Overall assets and deferred outflows grew by \$500 million to over \$4.9 billion. Consolidated net position increased by over \$100 million, reaching \$1.026 billion, with net position in the "sustainable core" (excluding appropriated funds and Pool 3) growing to \$913 million. In the face of the significant economic turbulence of the last half of the fiscal year, annual net interest income held steady, coming in at \$56.2 million, down only slightly from last year.

Even with these programmatic and financial successes, in the face of the enormous challenges brought on by the pandemic, the related economic distress and the renewed awareness of racial and housing injustice, Minnesota Housing redoubled our efforts to assist communities most impacted by these circumstances, by:

- Dramatically expanding our work with the State's Interagency Council on Homelessness to address the immediate housing needs of those living outside without shelter, as well as implementing a variety of strategies to curb the growing public health crisis of homelessness.
- Continuing, through the Olmstead Subcabinet and the Olmstead Implementation Office, to guide the implementation of the State's Olmstead Plan that seeks to increase opportunities for individuals with disabilities to live and work in integrated settings.
- Convening difficult conversations about the role of systemic racism in perpetuating housing injustice and attending to inclusion and diversity in all work Minnesota Housing undertakes.

We thank our partners throughout the state and across the country, and our 260 employees, for their continuing commitment to serving Minnesotans. We are grateful for all your efforts, and your amazing dedication and perseverance in seeking safe, stable and affordable homes for all Minnesotans in any community they choose. We commit to working tirelessly with you to deliver on that goal in 2021.



Jennifer Leimaile Ho, Commissioner
Minnesota Housing

MINNESOTA HOUSING FINANCE AGENCY

Independent Auditors' Report

Independent Auditor's Report

Board of Directors
Minnesota Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of Minnesota Housing Finance Agency (the Agency), a component unit of the State of Minnesota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Minnesota Housing Finance Agency, a component unit of the State of Minnesota, as of June 30, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2019, from which such summarized information was derived.

MINNESOTA HOUSING FINANCE AGENCY

Independent Auditors' Report (continued)

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of selected pension and postemployment benefits other than pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The introductory section, the supplementary information and other information as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 2020 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2020 supplementary information is fairly stated, in all material respects, in relation to the 2020 basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Agency's 2019 basic financial statements (not presented herein), and have issued our report thereon dated August 29, 2019, which contained unmodified opinions on the respective financial statements of the business-type activities and each major fund. The accompanying supplementary information, as listed in the table of contents, for the year ended June 30, 2019, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2019 basic financial statements. The accompanying 2019 supplementary information has been subjected to the auditing procedures applied in the audit of the 2019 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements, or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 supplementary information is fairly stated in all material respects in relation to the 2019 basic financial statements taken as a whole.

The introductory section and other information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

RSM US LLP

Minneapolis, Minnesota
August 27, 2020

MINNESOTA HOUSING FINANCE AGENCY

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

Introduction

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

The Minnesota Housing Finance Agency (Minnesota Housing or the Agency) was created in 1971 by the Minnesota legislature through the enactment of Minnesota Statutes, Chapter 462A, which has been amended from time to time. The Agency was established to facilitate the construction and rehabilitation of housing in Minnesota for families of low- and moderate-income by providing mortgage loans, development loans, and technical assistance to qualified housing sponsors. Minnesota Housing is a component unit of the State of Minnesota and receives appropriations from the state legislature, substantially all of which are used to make loans or grants under specified state-defined programs and to pay debt service and related expenses on state appropriation-backed housing bonds. Minnesota Housing also receives funds appropriated by the federal government for similar program purposes. The Agency's mission is: Housing is the foundation for success, so we collaborate with individuals, communities and partners to create, preserve and finance affordable housing.

Minnesota Housing is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

Minnesota Housing operates three program divisions; Multifamily, Single Family and Community Development which offer housing programs with funding from the sale of tax-exempt and taxable bonds, state and federal appropriations, the Housing Development Fund and the Alternative Loan Fund. The federal Low Income Housing Tax Credit is another resource the Agency allocates. The members of Minnesota Housing (the Board) consist of six public members appointed by the Governor with the advice and consent of the state senate and the State Auditor as an ex-officio member.

Discussion of Financial Statements

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

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

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

The basic financial statements also include summarized comparative totals as of and for the year ended June 30, 2019. Although not required, these comparative totals are intended to facilitate an understanding of Minnesota Housing's financial position and results of operations for fiscal year 2020 in comparison to the prior fiscal year.

MINNESOTA HOUSING FINANCE AGENCY

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

General Overview

General Overview

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

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

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

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

In addition to its audited annual financial statements, Minnesota Housing has published unaudited quarterly disclosure reports for Residential Housing Finance and Homeownership Finance bond resolutions and unaudited semiannual disclosure reports for the Rental Housing bond resolution. Recent disclosure reports can be found in the "Investors" section on Minnesota Housing's web site at www.mnhousing.gov.

Discussion of Individual Funds

General Reserve

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

Rental Housing

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

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

MINNESOTA HOUSING FINANCE AGENCY

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

Discussion of Individual Funds (continued)

All of Minnesota Housing's bond-financed multifamily loans, except loans financed under state appropriation-backed housing bonds, conduit bonds, and one loan under Multifamily Housing, are financed in Rental Housing as of June 30, 2020. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Residential Housing Finance

Included within Residential Housing Finance are the bonds issued and outstanding under the Residential Housing Finance bond resolution, the 2018 limited obligation Index Bank Note issued under a separate bond trust indenture and the restricted by covenant, Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3). The Alternative Loan Fund is not pledged as security for any bonds of the Agency but is available to pay debt service on any bonds except state appropriation-backed bonds and conduit bonds.

Bonds have been issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family mortgage loans, certain entry cost housing assistance loans, and unsecured and secured subordinated home improvement mortgage loans. The majority of the single family loans financed by these bond issues are insured by private mortgage insurance or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). While mortgage insurance and guarantees help mitigate the risk of loss to the Agency, inherent risks remain including the impact of declining home values on default recoveries and the risk of deterioration to the credit worthiness of insurers. The Agency's collection experience among mortgage insurers has been generally favorable.

This bond resolution, along with the Homeownership Finance bond resolution (see Homeownership Finance below), were the principal sources of financing for bond-financed homeownership programs. Minnesota Housing may also issue bonds for its home improvement loan program under this bond resolution although no bonds were issued to support home improvement lending during fiscal year 2020.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2020 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before those securities are permanently financed by issuing bonds, or sold into the to-be-announced (TBA) market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans, for tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes and to develop new affordable housing, and index bank note expenses, and for bond sale contributions. The fund may also provide interim financing for construction and rehabilitation of single family housing and may be used to advance funds to retire debt.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans, loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2020 funds from Pool 3 were used for entry cost assistance for first-time homebuyers, below-market interim financing for construction and rehabilitation of single family housing, capital costs and rental assistance for permanent supportive housing, advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and deferred, subordinated multifamily loans.

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

MINNESOTA HOUSING FINANCE AGENCY

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

Discussion of Individual Funds (continued)

Homeownership Finance

This bond resolution was originally adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP). Non-NIBP mortgage revenue bonds, which also meet resolution requirements, have also been issued under this resolution. Bonds issued under this resolution fund mortgage-backed securities backed by single family mortgage loans. These securities are guaranteed as to payment of principal and interest by one of the Government National Mortgage Association, the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. Funds in excess of bond resolution requirements may be withdrawn and used to redeem any Agency bonds, to fund housing programs and for Agency operations.

Home Ownership Mortgage-backed Exempt Securities (HOMESSM)

This bond indenture implements a program developed by the investment banking division of a major bank whereby the Agency issues and sells to the investment bank limited obligations of the Agency (HOMESSM certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. Minnesota Housing is not committed to sell any HOMESSM certificates but has the option to accept the investment bank's bid for HOMESSM certificates, which may be a higher price than the Agency could achieve by selling the mortgage-backed security in the open market. The HOMESSM Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued during a prior fiscal year for one rental housing project.

State and Federal Appropriated Funds

The appropriated funds are maintained by Minnesota Housing for the purpose of receiving and disbursing monies appropriated by the state and federal government for housing. All funds appropriated by the State and Federal government must be used for specific uses as set forth in the state appropriations or federal contracts and except for funds appropriated to pay debt service on state appropriation-backed bonds are not pledged or available to secure the bondholders or creditors of Minnesota Housing. Because the Agency is the issuer of the state appropriation-backed bonds they are shown in bonds payable section even though they are not a general obligation of the Agency. These bonds are payable solely from appropriations from the State of Minnesota. Per the offering disclosures for these appropriation-backed bonds, the Agency will not use its own resources to redeem or repay the bonds.

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

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

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MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and
Results of Operations
Condensed Financial Information

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

| | | <u>Agency-wide Total</u> | | |
|---|--|--------------------------|--------------------|----------------|
| | | Fiscal 2020 | Fiscal 2019 | Change |
| Assets and Deferred Outflows | Cash and Investments | \$3,931,613 | \$3,400,932 | \$530,681 |
| | Loans receivable, Net | 933,657 | 955,435 | (21,778) |
| | Interest Receivable | 13,774 | 13,787 | (13) |
| | Deferred Pension and OPEB Expense | 14,211 | 26,658 | (12,447) |
| | Total Assets and Deferred Outflows | 4,926,666 | 4,420,003 | 506,663 |
| Liabilities and Deferred Inflows | Bonds Payable | 3,633,649 | 3,264,843 | 368,806 |
| | Interest Payable | 29,204 | 27,086 | 2,118 |
| | Pension and OPEB Liability | 10,412 | 10,441 | (29) |
| | Accounts Payable & Other Liabilities | 51,857 | 42,793 | 9,064 |
| | Funds Held for Others | 100,735 | 92,121 | 8,614 |
| | Deferred Pension and OPEB Credit | 29,734 | 42,028 | (12,294) |
| | Total Liabilities and Deferred Inflows | 3,900,084 | 3,508,742 | 391,342 |
| Net Position | Restricted by Bond Resolution | 540,018 | 426,482 | 113,536 |
| | Restricted by Covenant | 494,044 | 487,709 | 6,335 |
| | Restricted by Law | 168,085 | 151,823 | 16,262 |
| | Unrestricted - State Appropriation-backed Debt | (179,845) | (160,835) | (19,010) |
| | Total Net Position | 1,026,582 | 911,261 | 115,321 |

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

| | | <u>Agency-wide Total</u> | | |
|------------------------|---|--------------------------|--------------------|---------------|
| | | Fiscal 2020 | Fiscal 2019 | Change |
| Revenues | Interest Earned | \$ 152,140 | \$ 144,514 | \$ 7,626 |
| | Appropriations Received | 267,544 | 249,985 | 17,559 |
| | Fees and Reimbursements | 19,065 | 16,686 | 2,379 |
| | Net G/L on Sale of MBS Held for Sale/HOMES SM Certificates | 8,770 | 4,642 | 4,128 |
| | Total Revenues (1) | 582,587 | 534,311 | 48,276 |
| Expenses | Interest Expense | 118,802 | 97,085 | 21,717 |
| | Appropriations Disbursed | 238,589 | 224,145 | 14,444 |
| | Fees | 3,388 | 3,359 | 29 |
| | Payroll, Gen. & Admin. | 43,498 | 26,971 | 16,527 |
| | Loan Loss/Value Adjust's | 13,775 | 22,263 | (8,488) |
| | Total Expenses (1) | 448,776 | 400,735 | 48,041 |
| | Revenues Over/Under Expenses | 133,811 | 133,576 | 235 |
| Beginning Net Position | 911,261 | 797,965 | 113,296 | |
| Ending Net Position | 1,026,582 | 911,261 | 115,321 | |

(1) Agency-wide totals include interfund amounts

| Combined General Reserve and Bond Funds | | | | | Combined State and Federal Appropriations Funds | | |
|--|-----------|-------------|-------------|-----------|--|-------------|-----------|
| Fiscal 2020 | | | | | | | |
| Excluding Pool | Pool 3 | Total | Fiscal 2019 | Change | Fiscal 2020 | Fiscal 2019 | Change |
| \$3,743,957 | \$ 26,413 | \$3,770,370 | \$3,263,740 | \$506,630 | \$ 161,243 | \$ 137,192 | \$ 24,051 |
| 796,587 | 99,037 | 895,624 | 915,598 | (19,974) | 38,033 | 39,837 | (1,804) |
| 13,640 | 68 | 13,708 | 13,544 | 164 | 66 | 243 | (177) |
| 14,211 | - | 14,211 | 26,658 | (12,447) | - | - | - |
| 4,601,637 | 125,518 | 4,727,155 | 4,242,173 | 484,982 | 199,511 | 177,830 | 21,681 |
| 3,453,804 | - | 3,453,804 | 3,104,008 | 349,796 | 179,845 | 160,835 | 19,010 |
| 29,204 | - | 29,204 | 27,086 | 2,118 | - | - | - |
| 10,412 | - | 10,412 | 10,441 | (29) | - | - | - |
| 49,978 | 512 | 50,490 | 39,741 | 10,749 | 1,367 | 3,052 | (1,685) |
| 71,258 | - | 71,258 | 70,102 | 1,156 | 29,477 | 22,019 | 7,458 |
| 29,734 | - | 29,734 | 42,028 | (12,294) | - | - | - |
| 3,688,301 | 512 | 3,688,813 | 3,321,900 | 366,913 | 211,271 | 186,842 | 24,429 |
| 540,018 | - | 540,018 | 426,482 | 113,536 | - | - | - |
| 369,038 | 125,006 | 494,044 | 487,709 | 6,335 | - | - | - |
| - | - | - | - | - | 168,085 | 151,823 | 16,262 |
| - | - | - | - | - | (179,845) | (160,835) | (19,010) |
| 913,336 | 125,006 | 1,038,342 | 920,273 | 118,069 | (11,760) | (9,012) | (2,748) |

| Combined General Reserve and Bond Funds | | | | | Combined State and Federal Appropriations Funds | | |
|--|---------|------------|-------------|----------|--|-------------|----------|
| Fiscal 2020 | | | | | | | |
| Excluding Pool | Pool 3 | Total | Fiscal 2019 | Change | Fiscal 2020 | Fiscal 2019 | Change |
| \$ 147,676 | \$ 921 | \$ 148,597 | \$ 140,725 | \$ 7,872 | \$ 3,543 | \$ 3,789 | \$ (246) |
| - | - | - | - | - | 267,544 | 249,985 | 17,559 |
| 22,081 | 17 | 22,098 | 19,029 | 3,069 | 1,007 | (2,343) | 3,350 |
| 8,770 | - | 8,770 | 4,642 | 4,128 | - | - | - |
| 309,605 | 1,054 | 310,659 | 279,964 | 30,695 | 271,928 | 254,347 | 17,581 |
| 118,802 | - | 118,802 | 97,085 | 21,717 | - | - | - |
| - | - | - | - | - | 238,589 | 224,145 | 14,444 |
| 3,257 | 1,459 | 4,716 | 3,260 | 1,456 | 109 | 99 | 10 |
| 38,931 | 2,295 | 41,226 | 24,804 | 16,422 | 2,272 | 2,167 | 105 |
| 386 | 1,296 | 1,682 | (233) | 1,915 | 12,093 | 22,496 | (10,403) |
| 188,060 | 5,050 | 193,110 | 148,754 | 44,356 | 255,666 | 251,981 | 3,685 |
| 121,545 | (3,996) | 117,549 | 131,210 | (13,661) | 16,262 | 2,366 | 13,896 |
| 807,271 | 113,002 | 920,273 | 789,391 | 130,882 | (9,012) | 8,574 | (17,586) |
| 913,336 | 125,006 | 1,038,342 | 920,273 | 118,069 | (11,760) | (9,012) | (2,748) |

MINNESOTA HOUSING FINANCE AGENCY

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

FINANCIAL HIGHLIGHTS

General Reserve and Bond Funds-Statement of Net Position

The following financial highlights section refers to the General Reserve and bond funds. The reader is encouraged to review the Fund Financial Statements as well as supplementary information in this 2020 Financial Report.

Investments-program mortgage-backed securities (MBS), cash, cash equivalents, investment securities-other, loans receivable, and interest receivable comprise the majority of assets. Deferred pension expense, deferred loss on refunding and deferred loss on interest rate swap agreements comprise the majority of deferred outflows of resources in the General Reserve and bond funds. Capital assets, real estate owned and other assets continue to be insignificant in relation to the total General Reserve and bond fund assets and deferred outflows of resources.

Investments- MBS is the single largest category of bond fund assets. Those assets are pledged as security for the payment of certain Agency mortgage revenue bonds held in acquisition accounts pledged to bond holders as security for bonds. This category of investments increased 18.5% to \$3,184.3 million. Single Family production was very strong in FY2020.

Mortgage-backed Securities Portfolio Delinquency

| | Actual Loan Count | | | |
|----------------|-------------------|-------|---------------|-------|
| | June 30, 2020 | | June 30, 2019 | |
| Current | 24,726 | 90.9% | 23,817 | 97.6% |
| 60-89 Days | 948 | 3.5% | 277 | 1.1% |
| 90-119 Days | 1,024 | 3.8% | 130 | 0.5% |
| 120+ Days | 512 | 1.9% | 198 | 0.8% |
| Total Count | 27,210 | | 24,422 | |
| Total Past Due | 2,484 | 9.1% | 605 | 2.5% |

The 60+ day delinquency rate as of June 30, 2020 for the mortgage loans that back the MBS portfolio was approximately 1.77 points below the delinquency rates benchmark at the HFA division of US Bank. Similar to the homeownership loan portfolio described below, borrowers with mortgage loans that back the MBS portfolio can seek up to 360 days of payment forbearance under the CARES Act due to the COVID Pandemic; the MBS payments are guaranteed by GNMA, Fannie Mae or Freddie Mac and are not delinquent.

Cash and cash equivalents are carefully managed to provide adequate resources for future debt service requirements and liquidity needs. This category increased 6.5% to \$406.8 million. Cash and Cash equivalents can fluctuate based on the timing of bond sales, the rate of production, debt repayments, purchase of investments and loan transactions.

Investments securities-other consists of MBS that are held by the Agency as investments, MBS held in the warehouse for future bond sales and MBS held for sale in the TBA market as well as other quality investments such as US agency, US treasuries, municipal bonds and government backed investment pools at the trustee, Wells Fargo, and the State Board of Investments. This category decreased by 7.6% to \$179.3 million.

Loans receivable, net is another large single category of bond fund assets. Loans are limited to housing-related lending for low- and moderate-income individuals and families and multifamily housing developments; including Monthly Payment 2nd (MP 2nds) loans that include down payment assistance loans. Loans receivable, net, decreased 2.2% to \$895.6 million at June 30, 2020 as a result of repayments, prepayments, and loss reserves net of new loan purchases and originations. Amortizing homeownership loans at fixed interest rates, secured by first mortgages, continue to be the dominant loan product offered by Minnesota Housing. In the last half of 2009, the Agency changed its business model from purchasing homeownership loans to purchasing mortgage-backed securities (MBS) secured by homeownership loans.

MINNESOTA HOUSING FINANCE AGENCY
Management’s Discussion and Analysis of Financial Condition and
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**General Reserve
and Bond Funds-
Statement of Net
Position
(continued)**

As a result, the homeownership loan portfolio, now in runoff, will continue to shrink as repayments and prepayments are no longer offset by new loans. Instead, the portion of investments represented by MBS may increase as they are purchased in place of loans. The Agency also sells a portion of those MBS directly into the TBA market after hedging the interest rate risk with forward sales contracts at the time of loan commitment. The reduction in loans receivable during fiscal year 2020 was attributable to the runoff of the homeownership loan portfolio. The reserve for loan loss for the homeownership loan portfolio increased slightly. The reserve for loan loss for the home improvement loan portfolio increased due to a slight increase in the 120 day category. Amortizing multifamily loans at fixed interest rates, secured by first mortgages (referred to as the multifamily portfolio) exhibited little change in delinquency rate and the aggregate loan receivable balance. Minnesota Housing’s primary loan programs offer fixed interest rate financing and therefore differ from the high risk characteristics associated with some adjustable payment loan products. The CARES Act provides that during the national emergency concerning the COVID Pandemic, borrowers with mortgage loans that are FHA insured, VA, HUD or USDA Rural Development guaranteed, or purchased or securitized by Fannie Mae or Freddie Mac can seek up to 360 days of payment forbearance. The Agency has chosen to grant similar forbearance relief for other single family homeownership and home improvement loans

Homeownership Loan Portfolio Delinquency

Actual Loan Count

| | June 30, 2020 | | June 30, 2019 | |
|----------------|----------------------|-------|----------------------|-------|
| Current | 4,745 | 92.9% | 5,482 | 95.0% |
| 60-89 Days | 102 | 2.0% | 105 | 1.8% |
| 90-119 Days | 95 | 1.9% | 40 | 0.7% |
| 120+ Days | 163 | 3.2% | 143 | 2.5% |
| Total Count | 5,105 | | 5,770 | |
| Total Past Due | 360 | 7.1% | 288 | 5.0% |

Homeownership Loan Portfolio Delinquency (In Forbearance)

Actual Loan Count

| | June 30, 2020 | |
|----------------|----------------------|-------|
| Current | 105 | 35.0% |
| 60-89 Days | 63 | 21.0% |
| 90-119 Days | 79 | 26.3% |
| 120+ Days | 53 | 17.7% |
| Total Count | 300 | |
| Total Past Due | 195 | 65.0% |

The first table above also includes loans in forbearance due to the COVID Pandemic. The 60+ day delinquency rate as of June 30, 2020 for the entire Minnesota Housing homeownership first lien loan portfolio, excluding those loans not customarily included in foreclosure statistics, exceed by approximately one percentage point the delinquency rates of similar loan data available as of June 30, 2020 from the Mortgage Bankers Association of America for loans in Minnesota (as adjusted to reflect the proportions of insurance types in the Agency’s loan portfolio).

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and
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General Reserve
and Bond Funds-
Statement of Net
Position
(continued)

Homeownership (MP 2nd) Loan Portfolio Delinquency
Actual Loan Count

| | June 30, 2020 | | June 30, 2019 | |
|----------------|----------------------|-------|----------------------|-------|
| Current | 7,085 | 92.2% | 5,482 | 80.3% |
| 60-89 Days | 276 | 3.6% | 44 | 0.6% |
| 90-119 Days | 154 | 2.0% | 20 | 0.3% |
| 120+ Days | 169 | 2.2% | 154 | 2.3% |
| Total Count | <u>7,684</u> | | <u>6,830</u> | |
| Total Past Due | 599 | 7.8% | 218 | 3.2% |

Homeownership (MP 2nd) Loan Portfolio Delinquency (In Forbearance)
Actual Loan Count

| | June 30, 2020 | |
|----------------|----------------------|-------|
| Current | 650 | 59.0% |
| 60-89 Days | 250 | 22.7% |
| 90-119 Days | 144 | 13.1% |
| 120+ Days | 58 | 5.3% |
| Total Count | <u>1,102</u> | |
| Total Past Due | 452 | 41.0% |

The first table above also includes loans in forbearance due to the COVID Pandemic. The MP 2nd loans were made in conjunction with first lien mortgage loans that were pooled into MBS including, in part, the MBS portfolio the delinquency characteristics of which are described on a preceding page.

Home Improvement Loan Portfolio Delinquency
Actual Loan Count

| | June 30, 2020 | | June 30, 2019 | |
|----------------|----------------------|-------|----------------------|-------|
| Current | 4,654 | 98.2% | 4,693 | 97.9% |
| 60-89 Days | 22 | 0.5% | 35 | 0.7% |
| 90-119 Days | 4 | 0.1% | 17 | 0.4% |
| 120+ Days | 59 | 1.2% | 51 | 1.1% |
| Total Count | <u>4,739</u> | | <u>4,796</u> | |
| Total Past Due | 85 | 1.8% | 103 | 2.1% |

Home Improvement Loan Portfolio Delinquency (In Forbearance)
Actual Loan Count

| | June 30, 2020 | |
|----------------|----------------------|--------|
| Current | 11 | 100.0% |
| 60-89 Days | 0 | 0.0% |
| 90-119 Days | 0 | 0.0% |
| 120+ Days | 0 | 0.0% |
| Total Count | <u>11</u> | |
| Total Past Due | 0 | 0.0% |

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

MINNESOTA HOUSING FINANCE AGENCY

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

General Reserve and Bond Funds-Statement of Net Position (continued)

table above excludes inactive home improvement loans defined as delinquent loans for which the Agency has a valid lien but active collection efforts have been exhausted.

FHA/VA insurance claims, net consist of non-performing homeownership loans that are FHA insured or VA guaranteed. These loans are reclassified as claims receivable at the time the Agency files a claim. FHA/VA insurance claims, net decreased 54.5% to \$0.3 million at June 30, 2020 as a result of a decrease in the amount of loans with outstanding claims.

Over 60% of the principal amount of multifamily first mortgage loans receivable held in Rental Housing, and \$75.1 million of the principal amount of multifamily first mortgage loans receivable held in Residential Housing Finance, are insured by the U.S. Department of Housing and Urban Development ("HUD") pursuant to a risk sharing agreement whereby HUD agrees to assume 50% or greater of the loss upon a default of the mortgage loan.

Real estate owned, net consists of properties acquired upon foreclosure of homeownership loans. There was a net decrease in real estate owned of 34.0% to \$1.3 million at June 30, 2020.

While the delinquency rates and foreclosures in the Agency's loan portfolio remained above historical norms during fiscal year 2020, the combined net total of FHA/VA insurance claims and real estate owned remains immaterial compared to total loans receivable at June 30, 2020, being less than 1% of total net loans receivable.

Management believes that reserves for loan losses are adequate based on the current assessment of asset quality.

No loans reside in General Reserve.

Interest receivable on loans and investments is a function of the timing of interest payments and the general level of interest rates. Combined loan and investment interest receivable increased 1.2% to \$13.7 million at June 30, 2020. The increase is mainly a result of an increase in interest receivable on Program MBS homeownership loans.

Bonds payable is the largest single category of liabilities, resulting primarily from debt issued to fund housing-related lending. Bonds payable increased 11.3% to \$3,453.8 million at June 30, 2020 because new bonding issuance outpaced scheduled redemptions and early bond redemptions of existing debt.

The companion category of interest payable increased 7.8% to \$29.2 million at June 30, 2020, largely due to an increase in the amount of outstanding debt.

While there is no debt issued in General Reserve, there is a significant liability for funds held for others. These funds are routinely collected and held in escrow on behalf of multifamily borrowers pursuant to loan documents and are used for future periodic payments of real property taxes, casualty insurance premiums, and certain capital expenditures. Funds held for others in General Reserve, Pool 2 and HOMESSM increased 1.7% in FY20 to \$71.3 million at June 30, 2020.

On the statement of net position there are three accounts that report the overall pension and OPEB picture. As of June 30, 2020, the Net Pension Liability remained at \$10.4 million, the Deferred Pension Expense (Deferred Outflow) decreased by \$12.4 million to \$14.2 million, and the Deferred Pension Credit (Deferred Inflow) decreased by \$12.3 million to \$29.7 million. This decrease was due to Minnesota State Retirement System (MSRS) making changes to the assumptions that were used for the plans actuarial reports. GASB 68 prescribes how these accounts are recorded and how income and expense are recognized. Pursuant to GASB 75 prescribes that other Post Retirement Employee Benefits (OPEB) are now included in these numbers. The net result of the pension entries is an overall decrease of \$0.1 million to the net position.

Accounts payable and other liabilities increased to \$50.5 million at June 30, 2020. During FY 2020 the increase is due to the closing of seven Federal Financing Bank (FFB) Risk Sharing Initiative Program. Pursuant to the FFB program the Agency originates and sells a beneficial interest in each loan (consisting of

MINNESOTA HOUSING FINANCE AGENCY

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

General Reserve and Bond Funds-Statement of Net Position (continued)

principal and interest at a rate less than the loan rate paid by the borrower) to FFB. The Agency is obligated to reimburse FFB for its loss if the loan is not repaid, but since each loan is insured under HUD's risk-share program the loss is shared with HUD.

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

General Reserve and Bond Funds-Revenues over Expenses

Revenues over expenses of General Reserve and bond funds decreased 10.4% to \$117.5 million. Revenues over expenses decreased 202.8% to \$13.0 million for fiscal year 2020.

Total Revenues increased 11.0% to \$310.7 million. Revenue excluding unrealized gains and losses on investments increased 9.5% to \$206.1 million.

Total expenses increased 29.8% to \$193.1 million.

The largest revenue component, interest earned on MBS and investments increased 12.8% to \$106.2 million. This is primarily due to the increase in production as well as interest rate increases in the first half of fiscal year 2020. Loan interest revenue decreased 9.0% to \$42.4 million as repayments and prepayments decreased the size of the homeownership loan portfolio. That portfolio is in runoff because of the change to the mortgage-backed securities business model during fiscal year 2010. Administrative reimbursements to General Reserve from bond funds were \$28.1 million in fiscal year 2020 compared to \$23.8 million during the prior fiscal year. General Reserve also incurs overhead expenses to administer state and federal appropriated housing programs. General Reserve received overhead reimbursements of \$3.2 million from the State and Federal Appropriated funds to recover certain overhead expenses incurred during fiscal year 2020 compared to \$3.9 million during the prior fiscal year.

Other fee income to General Reserve and bond funds of \$17.4 million increased by \$2.3 million compared to the prior fiscal year. The primary components are service acquisition fees earned from the sale of mortgage servicing rights, fees earned from the federal low income housing tax credit program, Section 8 contract administration, federal Housing Assistance Payments administration, and various loan programs.

The net gain on the sale of mortgage-backed securities held for sale was \$8.8 million an increase of \$4.2 million over prior fiscal year. Components of the net gain, in addition to the gain or loss on the security itself, include the cost of minimizing interest rate risk through forward sale contracts, certain trustee fees, and service release premiums.

Unrealized gain on investment securities for fiscal year 2020 are \$104.5 million compared to \$91.7 million of unrealized gains for fiscal year 2019. The unrealized gains or losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions. Ninety-five percent of these unrealized gains or losses are related to the program MBS portfolio pledged to bond holders for payments of debt service. The Agency will hold these MBS until all requirements of the Residential Housing Finance and Homeownership Finance Bond resolution are satisfied. The Agency is not permitted by the bond resolution to sell the MBS at this time. This value fluctuation is booked as required by GASB however analysis performed on income normally excludes the unrealized gains or losses.

Interest expense of the bond funds increased 11.7% to \$95.9 million compared to the prior fiscal year as a result of new bond issues outpacing scheduled redemptions and early bond redemptions of existing debt.

Financing costs increased 103.5% to \$22.9 million.

Expenses for loan administration and trustee fees in the bond funds was stable at \$3.4 million for current fiscal year. Of the total administrative reimbursement revenue in General Reserve of \$31.3 million, the interfund charge to the bond funds and State Appropriated fund of \$30.7 million was eliminated for purposes of financial reporting in the Agency-wide financial statements.

MINNESOTA HOUSING FINANCE AGENCY

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

General Reserve and Bond Funds-Revenues over Expenses (continued)

Salaries and benefits in General Reserve of \$30.3 million increased 100.3% from the prior year. A main component of the Salaries and Benefits change is due to an increase in pension and OPEB expense rising to \$2.0 million during fiscal year 2020 from a credit of \$10.5 million in fiscal year 2019. Changes in assumptions by MSRS account for all of this change.

Other general operating expense in General Reserve and bond funds recognized a 13.0% increase compared to prior fiscal year at \$10.9 million.

Reductions in carrying value of certain low interest rate deferred loans in the bond funds increased from a credit of \$0.5 million to \$0.4 million. The increase was due to the leveling off of Pool 3 loan closings.

The provision for loan loss expense in the bond funds increased from \$0.3 million to \$1.2 million, delinquencies have increased over the prior fiscal year.

The provision for loan loss expense for the homeownership loan portfolio for current and prior fiscal year was \$0.4 million.

The provision for loan loss expense for the home improvement loan portfolio remained at \$0.2 million compared to prior year.

The provision for loan loss expense for the multifamily loan portfolio was zero.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues, the periodic transfer of assets to maintain the Housing Endowment Fund (Pool 1) requirement, periodic fiscal year end transfers to the Housing Affordability Fund (Pool 3), if any, and periodic transfers from the bond funds of amounts in excess of bond resolution requirements. During fiscal year 2020, \$10.4 million of Pool 1 funds in excess of requirements were transferred to Pool 2. Revenues over expenses in General Reserve that are in excess of the Pool 1 requirement are transferred periodically to Pool 2 for use in housing programs. Pool 2 also recorded a \$16.0 million transfer to Pool 3 to be used for highly subsidized housing programs, General Reserve and Residential Housing Finance Bond. Per the Rental Housing Bond Resolution requirement, funds must be transferred to General Reserve when they are removed from the Rental Housing Bond Resolution. Revenues over expenses plus non-operating transfers in Pool 2 may be transferred periodically, with approval of the Board, to Pool 3 for use in more highly subsidized housing programs. Board investment guidelines establish required balances for Pool 1 and Pool 2. In addition, Pool 2 made \$19.2 million in bond sale transfers to the Homeownership Finance and Rental Housing bond fund.

Total combined net position of General Reserve and bond funds increased 12.8% to \$1,038.3 million as of June 30, 2020. The net position of General Reserve and bond funds is divided into two primary categories. Restricted by Bond Resolution is pledged to the payment of bonds, subject to bond resolution provisions that authorize Minnesota Housing to withdraw funds in excess of the amounts required to be maintained under the bond resolutions. Restricted by Covenant is subject to a covenant with bondholders that the Agency will use the money in General Reserve, and money that would otherwise have been released to General Reserve, only for the administration and financing of programs in accordance with the policy and purpose of Minnesota Housing's enabling legislation, including the creation of reserves for the payment of bonds and of loans made from the proceeds thereof, and will accumulate and maintain therein such a balance of funds and investments as will be sufficient for the purpose. The Board of the Agency has established investment guidelines for these funds to implement this covenant.

State and Federal Appropriated Funds-Statement of Net Position

Assets of the appropriated funds are derived from the appropriation of funds by the State of Minnesota and funds made available to Minnesota Housing by the federal government for housing purposes. Housing preservation and development typically requires appropriations received in the current period to be expended over several future years of planned development. This timing difference is the primary reason for the presence of investments, cash, and cash equivalent assets in the appropriated funds and for the balance of net position restricted by law. In fiscal year 2018, the Agency added a new line called Unrestricted - State Appropriation-backed Bonds. This line shows the amount of outstanding Appropriation-backed Bonds issued by the Agency.

MINNESOTA HOUSING FINANCE AGENCY

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

State and Federal Appropriated Funds-Statement of Net Position (continued)

Investments, cash, and cash equivalents combined are the largest category of assets in the appropriated funds. The June 30, 2020 combined balance increased 17.5% to \$161.2 million as a result of the combined appropriations received and other revenues exceeding the combined disbursements for programs, loans and expenses during the fiscal year.

Certain state appropriations are expended as housing loans which are in a first lien position and with near- or below-market interest rates, resulting in net loans receivable. At June 30, 2020 State Appropriated fund net loans receivable decreased 4.5% to \$38.0 million.

Interest receivable in appropriated funds is a function of the timing of interest payments and the general level of interest rates on investments. Interest receivable on appropriated funds at June 30, 2020 decreased to \$0.1 million. Accounts payable and other liabilities represent amounts payable to program participants as of year-end. The balance of payables at June 30, 2020 was \$1.4 million compared to \$3.1 million at June 30, 2019. Interfund payable occurs in the Federal Appropriated fund as a result of overhead expense and indirect cost recoveries owed to General Reserve. Interfund payable occurs in the State Appropriated fund because of accrued overhead expense payable to General Reserve. At June 30, 2020 the combined net interfund payable was \$0.6 million.

At June 30, 2020 the balance of funds held for others was \$29.5 million. The majority of these funds represents the proceeds of state appropriation-backed housing bonds which are held for disbursement to certain multifamily affordable housing developments.

The appropriated net position is broken into two categories. Restricted by Law is for use with housing programs only and is not pledged or available to secure bonds issued under any of the Agency's bond funds or other obligations of the Agency or its general obligation pledge in respect thereof. Unrestricted - State Appropriation-backed Bonds shows the amount of state appropriation-backed bonds outstanding. These bonds are backed solely by the standing appropriation by the State of Minnesota and the Agency's resources are not pledged or available to secure the bondholders. Per GASB, as the issuer, the Agency is required to show these bonds as bonds payable and therefore the reduction in net position. The combined net position of the appropriated funds decreased from (\$9.0) million as June 30, 2019 to (\$11.8) million as of June 30, 2020. This decrease is predominately due to the state appropriation-backed bonds being recorded in the state appropriated fund. The balance in Restricted by Law at June 30, 2020 was \$161.8 million. There was an increase in restricted by law net position of \$16.3 million for fiscal year 2020. This shows that combined receipts exceeds expenses during fiscal year 2020. The principal amount outstanding of the state appropriation-backed bonds was \$160.8 million as of June 30, 2019, and \$179.8 million as of June 30, 2020.

State and Federal Appropriated Funds-Revenues over Expenses

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

The largest revenue category is appropriations received, and is a function of the fiscal, legislative, and political environment of the State of Minnesota and the federal government. The combined appropriations received increased from \$250.0 million in fiscal year 2019 to \$267.5 million in fiscal year 2020. Federal appropriations received increased by \$6.2 million. State appropriations received increased by \$11.4 million.

The combined interest income from investments decreased 14.6% to \$2.9 million for fiscal year 2020.

Loan interest income from State Appropriations loan assets continues to be minimal at \$0.7 million as relatively few loans bear interest.

Fees earned and other income, in the amount of \$1.0 million were recorded in the State Appropriated fund during fiscal year 2020.

MINNESOTA HOUSING FINANCE AGENCY

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

State and Federal Appropriated Funds-Revenues over Expenses (continued)

Combined unrealized losses of \$0.2 million remained the same on June 30, 2020 and June 30, 2019. The unrealized gains and losses arise due to the changes in fair value and mark-to-market in accordance with GASB. The fair value adjustments are booked quarterly and fluctuate based on market conditions.

Administrative reimbursements to General Reserve of overhead expenses to administer State Appropriated fund programs decreased 15.3% to \$2.6 million compared to the prior fiscal year. The Agency incurs the overhead expense in General Reserve. General Reserve is reimbursed for these overhead expenses by the State Appropriated funds to the extent of investment earnings on unexpended state appropriations. During fiscal year 2020 investment earnings in the State Appropriated fund were insufficient to reimburse all of the overhead expenses incurred in General Reserve for State Appropriated programs during this fiscal year.

Combined appropriations disbursed increased 6.4% to \$238.6 million compared to the prior fiscal year, reflecting State Appropriations disbursed of \$36.0 million and federal appropriations disbursed of \$202.6 million.

Increased expenditures of State Appropriated funds for fully-reserved below-market and zero-percent interest rate loans impacted expense from reductions in carrying value of certain loans. Net reductions of carrying value decreased 45.6 % to \$11.9 million compared to the prior fiscal year.

Other general operating expenses in the State Appropriation fund represent fees for professional and technical support to implement and administer certain housing programs. Other general operating expenses in the State Appropriation fund increased 4.9% to \$2.3 million at June 30, 2020.

Combined expenses were less than combined revenue of the appropriated funds by \$16.3 million at June 30, 2020. Ultimately, the entire existing State Restricted by Law and Federal Appropriated funds' net position is likely to be expended for housing programs.

Significant Long Term Debt Activities

Minnesota Housing issues a significant amount of bonds, having outstanding at June 30, 2020, not including state appropriation-backed bonds, long-term bonds totaling \$3,453.8 million. Bond proceeds and related revenues are held by a trustee, who is responsible for administration of bond resolution requirements including payment of debt service. The bond resolutions may require funding debt service reserve accounts and insurance reserve accounts. At June 30, 2020, amounts held by the trustee in principal, interest, redemption, and reserve accounts represented full funding of those requirements as of that date. In addition, at year-end the Agency had \$179.8 million in state appropriation-backed bonds outstanding.

Minnesota Housing continually investigates and utilizes financing and debt management techniques designed to achieve its goals of reducing interest expense and efficiently utilizing bonding authority while managing risk and responding to changing capital markets. During 2020 fiscal year, Minnesota Housing issued nineteen series of bonds aggregating \$898.5 million (excluding state appropriation-backed housing bonds, conduit bonds, limited obligation drawdown index bank note, and short-term borrowing against a line of credit), compared to the issuance of twenty-two series totaling \$736.4 million the previous fiscal year. Long-term bonds are issued as capital is needed for program purposes and as opportunities arise to economically refund outstanding bonds. Short-term bonds and notes and other indebtedness may be issued to preserve tax-exempt bonding authority for future program use and to warehouse purchases of mortgage-backed securities in advance of permanent financing. A total of \$26.8 million in state appropriation-backed bonds were issued in fiscal year 2020.

A total of \$789.3 million (does not include state appropriation-backed bonds) in bond principal repayments and \$118.8 million of bond-related interest expense occurred during fiscal year 2020. Of the total bond principal repayments, \$261.2 million were repayments made on bonds prior to the scheduled maturity date using a combination of optional and special redemption provisions. A total of \$7.8 million in bond principal repayments for state appropriation-backed bonds were made in fiscal year 2020.

Most of the bonds issued by Minnesota Housing bear interest that is not includable in gross income for federal and State of Minnesota income taxation, in accordance with requirements of the federal Internal Revenue Code (IRC) and Treasury regulations governing either qualified mortgage bonds or bonds issued to

MINNESOTA HOUSING FINANCE AGENCY

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

Significant Long Term Debt Activities (continued)

provide qualified residential rental projects. Minnesota Housing's ability to issue tax-exempt debt is limited by its share of the state's allocation of private activity bond volume cap, which is established by Minnesota statutes. Minnesota Housing's ability to issue tax-exempt debt is also limited by a provision in the IRC (commonly known as the 10 year rule) that requires mortgage repayments and prepayments received more than ten years after the date of issuance of the bonds that financed those mortgage loans to be used to redeem bonds.

While most of the Agency's bonds are tax-exempt, taxable bonds have been issued to supplement limited tax-exempt private activity bond volume cap in order to meet demand for financing mortgage loans. Taxable bonds may also be issued to refund existing debt or to finance lending programs where federal tax-exempt bond restrictions are inconsistent with program goals. Variable-rate bonds and interest-rate swaps were incorporated into Minnesota Housing's financings from fiscal year 2003 through fiscal year 2010, and again in fiscal years 2016 through fiscal year 2019 and in fiscal years 2018 and 2019 SIFMA Floating Rate Term

Bonds were also incorporated enabling the Agency to provide below-market mortgage financing at synthetically fixed interest rates. Interest-rate swaps help to hedge the mismatch between fixed-rate loans and variable-rate bonds. The Agency issued new series of variable rate demand bonds in fiscal year 2020 in a principal amount totaling \$44.0 million with an interest rate swap with the equivalent notional amount

Significant Factors that May Affect Financial Conditions and/or Operations

Legislative Actions

In even-numbers years, the Legislature typically passes a bonding bill to fund capital projects around the state. The Agency's top priority this session was to secure the Governor's Capital Budget Recommendations of \$200 million in Housing Infrastructure Bonds and \$60 million in State of Minnesota General Obligation bonds for public housing rehabilitation.

The 2020 Legislative Session has been significantly impacted by the COVID-19 Pandemic and its related impacts. Governor Walz declared a Peacetime Emergency on March 13, 2020 related to the spread of COVID-19, and most recently extended the emergency to mid-September, 2020. The regular legislative session ended in May, and subsequent special legislative sessions in June, July and August, all have ended without a bonding bill.

During the regular session, Minnesota Management and Budget projected a State budget deficit for the current biennium, ending in June 2021.

In July 2020, Governor Walz announced that \$100 million from the State's Coronavirus Relief Fund (CRF) would be made available to the Agency to establish a COVID-19 Housing Assistance Program, with an objective of maintaining housing stability for individuals and families impacted by COVID-19.

Additional Information

Questions and inquiries may be directed to Ms. Debbi Larson at Minnesota Housing Finance Agency, 400 Wabasha Street North, Suite 400, St. Paul, MN 55102 (651-296-8183 or 800-657-3769 or if T.T.Y. 651-297-2361)

MINNESOTA HOUSING FINANCE AGENCY
Management's Discussion and Analysis of Financial Condition and
Results of Operations (continued)

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MINNESOTA HOUSING FINANCE AGENCY

Agency-wide Financial Statements

Statement of Net Position (in thousands)

As of June 30, 2020 (with comparative totals as of June 30, 2019)

| | | Agency wide Total as of June 30, 2020 | Agency wide Total as of June 30, 2019 |
|---|--|---|---|
| Assets | Cash and cash equivalents | \$ 568,045 | \$ 451,832 |
| | Investments-program mortgage-backed securities | 3,184,290 | 2,687,661 |
| | Investment securities-other | 179,278 | 261,439 |
| | Loans receivable, net | 933,657 | 955,435 |
| | Interest receivable on loans and program mortgage-backed securities | 13,049 | 12,364 |
| | Interest receivable on investments | 725 | 1,423 |
| | Federal Home Association (FHA)/Veteran Affairs (VA) insurance claims, net | 312 | 686 |
| | Real estate owned, net | 1,296 | 1,965 |
| | Capital assets, net | 4,280 | 6,082 |
| | Other assets | 3,903 | 3,412 |
| | Total assets | 4,888,835 | 4,382,299 |
| Deferred Outflows of Resources | Deferred loss on refunding | 15 | 62 |
| | Deferred loss on interest rate swap agreements | 23,605 | 10,984 |
| | Deferred pension and Other post-employment benefits (OPEB) expense | 14,211 | 26,658 |
| | Total deferred outflows of resources | 37,831 | 37,704 |
| Liabilities | Bonds payable, net | 3,633,649 | 3,264,843 |
| | Interest payable | 29,204 | 27,086 |
| | Interest rate swap agreements | 23,605 | 10,984 |
| | Net pension and OPEB liability | 10,412 | 10,441 |
| | Accounts payable and other liabilities | 51,857 | 42,793 |
| | Funds held for others | 100,735 | 92,121 |
| | Total liabilities | 3,849,462 | 3,448,268 |
| of Resources | Deferred service release fee | 20,888 | 18,446 |
| | Deferred pension and OPEB credit | 29,734 | 42,028 |
| | Total deferred inflows of resources | 50,622 | 60,474 |
| Net Position | Restricted by bond resolution | 540,018 | 426,482 |
| | Restricted by covenant | 494,044 | 487,709 |
| | Restricted by law | 168,085 | 151,823 |
| | Unrestricted - State Appropriation-Backed Debt | (179,845) | (160,835) |
| | Invested in capital assets | 4,280 | 6,082 |
| | Total net position | 1,026,582 | 911,261 |
| | Total liabilities, deferred inflows of resources, and net position | \$4,926,666 | \$4,420,003 |

See accompanying notes to financial statements

MINNESOTA HOUSING FINANCE AGENCY**Agency-wide Financial Statements****Statement of Activities (in thousands)****Year ended June 30, 2020 (with comparative total for year ended June 30, 2019)**

| | | Agency-wide Total for Year Ended June 30, 2020 | Agency-wide Total for Year Ended June 30, 2019 |
|---------------------|---|---|---|
| Revenue | Interest earned on loans | \$ 43,064 | \$ 47,030 |
| | Interest earned on investments-program mortgage-backed securities | 94,264 | 79,699 |
| | Interest earned on investments-other | 14,812 | 17,785 |
| | Net G/L on Sale of MBS* Held for Sale/HOMES Certificates | 8,770 | 4,642 |
| | Appropriations received | 267,544 | 249,985 |
| | Administrative reimbursement | 612 | 818 |
| | Fees earned and other income | 18,453 | 15,868 |
| | Unrealized gains/losses on investments | 104,344 | 91,572 |
| | Total revenues | <u>551,863</u> | <u>507,399</u> |
| Expenses | Interest | 95,908 | 85,837 |
| | Financing, net | 22,894 | 11,248 |
| | Loan administration and trustee fees | 3,388 | 3,359 |
| | Salaries and benefits | 30,283 | 15,117 |
| | Other general operating | 13,215 | 11,854 |
| | Appropriations disbursed | 238,589 | 224,145 |
| | Reduction in carrying value of certain low interest rate deferred loans | 12,354 | 21,380 |
| | Provision for loan losses | 1,421 | 883 |
| | Total expenses | <u>418,052</u> | <u>373,823</u> |
| | Revenues over (under) expenses | 133,811 | 133,576 |
| | Non-Operating Expenses | <u>(18,490)</u> | <u>(20,280)</u> |
| Net Position | Change in Net Position | 115,321 | 113,296 |
| | Total net position, beginning of period | 911,261 | 797,965 |
| | Total net position, end of year | <u>\$1,026,582</u> | <u>\$911,261</u> |

See accompanying notes to financial statements

*Mortgage-Backed Securities

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Net Position (in thousands)

Proprietary Funds

As of June 30, 2020 (with comparative totals as of June 30, 2019)

| | | <u>Bond Funds</u> | |
|---------------------------------------|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Assets | Cash and cash equivalents | \$105,232 | \$ 26,826 |
| | Investments-program mortgage-backed securities | - | - |
| | Investment securities-other | - | 22,997 |
| | Loans receivable, net | - | 148,356 |
| | Interest receivable on loans and program mortgage-backed securities | - | 609 |
| | Interest receivable on investments | 57 | 66 |
| | FHA/VA insurance claims, net | - | - |
| | Real estate owned, net | - | - |
| | Capital assets, net | 4,280 | - |
| | Other assets | 3,038 | 2 |
| | Total assets | <u>112,607</u> | <u>198,856</u> |
| Deferred Outflows of Resources | Deferred loss on refunding | - | - |
| | Deferred loss on interest rate swap agreements | - | - |
| | Deferred pension and OPEB expense | 14,211 | - |
| | Total deferred outflows of resources | <u>14,211</u> | <u>-</u> |
| Liabilities | Bonds payable, net | - | 50,055 |
| | Interest payable | - | 600 |
| | Interest rate swap agreements | - | - |
| | Net pension and OPEB liability | 10,412 | - |
| | Accounts payable and other liabilities | 5,159 | 3,420 |
| | Interfund payable (receivable) | 440 | - |
| | Funds held for others | 68,766 | - |
| | Total liabilities | <u>84,777</u> | <u>54,075</u> |
| Deferred Inflows of Resources | Deferred gain on interest rate swap agreements | - | - |
| | Deferred service release fee | - | - |
| | Deferred pension and OPEB credit | 29,734 | - |
| | Total deferred inflows of resources | <u>29,734</u> | <u>-</u> |
| Net Position | Restricted by bond resolution | - | 144,781 |
| | Restricted by covenant | 8,027 | - |
| | Restricted by law | - | - |
| | Unrestricted - State Appropriation-backed Debt | - | - |
| | Invested in capital assets | 4,280 | - |
| | Total net position | <u>\$ 12,307</u> | <u>\$144,781</u> |

See accompanying notes to financial statements

| Bond Funds | | | | Appropriated Funds | | | |
|-----------------------------------|--------------------------|------------------------|---------------------|-----------------------|-------------------------|------------------------------|------------------------------|
| Residential Housing Finance | Homeownership Finance | Multifamily Housing | HOMES SM | State Appropriated | Federal Appropriated | Total as of June 30, 2020 | Total as of June 30, 2019 |
| \$ 207,922 | \$ 65,183 | \$ 1,639 | \$ - | \$146,758 | \$14,485 | \$ 568,045 | \$ 451,832 |
| 1,460,096 | 1,724,194 | - | - | - | - | 3,184,290 | 2,687,661 |
| 141,892 | - | - | \$14,389 | - | - | 179,278 | 261,439 |
| 733,717 | - | 13,551 | - | 38,033 | - | 933,657 | 955,435 |
| 7,147 | 5,229 | 50 | - | 14 | - | 13,049 | 12,364 |
| 514 | 1 | - | 35 | 51 | 1 | 725 | 1,423 |
| 312 | - | - | - | - | - | 312 | 686 |
| 1,296 | - | - | - | - | - | 1,296 | 1,965 |
| - | - | - | - | - | - | 4,280 | 6,082 |
| 694 | - | - | - | - | 169 | 3,903 | 3,412 |
| 2,553,590 | 1,794,607 | 15,240 | 14,424 | 184,856 | 14,655 | 4,888,835 | 4,382,299 |
| 15 | - | - | - | - | - | 15 | 62 |
| 23,605 | - | - | - | - | - | 23,605 | 10,984 |
| - | - | - | - | - | - | 14,211 | 26,658 |
| 23,620 | - | - | - | - | - | 37,831 | 37,704 |
| 1,738,108 | 1,639,009 | 13,240 | 13,392 | 179,845 | - | 3,633,649 | \$3,264,843 |
| 23,176 | 5,360 | 33 | 35 | - | - | 29,204 | 27,086 |
| 23,605 | - | - | - | - | - | 23,605 | 10,984 |
| - | - | - | - | - | - | 10,412 | 10,441 |
| 41,811 | 100 | - | - | (1,352) | 15 | 51,857 | 42,793 |
| (1,022) | - | - | - | 425 | 157 | - | - |
| 1,495 | - | - | 997 | 29,471 | 6 | 100,735 | 92,121 |
| 1,827,173 | 1,644,469 | 13,273 | 14,424 | 211,093 | 178 | 3,849,462 | 3,448,268 |
| - | - | - | - | - | - | - | - |
| 12,497 | 8,391 | - | - | - | - | 20,888 | 18,446 |
| - | - | - | - | - | - | 29,734 | 42,028 |
| 12,497 | 8,391 | - | - | - | - | 50,622 | 60,474 |
| 251,523 | 141,747 | 1,967 | - | - | - | 540,018 | 426,482 |
| 486,017 | - | - | - | - | - | 494,044 | 487,709 |
| - | - | - | - | 153,608 | 14,477 | 168,085 | 151,823 |
| - | - | - | - | (179,845) | - | (179,845) | (160,835) |
| - | - | - | - | - | - | 4,280 | 6,082 |
| \$ 737,540 | \$ 141,747 | \$ 1,967 | \$ - | \$(26,237) | \$14,477 | \$1,026,582 | \$ 911,261 |

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

Proprietary Funds

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | <u>Bond Funds</u> | |
|-------------------------------|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Revenues | Interest earned on loans | \$ - | \$ 7,661 |
| | Interest earned on investments-program mortgage-backed securities | - | - |
| | Interest earned on investments-other | 590 | 970 |
| | Net G/L on Sale of MBS Held for Sale/HOMES Certificates | - | - |
| | Appropriations received | - | - |
| | Administrative reimbursement | 31,336 | - |
| | Fees earned and other income | 12,971 | 147 |
| | Unrealized gains (losses) on investments | - | 1,472 |
| | Total revenues | 44,897 | 10,250 |
| Expenses | Interest | - | 1,434 |
| | Financing, net | - | 5 |
| | Loan administration and trustee fees | - | 80 |
| | Administrative reimbursement | - | 1,181 |
| | Salaries and benefits | 30,283 | - |
| | Other general operating | 6,900 | 4 |
| | Appropriations disbursed | - | - |
| | Reduction in carrying value of certain low interest rate deferred loans | - | - |
| | Provision for loan losses | - | (195) |
| | Total expenses | 37,183 | 2,509 |
| | Revenues over (under) expenses | 7,714 | 7,714 |
| Other Changes | Non-operating transfer of assets between funds & Other | (9,876) | 59 |
| | Change in net position | (2,162) | 7,800 |
| Net Position (Deficit) | Total net position, beginning of year | 14,469 | 136,981 |
| | Total net position, end of year | \$12,307 | \$144,781 |

See accompanying notes to financial statements

| Bond Funds | | | | Appropriated Funds | | Total for the | Total for the |
|-------------|---------------|-------------|---------------------|--------------------|--------------|---------------|---------------|
| Residential | Homeownership | Multifamily | | State | Federal | Year Ended | Year Ended |
| Finance | Finance | Housing | HOMES SM | Appropriated | Appropriated | June 30, 2020 | June 30, 2019 |
| \$ 34,113 | \$ - | \$ 600 | \$ - | \$ 690 | \$ - | \$ 43,064 | \$ 47,030 |
| 35,731 | 58,533 | - | - | - | - | 94,264 | 79,699 |
| 9,485 | 427 | 19 | 468 | 2,630 | 223 | 14,812 | 17,785 |
| 8,770 | - | - | - | - | - | 8,770 | 4,642 |
| - | - | - | - | 64,705 | 202,839 | 267,544 | 249,985 |
| - | - | - | - | - | - | 31,336 | 27,730 |
| 2,748 | 1,580 | - | - | 1,007 | - | 18,453 | 15,868 |
| 55,570 | 47,468 | - | - | (166) | - | 104,344 | 91,572 |
| 146,417 | 108,008 | 619 | 468 | 68,866 | 203,062 | 582,587 | 534,311 |
| 43,583 | 50,022 | 401 | 468 | - | - | 95,908 | 85,837 |
| 14,223 | 8,666 | - | - | - | - | 22,894 | 11,248 |
| 2,592 | 603 | 4 | - | 109 | - | 3,388 | 3,359 |
| 16,634 | 10,213 | 93 | - | 2,603 | - | 30,724 | 26,912 |
| - | - | - | - | - | - | 30,283 | 15,117 |
| 4,000 | 39 | - | - | 2,272 | - | 13,215 | 11,854 |
| - | - | - | - | 35,961 | 202,628 | 238,589 | 224,145 |
| 449 | - | - | - | 11,905 | - | 12,354 | 21,380 |
| 1,429 | - | (1) | - | 188 | - | 1,421 | 883 |
| 82,910 | 69,543 | 497 | 468 | 53,038 | 202,628 | 448,776 | 400,735 |
| 63,507 | 38,465 | 122 | - | 15,828 | 434 | 133,811 | 133,576 |
| (8,832) | 19,169 | - | - | (19,010) | - | (18,490) | (20,280) |
| 54,675 | 57,634 | 122 | - | (3,182) | 434 | 115,321 | 113,296 |
| 682,865 | 84,113 | 1,845 | - | (23,055) | 14,043 | 911,261 | 797,965 |
| \$737,540 | \$141,747 | \$1,967 | \$ - | \$(26,237) | \$ 14,477 | \$1,026,582 | \$911,261 |

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | <u>Bond Funds</u> | |
|---|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Cash flows from operating activities | Principal repayments on loans and program mortgage-backed securities | \$ - | \$ 19,871 |
| | Investment in loans/loan modifications and program mortgage-backed securities | - | (20,455) |
| | Interest received on loans and program mortgage-backed securities | - | 7,532 |
| | Fees and other income received | 12,373 | 147 |
| | Salaries, benefits and other operating | (32,144) | (82) |
| | Appropriations received | - | - |
| | Appropriations disbursed | - | - |
| | Administrative reimbursement from funds | 31,602 | (1,181) |
| | Deposits into funds held for others | 35,956 | - |
| | Disbursements made from funds held for others | (36,086) | - |
| | Interfund transfers and other assets | (2,134) | 1 |
| | <u>9,567</u> | <u>5,833</u> | |
| Cash flows from non-capital financing activities | Proceeds from sale of bonds and notes | - | 20,095 |
| | Principal repayment on bonds and notes | - | (16,315) |
| | Interest paid on bonds and notes | - | (1,411) |
| | Financing costs paid related to bonds issued | - | (5) |
| | Interest paid/received between funds | 63 | - |
| | Agency contribution to program funds | - | 59 |
| | Transfer of cash between funds | (2,480) | - |
| | <u>(2,417)</u> | <u>2,423</u> | |
| Cash flows from investing activities | Investment in real estate owned | - | - |
| | Interest received on investments | 1,517 | 1,007 |
| | Net gain (loss) on Sale of MBS Held for Sale and HOMES Certificates | - | - |
| | Proceeds from sale of mortgage insurance claims/real estate owned | - | - |
| | Proceeds from maturity, sale or transfer of investment securities | 119,000 | 392 |
| | Purchase of investment securities | (74,645) | - |
| | Purchase of loans between funds | - | (17,695) |
| | | <u>45,872</u> | <u>(16,296)</u> |
| | 53,022 | (8,040) | |
| Cash and cash equivalents | Beginning of period | 52,210 | 34,866 |
| | End of period | <u>\$105,232</u> | <u>\$ 26,826</u> |

See accompanying notes to financial statements

| Bond Funds | | | | Appropriated Funds | | Total for the | Total for the |
|-------------|---------------|-------------|---------------------|--------------------|--------------|---------------|---------------|
| Residential | Homeownership | Multifamily | | State | Federal | Year Ended | Year Ended |
| Finance | Finance | Housing | HOMES SM | Appropriated | Appropriated | June 30, 2020 | June 30, 2019 |
| \$ 288,771 | \$ 264,940 | \$ 202 | \$ - | \$ 16,617 | \$ - | \$ 590,401 | \$ 411,245 |
| (676,350) | (261,963) | - | - | (24,184) | - | (982,952) | (842,220) |
| 71,531 | 63,609 | 600 | - | 698 | - | 143,970 | 128,473 |
| 11,317 | - | - | - | 1,007 | - | 24,844 | 22,931 |
| (10,859) | (608) | (4) | - | (2,772) | - | (46,469) | (43,995) |
| - | - | - | - | 64,909 | 203,024 | 267,933 | 250,956 |
| - | - | - | - | (35,364) | (203,108) | (238,472) | (225,167) |
| (16,634) | (10,213) | (93) | - | (2,885) | - | 596 | 882 |
| - | - | - | - | 44,542 | - | 80,498 | 70,434 |
| (505) | - | - | - | (37,529) | - | (74,120) | (59,692) |
| 34 | - | - | - | (87) | - | (2,186) | (2,428) |
| (332,695) | 55,765 | 705 | - | 24,952 | (84) | (235,957) | (288,581) |
| 2,751,417 | 298,852 | - | - | - | - | 3,070,364 | 2,322,300 |
| (2,402,622) | (291,897) | (240) | (3,248) | - | - | (2,714,322) | (1,901,551) |
| (46,464) | (51,270) | (402) | (476) | - | - | (100,023) | (87,166) |
| (6,475) | (2,599) | - | - | - | - | (9,079) | (7,456) |
| (63) | - | - | - | - | - | - | - |
| (9,762) | 9,703 | - | - | - | - | - | - |
| 2,480 | - | - | - | - | - | - | - |
| 288,511 | (37,211) | (642) | (3,724) | - | - | 246,940 | 326,127 |
| (603) | - | - | - | - | - | (603) | (872) |
| 9,845 | 486 | 22 | 476 | 2,555 | 240 | 16,148 | 17,165 |
| (4,925) | - | - | - | - | - | (4,925) | 937 |
| 6,662 | - | - | - | - | - | 6,662 | 6,495 |
| 1,162,376 | - | - | 3,248 | 142,540 | - | 1,427,556 | 1,076,467 |
| (1,190,293) | - | - | - | (74,670) | - | (1,339,608) | (1,100,186) |
| 21,813 | - | - | - | (4,118) | - | - | - |
| 4,875 | 486 | 22 | 3,724 | 66,307 | 240 | 105,230 | 6 |
| (39,309) | 19,040 | 85 | - | 91,259 | 156 | 116,213 | 37,552 |
| 247,231 | 46,143 | 1,554 | - | 55,499 | 14,329 | 451,832 | 414,280 |
| \$ 207,922 | \$ 65,183 | \$1,639 | \$ - | \$146,758 | \$ 14,485 | \$ 568,045 | \$ 451,832 |

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Fund Financial Statements

Statement of Cash Flows (in thousands)

Proprietary Funds (continued)

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | <u>Bond Funds</u> | |
|--|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities | Revenues over (under) expenses | \$ 7,714 | \$ 7,741 |
| | Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | |
| | Amortization of premiums (discounts) and fees on program mortgage-backed securities | - | (92) |
| | Amortization of proportionate share-Pension | 24 | - |
| | Depreciation | 3,739 | - |
| | Gain (loss) on sale of MBS held for sale and HOMES SM Certificates | - | - |
| | Realized losses (gains) on sale of securities, net | - | - |
| | Unrealized losses (gains) on securities, net | - | (1,472) |
| | Salaries and Benefits-Pensions | 620 | - |
| | Provision for loan losses | - | (195) |
| | Reduction in carrying value of certain low interest rate and/or deferred loans | - | - |
| | Capitalized interest on loans and real estate owned | - | - |
| | Interest earned on investments | (590) | (970) |
| | Interest expense on bonds and notes | - | 1,434 |
| | Financing expense on bonds | - | 5 |
| | Decrease (increase) in appropriated disbursed | - | - |
| | Changes in assets and liabilities: | | |
| | Decrease (increase) in loans receivable and program mortgage-backed securities, excluding loans transferred between funds | - | (584) |
| | Decrease (increase) in interest receivable on loans | - | (37) |
| | Increase (decrease) in accounts payable | 656 | 2 |
| | Increase (decrease) in interfund payable, affecting operating activities only | 235 | - |
| | Increase (decrease) in funds held for others | (130) | - |
| | Other | (2,701) | 1 |
| | Total | <u>1,853</u> | <u>(1,908)</u> |
| | Net cash provided (used) by operating activities | <u>\$ 9,567</u> | <u>\$ 5,833</u> |

See accompanying notes to financial statements

| Bond Funds | | | | Appropriated Funds | | Total for the Year Ended June 30, 2020 | Total for the Year Ended June 30, 2019 |
|-----------------------------------|--------------------------|------------------------|---------------------|-----------------------|-------------------------|--|--|
| Residential Housing Finance | Homeownership Finance | Multifamily Housing | HOMES SM | State Appropriated | Federal Appropriated | | |
| \$ 63,507 | \$38,465 | \$122 | \$ - | \$15,828 | \$ 434 | \$ 133,811 | \$ 133,576 |
| 2,975 | 5,004 | - | - | - | - | 7,887 | 3,841 |
| - | - | - | - | - | - | 24 | 65 |
| - | - | - | - | - | - | 3,739 | 3,067 |
| (8,770) | - | - | - | - | - | (8,770) | (4,642) |
| - | - | - | - | (27) | - | (27) | (94) |
| (55,570) | (47,468) | - | - | 166 | - | (104,344) | (91,572) |
| - | - | - | - | - | - | 620 | (11,542) |
| 1,429 | - | (1) | - | 188 | - | 1,421 | 883 |
| 449 | - | - | - | 11,905 | - | 12,354 | 21,380 |
| (519) | - | - | - | - | - | (519) | (504) |
| (9,291) | (427) | (19) | (468) | (2,603) | (223) | (14,591) | (17,691) |
| 43,583 | 50,022 | 401 | 468 | - | - | 95,908 | 85,837 |
| 14,230 | 8,666 | - | - | - | - | 22,901 | 11,262 |
| - | - | - | - | - | - | - | (46) |
| (387,579) | 2,977 | 202 | - | (7,567) | - | (392,551) | (430,975) |
| (716) | 72 | - | - | 8 | - | (673) | (1,593) |
| 4,314 | (1,546) | - | - | 206 | (289) | 3,343 | 2,652 |
| 31 | - | - | - | (369) | (2) | (105) | 1,349 |
| (505) | - | - | - | 7,013 | - | 6,378 | 10,742 |
| (263) | - | - | - | 204 | (4) | (2,763) | (4,622) |
| (396,202) | 17,300 | 583 | - | 9,124 | (518) | (369,768) | (422,157) |
| <u>\$(332,695)</u> | <u>\$55,765</u> | <u>\$705</u> | <u>\$ -</u> | <u>\$24,952</u> | <u>\$ (84)</u> | <u>\$(235,957)</u> | <u>\$(288,581)</u> |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020

Nature of Business and Fund Structure

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

The Agency is authorized to issue bonds and notes to fulfill its corporate purposes up to a total outstanding amount of \$5.0 billion and to incur other indebtedness. None of the bonds, notes or other indebtedness is a debt of the State of Minnesota or any political subdivision thereof.

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

General Reserve

General Reserve was established in fulfillment of the pledge by the Agency of its full faith and credit to the payment of its general obligation bonds in its bond resolutions. Administrative costs of the Agency and multifamily development escrow receipts and related disbursements are recorded in this account. The net position of General Reserve is available to support the following funds which are further described below: Rental Housing, Residential Housing Finance, Homeownership Finance and Multifamily Housing. Also described below is the HOMESSM fund which carries limited obligations of the Agency and is therefore not supported by General Reserve.

Rental Housing

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

Residential Housing Finance

Included within Residential Housing Finance are the bond funds, which include bonds issued and outstanding under the Residential Housing Finance bond resolution, the limited obligation drawdown index bonds and index bank note issued under a separate trust indentures, and the Alternative Loan Fund which consists of the Housing Investment Fund (Pool 2) and the Housing Affordability Fund (Pool 3). All of these funds are restricted by a covenant with bondholders as to their use.

The bond resolution within Residential Housing Finance, along with the Homeownership Finance bond resolution, were the principal sources of financing for bond-financed homeownership programs (see Homeownership Finance below). Bonds were issued for the purpose of funding purchases of single family first mortgage loans, mortgage-backed securities backed by single family first mortgage loans, some related entry cost housing assistance loans, and subordinated home improvement loans. The majority of the single family first mortgage loans financed by these bond issues are insured by private mortgage insurers or the Federal Housing Administration (FHA) or guaranteed by the U.S. Department of Veterans Affairs (VA) or the U.S. Department of Agriculture Rural Development (RD). Assets financed by the bonds issued and outstanding under the Residential Housing Finance bond resolution are pledged to the repayment of Residential Housing Finance bonds.

The Alternative Loan Fund has been established in Residential Housing Finance and residing therein are two sub funds: Housing Investment Fund (Pool 2) and Housing Affordability Fund (Pool 3). Funds deposited therein would otherwise be available to be transferred to General Reserve. The Alternative Loan Fund is not

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Nature of Business and Fund Structure (continued)

pledged to the payment of the Residential Housing Finance bonds or any other debt obligation of the Agency but, to the extent that funds are available therein, is available to honor the general obligation pledge of the Agency.

Assets of the Housing Investment Fund (Pool 2) consist of investment quality housing loans, as defined by the Agency, and investment grade securities. During fiscal year 2020 this fund provided capital for several Agency programs including its home improvement loan program and its multifamily first-mortgage loan program. It also provided capital for warehousing purchases of mortgage-backed securities secured by single family first mortgage loans before these securities are permanently financed by issuing bonds, or sold into the TBA market. In addition, it provided capital for amortizing second lien homeownership loans made in conjunction with the Agency's single family first mortgage loans. The fund may also provide interim financing for construction and rehabilitation of single family housing, and may be used to advance funds to retire Agency high interest-rate debt to provide tax credit bridge loans, for loans to partner organizations to acquire, rehabilitate and sell foreclosed homes, and to develop new affordable housing.

Assets of the Housing Affordability Fund (Pool 3) consist of investment-grade securities when not utilized for program purposes. Program purposes include, but are not limited to: no-interest loans; loans at interest rates substantially below market, high risk loans, deferred loans, revolving funds, and grants. During fiscal year 2020 funds from Pool 3 were used for entry cost assistance for first-time homebuyers for capital costs and rental assistance for permanent supportive housing, for advances for certain multifamily housing developments in anticipation of permanent funding through state appropriation-backed housing bonds, and to provide deferred, subordinated multifamily loans.

The Residential Housing Finance bond resolution prescribes the application of bond proceeds, debt service requirements of the bond indebtedness, permitted investments, and eligible loans to be financed from the bond proceeds. The limited obligation index bank note trust indentures prescribes the application of debt proceeds and permitted investments.

Homeownership Finance

This bond resolution was originally adopted for the purpose of issuing mortgage revenue bonds under the United States Treasury's Single Family New Issue Bond Program (NIBP). Non-NIBP mortgage revenue bonds, which also meet resolution requirements, have also been issued under this resolution. Bonds issued under this resolution fund mortgage-backed securities backed by single family first mortgage loans. These securities are guaranteed as to payment of principal and interest by either the Government National Mortgage Association or the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation.

Multifamily Housing

This bond resolution was adopted for the purpose of issuing multifamily housing bonds under the United States Treasury's Multifamily New Issue Bond Program. Bonds were issued during a prior fiscal year for one rental housing project.

Home Ownership Mortgage-backed Exempt Securities (HOMESSM)

This bond indenture implements a program developed by the investment banking division of a major bank whereby the Agency issues and sells to the investment bank limited obligations of the Agency (HOMESSM certificates), each secured by a mortgage-backed security guaranteed by FNMA or GNMA. The HOMESSM Certificates are not secured by the general obligation pledge of the Agency and are not protected by the moral obligation backing from the State of Minnesota.

State Appropriated

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Nature of Business and Fund Structure (continued)

net position of the State Appropriated fund is not pledged or available to secure bonds issued under any of the Agency's bond funds, nor available to creditors of the Agency. State appropriations received for debt service payments on State appropriation-backed bonds are restricted for that use only and are not pledged or available for any other purpose. The unrestricted – state appropriated-backed bonds will be retired through future appropriations from the State.

Federal Appropriated

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Accounting Principles Generally Accepted in the United States (GAAP)

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

New Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87 Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

In May 2019, the GASB issued Statement No. 91 *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

The Statements defines conduit debt with the following characteristics:

- At least three parties involved (1) issuer (2) third-party obligor, and (3) debt holder or trustee.
- The issuer and third-party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt.
- The third-party obligor or its agent, not the issuers, ultimately receives the proceeds from the debt issuance.
- The third-party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This Statement requires the issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements for the Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

In January 2020, the GASB issued Statement 92 *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement address a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and implementation Guide No. 2019-3, *Leases*, for interim financial reports.
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan.
- The applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Earlier application is encouraged and is permitted by topic.

In January 2020, the GASB issued Statement 93 *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. This Statement achieves that objective by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Clarifying the definition of reference rate, as it is used in Statement 53, as amended
- Providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The requirements of this Statement related to lease modifications are effective for fiscal years beginning after June 15, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.

In May 2020, GASB issued Statement 96 *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, —which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government’s incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government’s ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.

Cash and Cash Equivalents

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

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

The Agency generally carries investment securities at fair market value. Unrealized gains and losses on investment securities resulting from changes in market valuation are generally recorded as revenue.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Summary of
Significant
Accounting
Policies
(continued)**

However, unrealized gains and losses on investments of multifamily development escrow funds resulting from changes in market valuation, as well as unrealized gains and losses on MBS held in the HOMESSM fund, are recorded as funds held for others. Mortgage-backed securities held for sale are carried at the lower of cost or market. Investments- program mortgage-backed securities, as previously described, are shown separately on the statement of net position.

Loans Receivable, Net

Loans receivable are carried at their unpaid principal balances, net of an allowance for loan losses.

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

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

For homeownership, monthly payment seconds (MP2nds) and home improvement loans, the Agency establishes varying amounts of reserves depending upon the number of delinquent loans, the estimated amount of loss per delinquent loan, the number of days delinquent and the type of insurance coverage in force, if any: FHA insurance, RD guarantee, VA guarantee, or private mortgage insurance. Actual gains and losses are posted to allowance for loan losses. Management believes the allowances for loan losses adequately reserve for probable losses inherent in the loan portfolios as of June 30, 2020.

Interest Receivable on Loans and Program Mortgage-Backed Securities

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

FHA/VA Insurance Claims, Net

Mortgages that are FHA insured or VA guaranteed, and for which insurance claims have been filed, are included in this category. FHA/VA insurance claims receivable, net is carried at its estimated realizable value.

Real Estate Owned, Net

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

Deferred Loss on Refunding

The Agency's interest rate swap agreement that is still effective without associated bonds, requires that the fair value of these swaps be recorded as a deferred loss on refunding. This loss will reduce over time until the swap is terminated.

Deferred Loss on Interest Rate Swap Agreements

The Agency's interest rate swap agreements all have a negative fair value as of the end of fiscal year 2020. Because these agreements have been determined to be effective hedges under applicable accounting guidance, the negative fair value is recorded as a deferred loss.

Deferred Pension and OPEB Expense

The deferred inflows and outflows of pension resources are amounts used under applicable accounting guidance in developing the annual pension expense. They arise with differences between expected and actual experience, investment differences, changes of assumptions and changes in proportions. The portion of these amounts not included in pension expense should be included in the deferred inflows or outflows of resources.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable

Bonds payable are carried at their unpaid principal balances. Because the Agency is the issuer of the state appropriation-backed bonds they are included in this category but amounts held in funds securing those bonds are not pledged or available to secure other bondholders or creditors of Minnesota Housing.

Interest Payable

The interest payable represents interest payable on on bonds, notes and swaps as of end of fiscal year 2020 and are recorded as a liability.

Interest Rate Swap Agreements

Agency interest rate swap agreements with a negative fair value as of the end of fiscal year 2020 are recorded here as a liability.

Net Pension and OPEB Liability

The Net Pension and OPEB Liability is the liability of employers and non-employer contribution entities to plan members for benefits provided through a defined benefit pension plan.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and additions to/deductions from MSRS's fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post Employment Benefits Other than Pension

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Benefits Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by MSRS. For this purpose, MSRS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Interfund Payable (Receivable)

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

Funds Held for Others

Funds Held for Others are primarily escrow amounts held by the Agency on behalf of multifamily housing developments where the Agency holds the first mortgages. These amounts are held under the terms of the related loans and federal regulations regarding subsidized housing. Investment income relating to these funds is credited directly to the escrow funds and is not included in the investment income of General Reserve.

Undisbursed proceeds, appropriations received for the payment of debt service and expenses of state appropriation-backed bonds are recorded in Funds Held for Others until disbursed for their intended purpose.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

Also included in funds held for others are unrealized gains and losses on investments of the multifamily housing development escrow fund investments, unrealized gains and losses on the mortgage-backed securities supporting HOMESSM certificates, and funds held for, and reimbursable to, HUD, such as Section 8 payments. In addition, investment income on unspent Section 8 funds is credited directly to Funds Held for Others and not included in the investment income of Federal Appropriated.

Deferred Service Release Fees

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

Deferred Pension and OPEB

The deferred inflows and outflows of pension resources are amounts used under GASB Statement No. 68 in developing the annual pension expense. Deferred inflows and outflows arise with differences between expected and actual experiences; changes of assumptions. The portion of these amounts not included in pension expense should be included in the deferred inflows or outflows of resources.

Fair Value Reporting

To the extent available, the Minnesota Housing investments are recorded at fair value as of June 30, 2020. GASB No. 72 *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset between market participants at the measure date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the market place.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1: Investments whose values are based on quoted prices (unadjusted) for identical assets (liabilities) in active markets that a government can access at measurement date.
- Level 2: Investments with inputs—other than quoted prices included within Level 1 that are observable for an asset (liabilities), either directly or indirectly.
- Level 3: Investments classified as Level 3 have unobservable inputs for an asset (liabilities) and may require a degree of professional judgement.

Restricted by Bond Resolution

The Restricted by Bond Resolution portion of Net Position represents the amount restricted within the respective bond resolution due to the specific provisions of the bond resolutions.

Restricted by Covenant

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Summary of
Significant
Accounting
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(continued)**

Restricted by Law

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

Unrestricted - State Appropriation-backed Bonds

The deficit position of Unrestricted by State Appropriation-backed Bond Net Position represents outstanding non-profit housing and housing infrastructure bonds that are not a general obligation of the Agency. Amounts held in funds securing those bonds are not pledged or available to secure other bondholders or creditors of Minnesota Housing.

Invested in Capital Assets

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

Agency-wide Total

The Agency-wide Total columns reflect the totals of the similar accounts of the various funds. Since the assets of certain funds are restricted by either the related bond resolutions or legislation, the totaling of the accounts, including assets therein, does not indicate that the combined assets are available in any manner other than that provided for in either the bond resolutions, Board resolutions or the legislation for the separate funds or groups of funds. The totals for fiscal year 2019 are for comparative purposes only.

Appropriations Received

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met.

Administrative Reimbursement

The largest source of funding for the Agency's administrative operations is a monthly transfer from each of the bond funds to General Reserve based on adjusted assets. Adjusted assets are defined as total assets excluding the reserve for loan loss, proceeds of limited obligation debt and unrealized appreciation and depreciation on investments including all mortgage-backed securities. Additional funding for the Agency's administrative operations is provided by a monthly transfer from Residential Housing Finance Pool 2 based on a portion of the net gain on the sale of mortgage-backed securities held for sale.

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

For programs funded by federal appropriations, the Agency recovers the cost of administering programs through an approved federal indirect cost recovery rate but only to the extent that funds are available. Certain other direct costs are also recovered. Total direct and indirect costs recovered from the federal government in the amount of \$.612 million are reflected as administrative reimbursement revenues in the General Reserve.

Administrative reimbursements in the amount of \$30.724 million between the Agency's funds have been eliminated from the respective administrative reimbursement revenues and expenses line items for purposes of presentation in the Agency-wide statement of activities.

Fees Earned and Other Income

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Summary of Significant Accounting Policies (continued)

Reduction in Carrying Value of Certain Low-Interest Rate Deferred Loans

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

Other Changes and Non-operating Transfer of Assets Between Funds and Other Adjustments

The Agency utilizes the Other Changes section of the Statement of Revenues, Expenses and Changes in Net Position to describe various non-operating transfers of assets between funds.

Non-operating transfers occur as a result of bond sale contributions related to new debt issues; transfers between the Housing Endowment Fund (Pool 1), the Housing Investment Fund (Pool 2), and the Housing Affordability Fund (Pool 3) to maintain the Pool 1 required balance, and periodic transfers from the bond funds of assets in excess of bond resolution requirements. In the appropriated fund this account is used to record the receipt of bond sale proceeds, debt service receipts from the State and disbursements to bond holders related to the appropriation-backed state bonds.

Non-Cash Activities

Transfers from loans receivable to FHA/VA insurance claims receivable and real estate owned for fiscal year 2020 were \$4.6 million in Residential Housing Finance.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows and outflows, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

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

Rebatable Arbitrage

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

Agency Investments

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

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Cash, Cash
Equivalents
and Investment
Securities**

Cash and Cash Equivalents are generally stated at cost, which approximates fair value. The balances were composed of the following at June 30, 2020 (in thousands):

Cash and Cash Equivalents

| Funds | Deposits | Money Market Funds | State Investment Pool(ITC) | Investment Agreements | Combined Totals |
|-------------------------------|--------------|--------------------------|----------------------------------|--------------------------|--------------------|
| General Reserve Account | \$ - | \$ - | \$105,232 | \$ - | \$105,232 |
| Rental Housing | - | 26,826 | - | - | 26,826 |
| Residential Housing Finance | 528 | 206,984 | - | 410 | 207,922 |
| Homeownership Finance Bonds | - | 65,183 | - | - | 65,183 |
| Multifamily Housing Bonds | - | 1,639 | - | - | 1,639 |
| State Appropriated Accounts | 198 | 29,058 | 117,502 | - | 146,758 |
| Federal Appropriated Accounts | - | 5,853 | 8,632 | - | 14,485 |
| Combined Totals | <u>\$726</u> | <u>\$335,543</u> | <u>\$231,366</u> | <u>\$410</u> | <u>\$568,045</u> |

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

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

Generally, investment agreements are uncollateralized, interest-bearing contracts with financial institutions or corporations with variable liquidity features, which require a one-day to two-week notice for deposits and/or withdrawals, and are invested in accordance with the restrictions specified in the various bond resolutions.

Investment securities (comprising U.S. Treasury securities, U.S. Agency securities, mortgage-backed securities and municipal bonds) are recorded at fair market value and were allocated to the following funds at June 30, 2020 (in thousands):

Investment Securities

| Funds | Investment Securities- Other at Amortized Cost | Program Mortgage- backed Securities | Unrealized Appreciation (Depreciation) | Estimated Market Value |
|-----------------------------|---|--|--|---------------------------|
| Rental Housing | \$ 20,243 | \$ - | \$ 2,754 | \$ 22,997 |
| Residential Housing Finance | 137,803 | 1,387,429 | 76,756 | 1,601,988 |
| Homeownership Finance Bonds | - | 1,633,941 | 90,253 | 1,724,194 |
| HOMES SM | 13,392 | - | 997 | 14,389 |
| Combined Totals | <u>\$171,438</u> | <u>\$3,021,370</u> | <u>\$170,760</u> | <u>\$3,363,568</u> |

U.S. Treasury securities, U.S. Agency securities, and municipal bonds in General Reserve, State Appropriated and Federal Appropriated are held by the Agency's agent in the name of the State of Minnesota. U.S. treasury and U.S. agency securities in the remainder of the funds are held by the trustees under the Agency's bond resolutions in the Agency's name.

Investment securities are subject to credit risk. The following table classifies investment securities, except U.S. Treasuries, by their lowest Standard & Poor's/Moody's rating. Investment securities' credit rating categories (without qualifiers) at June 30, 2020 were (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Cash, Cash
Equivalents
and Investment
Securities
(continued)

Credit Ratings of Investment Securities

| Type | Par Value | AA+/Aaa | AA/Aa2 |
|--------------------|--------------------|--------------------|-------------|
| U.S. Agencies | \$3,101,256 | \$3,101,256 | \$ - |
| Municipal Bonds | 32,935 | 32,935 | - |
| Agency-wide Totals | \$3,134,191 | <u>\$3,134,191</u> | <u>\$ -</u> |
| U.S. Treasuries | 5,125 | | |
| Agency-wide Totals | <u>\$3,139,316</u> | | |

Examining the weighted average maturities of the Agency's investment securities can reveal information about interest rate risk. Cash, Cash Equivalents and Investment Securities (excluding unrealized depreciation of \$170.759 million and net discounts of \$53.492 million), along with the weighted average maturities (in years) as of June 30, 2020, consisted of the following (in thousands):

Cash, Cash Equivalents and Investment Securities

Weighted Average Maturity, in Years

| Type | Par Value | General Reserve | Rental Housing | Residential Housing Finance | Home-ownership Finance Bonds | Multifamily Housing Bonds | HOMES SM | State Appropriated | Federal Appropriated |
|---------------------------|--------------------|-----------------|----------------|-----------------------------|------------------------------|---------------------------|---------------------|--------------------|----------------------|
| Deposits | \$ 726 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Money market fund | \$ 335,543 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Investment Pool | \$ 231,366 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment agreements | \$ 410 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| US Agencies | \$3,101,256 | 0.0 | 7.7 | 27.5 | 26.5 | 0.0 | 23.1 | 0.0 | 0.0 |
| US Treasuries | \$ 5,125 | 0.0 | 0.0 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Municipals | \$ 32,935 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agency-wide Totals | <u>\$3,707,361</u> | | | | | | | | |
| Weighted Average Maturity | | 0.0 | 3.3 | 23.5 | 25.5 | 0.0 | 23.1 | 0.0 | 0.0 |

Investments in any one issuer, excluding \$1,826 million of investments issued or explicitly guaranteed by the U.S. Government, that represent five percent or more of the par value of total investments, as defined by GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, of June 30, 2020 were as follows (in thousands):

| Investment Issuer | Amount |
|--|-------------|
| Federal National Mortgage Association, U.S. Agencies | \$1,113,726 |

The Agency maintained certain deposits and investments throughout fiscal year 2020 that were subject to custodial credit risk. As of June 30, 2020, the amounts subject to this risk consisted of the following (in thousands):

| | Amount |
|---|--------------------|
| Deposits not covered by depository insurance and uncollateralized (including \$335,543 in a money market fund and \$231,366 in the State investment pool) | \$ 567,635 |
| Investment securities uninsured, uncollateralized. | 3,139,726 |
| Agency-wide Total | <u>\$3,707,361</u> |

Net realized gain on sale of investment securities of \$0.026 million is included in interest earned on investments.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

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

Certain balances are required to be maintained under the various bond resolutions. These balances represent debt service and insurance reserves. The required balances at June 30, 2020 were as follows (in thousands).

| Program Funds | Amount |
|-----------------------------|-----------------|
| Multifamily Housing Bonds | \$ 479 |
| Rental Housing | 1,386 |
| Residential Housing Finance | 16,601 |
| Combined Totals | <u>\$18,466</u> |

The following table summarizes Minnesota Housing's investments within the fair value hierarchy at June 30, 2020:

| Investments (at par) | Level 1 | Level 2 | Level 3 | Total |
|----------------------------------|----------------|--------------------|-------------|--------------------|
| US Agencies | \$1,761 | \$3,099,495 | \$ - | \$3,101,256 |
| US Treasuries | 5,125 | - | - | 5,125 |
| Municipals | - | 32,935 | - | 32,935 |
| | <u>\$6,886</u> | <u>\$3,132,430</u> | <u>\$ -</u> | <u>\$3,139,316</u> |
| Prem/Disc & Unrealized Appr/depr | | | | \$ 224,252 |
| Fair market Value | | | | <u>\$3,363,568</u> |

**Loans Receivable,
Net**

Loans receivable, net at June 30, 2020 consisted of (in thousands):

| Funds | Outstanding Principal | Allowance for Loan Losses | Loans Receivable, Net |
|-----------------------------|--------------------------|---------------------------------|-----------------------------|
| Rental Housing | \$151,246 | (2,890) | \$148,356 |
| Residential Housing Finance | 742,668 | (8,951) | 733,717 |
| Multifamily Hsg | 13,619 | (68) | 13,551 |
| State Appropriated | 39,125 | (1,092) | 38,033 |
| Agency-wide Totals | <u>\$946,658</u> | <u>\$(13,001)</u> | <u>\$933,657</u> |

Substantially all loans in the table above are secured by first or second mortgages on the real property financed. A significant portion of the homeownership first mortgage loans in the Residential Housing Finance fund have either FHA insurance or a VA or RD guarantee. Insurance reduces, but does not eliminate, loan losses.

In addition to the loans in the table above, certain loans are carried at below-market interest rates and repayment is deferred for up to 30 years. These loans are generally in either a second or more subordinate mortgage position or may be unsecured. Given the nature of these loans and the risk associated with them, at the time of origination they are fully reserved resulting in a net carrying value of zero. The principal amount of loans with such characteristics originated during fiscal year 2020 aggregated \$3.177 million in the Residential Housing Finance Housing Affordability Fund (Pool 3), zero in Rental Housing and \$22.788 million in State Appropriated. Loans with net carrying values of zero are excluded from the tables above and below. The Agency also has deferred and/or forgivable loans with net carrying values of zero in the Federal Appropriated, HOME, National Housing Trust Fund (NHTF) and Housing Opportunities for Persons with Aids (HOPWA) programs. These loans are tracked for affordability by staff. The balance of these loans at June 30, 2020 was \$59.1 million compared to \$52.6 million on June 30, 2019.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Loans Receivable, Net (continued)

Loans receivable, net and gross in Residential Housing Finance at June 30, 2020 consist of a variety of loans as follows (in thousands):

| Description | Net Outstanding Amount | Gross Outstanding Amount |
|--|-------------------------------|---------------------------------|
| Residential Housing Finance Bonds: | | |
| Homeownership, first mortgage loans | \$330,866 | \$331,877 |
| Other homeownership loans, generally secured by a second mortgage | 704 | 730 |
| Alternative Loan Fund, Housing Investment Fund (Pool 2): | | |
| Home Improvement loans, generally secured by a second mortgage | 70,678 | 71,742 |
| Homeownership, first mortgage loans | 28,584 | 29,151 |
| Other homeownership loans, generally secured by a second mortgage | 51,743 | 53,344 |
| Multifamily, first mortgage loans | 152,104 | 153,058 |
| Alternative Loan Fund, Housing Affordability Fund (Pool 3): | | |
| Other homeownership loans, generally secured by a second mortgage | 98,461 | 102,188 |
| Multifamily, first mortgage loans | 577 | 580 |
| Residential Housing Finance Totals | <u><u>\$733,717</u></u> | <u><u>\$742,668</u></u> |

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

Other Assets

Other assets, including receivables, at June 30, 2020 consisted of the following (in thousands):

| Funds | Receivables Due from the Federal Government | Other Assets and Receivables | Total |
|-----------------------------|--|-------------------------------------|-----------------------|
| General Reserve Account | \$3,038 | \$ - | \$3,038 |
| Rental Housing | - | 2 | 2 |
| Residential Housing Finance | - | 694 | 694 |
| Federal Appropriated | 169 | - | 169 |
| Combined Totals | <u><u>\$3,207</u></u> | <u><u>\$696</u></u> | <u><u>\$3,903</u></u> |

Bonds Payable

Summary of bonds payable activity at June 30, 2020 is as follows (in thousands):

| Funds | June 30, 2019 Bonds Outstanding | Bonds Issued | Bonds Repaid | June 30, 2020 Bonds Outstanding |
|--|--|---------------------------|-------------------------|--|
| Rental Housing | \$ 46,275 | \$ 20,095 | \$ 16,315 | 50,055 |
| Residential Housing Finance | 1,363,070 | 580,000 | 230,115 | 1,712,955 |
| Homeownership Finance Bonds | 1,632,494 | 298,413 | 291,898 | 1,639,009 |
| Multifamily Housing Bonds | 13,480 | - | 240 | 13,240 |
| HOMES SM | 16,640 | - | 3,248 | 13,392 |
| 2018 Index Bank Note | 14,073 | 233,434 | 247,507 | - |
| Total | <u><u>\$3,086,032</u></u> | <u><u>\$1,131,942</u></u> | <u><u>\$789,323</u></u> | <u><u>\$3,428,651</u></u> |
| Bond Premium-Residential Housing Finance | | | | 25,153 |
| State Appropriation-backed Bonds | 160,835 | 26,775 | 7,765 | 179,845 |
| Bonds Payable, net | | | | <u><u>\$3,633,649</u></u> |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Bonds Payable
(continued)

The drawdown Index Bank Note is part of the Residential Housing Finance Fund. State appropriation-backed bonds are included in the State Appropriated fund.

Bonds payable at June 30, 2020 were as follows (in thousands):

| <u>Series</u> | <u>Interest Rate</u> | <u>Final Maturity</u> | <u>Original Amount</u> | <u>Outstanding Amount</u> |
|---|----------------------|-----------------------|------------------------|---------------------------|
| <u>Rental Housing Bonds</u> | | | | |
| 2010 Series A-1 | 3.75% to 5.25% | 2040 | \$ 3,605 | \$ 3,295 |
| 2011 Series A | 3.80% to 5.45% | 2041 | 8,890 | 6,470 |
| 2012 Series A-1 | 3.75% | 2048 | 4,175 | 3,790 |
| 2013 Series A-1 | 3.50% to 5.30% | 2049 | 3,710 | 3,475 |
| 2013 Series B-1 | 3.65% to 5.30% | 2044 | 2,040 | 1,860 |
| 2019 Series A | 2.00% | 2020 | 6,980 | 6,980 |
| 2019 Series B | 1.875% | 2021 | 4,090 | 4,090 |
| 2019 Series C | 1.60% | 2021 | 3,125 | 3,125 |
| 2019 Series D | 1.40% | 2022 | 5,550 | 5,550 |
| 2019 Series E | 1.40% | 2021 | 6,275 | 6,275 |
| 2019 Series F | 1.35% | 2021 | 5,145 | 5,145 |
| | | | \$53,585 | \$50,055 |
| <u>Residential Housing Finance Bonds</u> | | | | |
| 2006 Series N | 5.76% | 2037 | \$18,000 | \$ 250 |
| 2007 Series M | 6.345% | 2038 | 70,000 | 14,490 |
| 2012 Series A | 3.40% to 3.90% | 2023 | 50,945 | 7,270 |
| 2012 Series B | 3.30% to 3.45% | 2024 | 8,830 | 3,865 |
| 2012 Series C | 3.625% to 3.85% | 2029 | 30,975 | 13,585 |
| 2012 Series D | 3.90% to 4.00% | 2040 | 60,000 | 9,920 |
| 2013 Series A | 3.00% | 2031 | 33,305 | 3,630 |
| 2013 Series C | 2.10% to 3.90% | 2043 | 42,310 | 26,310 |
| 2014 Series A | 2.20% to 4.00% | 2038 | 50,000 | 8,080 |
| 2014 Series B | 4.00% | 2038 | 50,000 | 7,415 |
| 2014 Series C | 2.15% to 4.00% | 2045 | 143,145 | 47,660 |
| 2014 Series D | 3.00% to 3.10% | 2026 | 6,585 | 3,865 |
| 2014 Series E | 2.00% to 3.50% | 2032 | 76,000 | 44,500 |
| 2015 Series A | 4.00% | 2041 | 43,070 | 17,110 |
| 2015 Series C | 1.80% to 3.60% | 2031 | 61,780 | 25,035 |
| 2015 Series D | Variable | 2046 | 18,225 | 18,225 |
| 2015 Series E | 2.00% to 3.50% | 2046 | 96,930 | 35,560 |
| 2015 Series F | 2.35% to 3.30% | 2029 | 39,515 | 16,565 |
| 2015 Series G | Variable | 2034 | 35,000 | 35,000 |
| 2016 Series A | 1.55% to 3.20% | 2033 | 63,135 | 33,855 |
| 2016 Series B | 3.10% to 3.50% | 2046 | 74,985 | 39,605 |
| 2016 Series C | 2.45% to 4.20% | 2037 | 15,590 | 5,920 |
| 2016 Series D | 2.15% to 2.30% | 2021 | 11,340 | 1,160 |
| 2016 Series E | 2.00% to 4.00% | 2047 | 75,005 | 44,325 |
| 2016 Series F | Variable | 2041 | 50,000 | 50,000 |
| 2017 Series A | 1.55% to 3.20% | 2030 | 43,455 | 21,315 |
| 2017 Series B | 3.40% to 4.00% | 2047 | 37,390 | 23,985 |
| 2017 Series C | Variable | 2038 | 40,000 | 40,000 |
| 2017 Series D | 2.05% to 3.30% | 2030 | 41,145 | 29,560 |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Bonds Payable (continued)

| Series | Interest Rate | Final Maturity | Original Amount | Outstanding Amount |
|---|------------------|----------------|--------------------|--------------------|
| <u>Residential Housing Finance Bonds (continued)</u> | | | | |
| 2017 Series E | 3.30% to 4.00% | 2048 | \$ 63,075 | \$ 49,685 |
| 2017 Series F | Variable | 2041 | 40,000 | 40,000 |
| 2018 Series A | 2.20% to 3.625% | 2032 | 28,820 | 18,170 |
| 2018 Series B | 1.90% to 4.00% | 2048 | 43,680 | 34,370 |
| 2018 Series C | 3.00% to 4.45% | 2040 | 25,000 | 20,930 |
| 2018 Series D | Variable | 2045 | 35,000 | 35,000 |
| 2018 Series E | 3.00% to 4.25% | 2049 | 65,200 | 58,395 |
| 2018 Series F | 2.50% to 3.5% | 2026 | 14,800 | 11,190 |
| 2018 Series G | 3.20% to 4.73% | 2049 | 35,000 | 31,930 |
| 2018 Series H | Variable | 2041 | 35,000 | 35,000 |
| 2019 Series A | 1.95% to 2.625% | 2025 | 7,865 | 6,365 |
| 2019 Series B | 1.75% to 4.25% | 2049 | 98,195 | 86,065 |
| 2019 Series C | 2.675% to 4.204% | 2042 | 37,500 | 35,365 |
| 2019 Series D | Variable | 2042 | 45,000 | 45,000 |
| 2019 Series E | 1.20% to 1.75% | 2025 | 13,225 | 13,035 |
| 2019 Series f | 1.05% to 3.75% | 2050 | 96,775 | 95,650 |
| 2019 Series G | 1.76% to 3.164% | 2040 | 46,015 | 45,190 |
| 2019 Series H | Variable | 2050 | 43,985 | 43,985 |
| 2020 Series A | 1.05% to 1.70% | 2026 | 20,850 | 20,850 |
| 2020 Series B | .95% to 3.50% | 2050 | 149,150 | 148,870 |
| 2020 Series C | 1.67% to 3.337% | 2050 | 60,000 | 59,850 |
| 2020 Series D | .45% to 1.80% | 2027 | 19,300 | 19,300 |
| 2020 Series E | .30% to 3.50% | 2050 | 130,700 | 130,700 |
| | | | <u>\$2,540,795</u> | <u>\$1,712,955</u> |
| <u>Homeownership Finance Bonds</u> | | | | |
| 2009 Series A-4A | 2.48% | 2041 | \$ 21,910 | \$ 7,710 |
| 2009 Series A-4B | 2.48% | 2041 | 13,090 | 4,650 |
| 2009 Series A-5 | 2.49% | 2041 | 21,990 | 8,890 |
| 2011 Series B | 3.875% to 5.00% | 2031 | 63,760 | 16,915 |
| 2011 Series C | 3.60% to 3.850% | 2022 | 8,310 | 840 |
| 2011 Series D | 3.40% to 4.70% | 2034 | 33,690 | 8,090 |
| 2011 Series E | 3.10% to 4.45% | 2035 | 65,000 | 15,580 |
| 2011 Series F | 3.125% to 3.45% | 2022 | 13,575 | 1,670 |
| 2011 Series G | 4.00% to 4.40% | 2035 | 29,110 | 9,880 |
| 2012 Series A | 2.60% | 2042 | 50,000 | 17,436 |
| 2012 Series B | 2.25% | 2042 | 75,000 | 29,878 |
| 2013 Series A | 2.35% | 2043 | 75,000 | 32,034 |
| 2013 Series B | 2.70% | 2041 | 85,149 | 25,775 |
| 2013 Series C | 3.00% | 2043 | 37,000 | 14,340 |
| 2014 Series A | 3.00% | 2044 | 38,527 | 11,579 |
| 2014 Series B | 2.95% | 2044 | 18,868 | 7,469 |
| 2014 Series C | 3.25% | 2044 | 13,663 | 5,408 |
| 2014 Series D | 2.875% | 2044 | 39,934 | 15,879 |
| 2015 Series A | 2.80% | 2045 | 60,013 | 30,627 |
| 2015 Series B | 3.00% | 2045 | 54,530 | 25,157 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Bonds Payable
(continued)

| Series | Interest Rate | Final Maturity | Original Amount | Outstanding Amount |
|---|---------------|-------------------|--------------------|-----------------------|
| <u>Homeownership Finance Bonds (continued)</u> | | | | |
| 2015 Series C | 3.05% | 2045 | \$ 40,226 | \$ 18,088 |
| 2015 Series D | 2.90% | 2045 | 52,365 | 29,047 |
| 2016 Series A | 2.95% | 2046 | 97,274 | 57,371 |
| 2016 Series B | 2.70% | 2046 | 50,971 | 32,454 |
| 2016 Series C | 2.33% | 2046 | 35,390 | 23,262 |
| 2016 Series D | 2.73% | 2046 | 35,390 | 23,360 |
| 2016 Series E | 2.35% | 2046 | 35,495 | 24,607 |
| 2016 Series F | 2.68% | 2046 | 65,918 | 46,792 |
| 2016 Series G | 2.30% | 2046 | 20,445 | 15,034 |
| 2016 Series H | 2.65% | 2046 | 30,668 | 22,988 |
| 2017 Series A | 2.93% | 2047 | 24,966 | 18,323 |
| 2017 Series B | 3.25% | 2047 | 24,966 | 18,658 |
| 2017 Series C | 3.08% | 2047 | 23,904 | 18,245 |
| 2017 Series D | 3.43% | 2047 | 23,904 | 18,358 |
| 2017 Series E | 2.85% | 2047 | 39,283 | 27,850 |
| 2017 Series F | 3.20% | 2047 | 19,348 | 13,709 |
| 2017 Series G | 2.65% | 2047 | 84,998 | 67,102 |
| 2017 Series H | 3.00% | 2047 | 64,998 | 51,313 |
| 2017 Series I | 2.80% | 2047 | 69,238 | 55,526 |
| 2017 Series J | 3.10% | 2047 | 46,159 | 37,041 |
| 2018 Series A | 3.30% | 2048 | 38,247 | 31,914 |
| 2018 Series B | 3.65% | 2048 | 38,247 | 32,843 |
| 2018 Series C | 3.30% | 2048 | 30,326 | 25,890 |
| 2018 Series D | 3.65% | 2048 | 20,218 | 17,115 |
| 2018 Series E | 3.45% | 2048 | 47,757 | 40,053 |
| 2018 Series F | 3.80% | 2048 | 52,573 | 44,074 |
| 2018 Series G | 3.75% | 2048 | 31,784 | 27,731 |
| 2018 Series H | 4.10% | 2048 | 31,784 | 27,815 |
| 2018 Series I | 3.60% | 2049 | 22,971 | 19,452 |
| 2018 Series J | 4.00% | 2049 | 37,500 | 31,755 |
| 2019 Series A | 3.45% | 2049 | 35,630 | 30,262 |
| 2019 Series B | 3.80% | 2049 | 30,351 | 25,779 |
| 2019 Series C | 3.15% | 2049 | 13,728 | 12,793 |
| 2019 Series D | 3.55% | 2049 | 30,555 | 28,474 |
| 2019 Series E | 3.25% | 2049 | 45,949 | 43,295 |
| 2019 Series F | 3.23% | 2049 | 59,851 | 57,785 |
| 2019 Series G | 3.02% | 2049 | 90,295 | 87,870 |
| 2019 Series H | 2.47% | 2050 | 48,324 | 45,369 |
| 2020 Series A | 2.50% | 2050 | 43,964 | 43,826 |
| 2020 Series B | 2.35% | 2050 | 18,000 | 18,000 |
| 2020 Series C | 2.45% | 2050 | 37,979 | 37,979 |
| | | | \$2,510,058 | \$1,639,009 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Bonds Payable
(continued)

| Series | Interest Rate | Final Maturity | Original Amount | Outstanding Amount |
|---|---------------|----------------|-----------------|--------------------|
| <u>Multifamily Housing Bonds</u> | | | | |
| 2009 | 3.01% | 2051 | \$ 15,000 | \$ 13,240 |
| | | | \$ 15,000 | \$ 13,240 |
| <u>HOMESSM</u> | | | | |
| 2013 Series A-1 | 3.50% | 2043 | \$ 3,359 | \$ 1,516 |
| 2013 Series B-1 | 3.00% | 2043 | 24,471 | 9,565 |
| 2013 Series C-1 | 3.50% | 2043 | 4,713 | 2,311 |
| | | | \$32,543 | \$ 13,392 |
| Combined Totals | | | \$5,151,981 | \$3,428,651 |

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

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

Annual debt service requirements to maturity for bonds outstanding as of June 30, 2020, are as follows (in thousands):

| Fiscal Year | Rental Housing | | Residential Housing Finance | |
|--------------|-----------------|-----------------|-----------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$11,455 | \$ 1,357 | \$ 38,805 | \$ 43,363 |
| 2022 | 20,490 | 1,083 | 42,905 | 43,873 |
| 2223 | 415 | 886 | 44,205 | 42,931 |
| 2024 | 450 | 867 | 44,820 | 41,882 |
| 2025 | 465 | 846 | 45,350 | 40,783 |
| 2026-2030 | 2,670 | 3,880 | 259,905 | 183,661 |
| 2031-2035 | 3,455 | 3,154 | 322,370 | 144,994 |
| 2036-2040 | 4,475 | 2,160 | 325,435 | 108,460 |
| 2041-2045 | 4,515 | 750 | 313,720 | 72,675 |
| 2046-2050 | 1,665 | 184 | 271,220 | 23,478 |
| 2051-2055 | - | - | 4,220 | 72 |
| Total | \$50,055 | \$15,167 | \$1,712,955 | \$746,172 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Bonds Payable
(continued)

| Fiscal Year | Multifamily Housing | | Homeownership Finance | |
|--------------------|----------------------------|-----------------|------------------------------|--------------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ 240 | \$ 395 | \$ 3,925 | \$ 50,010 |
| 2022 | 240 | 388 | 3,915 | 49,854 |
| 2223 | 240 | 381 | 4,155 | 49,705 |
| 2024 | 240 | 374 | 4,515 | 49,530 |
| 2025 | 240 | 366 | 4,590 | 49,330 |
| 2026-2030 | 1,520 | 1,710 | 23,470 | 243,420 |
| 2031-2035 | 1,800 | 1,450 | 8,570 | 239,277 |
| 2036-2040 | 2,190 | 1,161 | 15,875 | 237,802 |
| 2041-2045 | 2,550 | 802 | 238,882 | 226,889 |
| 2046-2050 | 3,080 | 376 | 1,331,112 | 119,388 |
| 2051-2055 | 900 | 18 | | - |
| Total | \$13,240 | \$7,421 | \$1,639,009 | \$1,315,205 |

| Fiscal Year | HOMESSM | | DDIB/IBN | |
|--------------------|---------------------------|-----------------|------------------|-----------------|
| | Principal | Interest | Principal | Interest |
| 2021 | \$ - | \$ 421 | \$ - | \$ - |
| 2022 | - | 421 | - | - |
| 2223 | - | 421 | - | - |
| 2024 | - | 421 | - | - |
| 2025 | - | 421 | - | - |
| 2026-2030 | - | 2,104 | - | - |
| 2031-2035 | - | 2,104 | - | - |
| 2036-2040 | - | 2,104 | - | - |
| 2041-2045 | 13,392 | 14,725 | - | - |
| Total | \$13,392 | \$23,142 | \$ - | \$ - |

| Fiscal Year | Combined Totals | |
|--------------------|------------------------|--------------------|
| | Principal | Interest |
| 2021 | \$ 54,425 | \$ 95,546 |
| 2022 | 67,550 | 95,619 |
| 2223 | 49,015 | 94,324 |
| 2024 | 50,025 | 93,074 |
| 2025 | 50,645 | 91,746 |
| 2026-2030 | 287,565 | 434,775 |
| 2031-2035 | 336,195 | 390,979 |
| 2036-2040 | 347,975 | 351,687 |
| 2041-2045 | 573,059 | 315,841 |
| 2046-2050 | 1,607,077 | 143,426 |
| 2051-2055 | 5,120 | 90 |
| Total | \$3,428,651 | \$2,107,107 |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Bonds Payable (continued)

Residential Housing Finance Bonds Series 2015 Series D and G; 2016 Series F; 2017 Series C and F and 2019 Series D and H accrue interest at rates that change weekly as determined by a remarketing agent for such series based on market conditions. Residential Housing Finance Bonds 2018 Series D and 2018 Series H accrue interest at a rate equal to the SIFMA (Securities Industry and Financial Markets Association) Index plus 0.43% and 0.55%, respectively. The 2018 Index Bank Note accrues interest at a rate equal to one month LIBOR (London Inter-Bank Offered Rate) plus 0.30%. Future interest due for these bonds, as displayed above in the annual debt service requirements table, assumes that the respective rates in effect on June 30, 2020 continue for the term of the bonds. Variable rate bond interest payments will vary as general short-term interest rates vary. Associated interest rate swaps are not included in the annual debt service requirements table. See the Swap Payments and Associated Debt table below to view those amounts.

The income and assets of each of the bond funds, except for the HOMESSM fund, are pledged on a parity basis for the payment of principal and interest on the bonds issued, and to be issued, under the respective resolutions. All but one of the bond resolutions contains covenants that require the Agency to maintain certain reserves. The Agency believes that as of June 30, 2020, it is in compliance with those covenants in all material respects and the assets of all funds and accounts in the bond funds equaled or exceeded the requirements as established by the respective bond resolutions.

Call notices were issued on or before June 30, 2020 for the redemption of certain bonds thereafter. See Subsequent Events.

On June 30, 2020 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines with an outstanding balance of zero.

Demand Bonds

The Demand bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest with seven days' notice and delivery to the Agency's remarketing agent. The remarketing agent is authorized to use its best efforts to sell the bonds at a price equal to 100 percent of the principal amount. In the event the remarketing agent does not sell the bonds, the liquidity provider has agreed to purchase the bonds at a price equal to principal plus accrued interest. While held by the liquidity provider the bonds bear interest at a bank rate.

If the remarketing agent is unable to resell bonds purchased by the liquidity provider within one year of the purchase date the principal amount of these bonds together with interest at a bank rate will be payable to the liquidity provider in quarterly or semiannual installments payable over a five-year period that begins on the purchase date.

The Agency is required to pay each liquidity provider a fee ranging from 0.33 to 0.65 percent per annum of the liquidity provider's available commitment (the outstanding principal amount of the bonds and approximately six months interest on the bonds at the rate of 12% per annum).

The Agency has paid \$1.385 million to the liquidity providers for fiscal year 2020.

In addition, each remarketing agent receives a fee ranging from .060 to 0.1 percent of the outstanding principal amount of the bonds. The Agency has paid a fee of \$0.250 million to the remarketing agents for fiscal year 2020.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Demand Bonds
(continued)**

As of June 30, 2020, the following demand bonds were outstanding:

| Variable Rate Series | Principal Amount Outstanding at par | Liquidity Facility Maturity- SBPA ¹ | Liquidity Fee | Remarketing Agent Fee |
|--|--|---|------------------|--------------------------|
| Residential Housing Finance Series 2015D | 18,225,000 | 8/11/2022 | 0.650% | 0.100% |
| Residential Housing Finance Series 2015G | 35,000,000 | 1/2/2023 | 0.650% | 0.100% |
| Residential Housing Finance Series 2016F | 50,000,000 | 1/2/2024 | 0.550% | 0.100% |
| Residential Housing Finance Series 2017C | 40,000,000 | 7/19/2024 | 0.600% | 0.100% |
| Residential Housing Finance Series 2017F | 40,000,000 | 1/2/2023 | 0.400% | 0.100% |
| Residential Housing Finance Series 2019D | 45,000,000 | 7/1/2024 | 0.340% | 0.100% |
| Residential Housing Finance Series 2019H | 43,985,000 | 9/10/2024 | 0.330% | 0.060% |
| Combined Totals | <u>\$272,210,000</u> | | | |

¹- SBPA-Stand By Purchase Agreement

**Floating Rate
Term Bonds**

The Agency has issued the Residential Housing Finance Bonds 2018 Series D and 2018 Series H as floating rate term bonds each in the principal amounts of \$35.0 million. The interest rate on the bonds is reset weekly based on the SIFMA Index plus 0.43% and 0.55%, respectively. The bonds are subject to mandatory purchase on July 3, 2023 and December 12, 2023, respectively, at a price equal to principal plus accrued interest. On or after January 1, 2023, with respect to the 2018 Series D bonds, and on or after July 1, 2023, with respect to the 2018 Series H bond, the Agency may redeem the bonds or may remarket the bonds with new terms.

**Derivative
Instruments-
Interest Rate
Swaps**

The Agency has entered into certain interest rate swap agreements that are considered to be derivative instruments under Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). A consultant was engaged by the Agency to determine the fair value of these agreements and to evaluate their effectiveness as hedges as of June 30, 2020. The fair values approximate the termination payments that would have been due had the swaps been terminated as of June 30, 2020. Under GASB 53, instruments, in whole or in part, such as interest rate swaps and similar transactions that fall under the definition of Derivative Instruments must be reported on the statement of net position, the classification of which depends on whether they represent assets or liabilities, and Derivative Instruments generally should be measured at "Fair Value". Fair Values were determined pursuant to GASB 72: *Fair Value Measurement and Application*. The fair value hierarchy of interest rate swap agreements is determined to be level 2. The fair values exclude accrued interest. As of June 30, 2020, all of the Agency's interest rate swap agreements have been determined to be effective hedges, as defined by GASB 53. The fair value is displayed on the statement of net position as a liability named "Interest rate swap agreements." The inception-to-date change in fair value as of June 30, 2020 is included under deferred outflows of resources as "Deferred loss on interest rate swap agreements," or under deferred inflows of resources as "Deferred gain on interest rate swap agreements."

Objective of Swaps

The Agency entered into interest rate swap agreements in connection with its issuance of variable rate mortgage revenue bonds under the Residential Housing Finance Bond Resolution from calendar year 2003 through 2009, and 2015 through 2020. Using variable-rate debt hedged with interest-rate swaps reduced the Agency's cost of capital at the time of issuance compared to using long-term fixed rate bonds and, in turn, enabled the Agency to reduce mortgage rates offered to the Agency's low- and moderate-income, first-time home buyers.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Derivative
Instruments-
Interest
Rate Swaps
(continued)**

Swap Payments and Associated Debt

Using rates as of June 30, 2020, debt service requirements of the Residential Housing Finance outstanding variable rate debt and net swap payments, assuming current interest rates remain the same for their term, are as follows (in thousands). As rates vary, variable rate bond interest payments and net swap payments will vary.

| Fiscal Year | Principal | Interest | Interest Rate Swaps, Net | Total |
|-------------|-----------|----------|--------------------------|----------|
| 2021 | \$ - | \$2,402 | \$ 6,122 | \$ 8,524 |
| 2022 | - | 748 | 6,934 | 7,682 |
| 2023 | - | 748 | 6,934 | 7,682 |
| 2024 | - | 748 | 6,934 | 7,682 |
| 2025 | - | 748 | 6,934 | 7,682 |
| 2026-2030 | 5,450 | 3,703 | 34,656 | 43,809 |
| 2031-2035 | 108,705 | 3,426 | 30,035 | 142,166 |
| 2036-2040 | 140,710 | 2,184 | 16,801 | 159,695 |
| 2041-2045 | 77,795 | 638 | 5,085 | 83,518 |
| 2046-2050 | 9,550 | 24 | 208 | 9,782 |

Terms of Swaps

Terms of the swaps, the fair values, changes in fair values, and the credit ratings of the three counterparties thereto as of June 30, 2020, are contained in the three tables below (in thousands). All swaps are pay-fixed, receive-variable. Initial swap notional amounts matched original principal amounts of the associated debt. The Agency's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximate scheduled or anticipated reductions in outstanding principal amounts of the associated bond series. With respect to the outstanding swaps the Agency has also purchased the right, generally based upon a 300% PSA prepayment rate (The Standard Prepayment Model of The Securities Industry and Financial Markets Association and formerly the Public Securities Association) on the underlying mortgage loans, to further reduce the notional balances of the swaps as necessary to match the outstanding principal amount of the associated bond series and the right to terminate the swaps at par at approximately the 7-year anniversary date for the 2015D, 2015G, 2016F, 2017C and 2019H swaps and the 5-year anniversary date for the 2017F, 2018D, 2018H and 2019D swaps. The Agency also has the right to terminate outstanding swaps in whole or in part and at fair value at any time if it is not in default thereunder.

Counterparty: The Bank of New York Mellon

Moody's* Aa2 (stable outlook) / Standard & Poor's** AA- (stable outlook)²

| Associated Bond Series | Notional Amount as of June 30, 2020 (in thousands) | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value ¹ as of June 30, 2020 (in thousands) | Increase (Decrease) in Fair Value since June 30, 2019 (in thousands) |
|------------------------|--|--------------------|--------------------|--------------------|--|--|--|
| RHFB 2018D | \$35,000 | June 28, 2018 | January 1, 2045 | 3.188% | 70% of 1 month LIBOR + 43 basis points | \$(2,704) | \$(974) |
| RHFB 2019H | 43,985 | September 11, 2019 | January 1, 2047 | 2.1500% | 100% of 1 month LIBOR | (3,049) | (3,049) |
| Counterparty Total | \$78,985 | | | | | \$(5,753) | \$(4,023) |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Derivative
Instruments-
Interest
Rate Swaps
(continued)**

Counterparty: Royal Bank of Canada

Moody's* Aa2 (Stable outlook) / Standard & Poor's** AA- (Stable outlook)

| Associated Bond Series | Notional Amount as of June 30, 2020 (in thousands) | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value ¹ as of June 30, 2020 (in thousands) | Increase (Decrease) in Fair Value since June 30, 2019 (in thousands) |
|------------------------|--|-------------------|--------------------|--------------------|--------------------------|--|--|
| RHFB 2015D | \$ 18,225 | August 11, 2015 | January 1, 2046 | 2.343% | 67% of 1 month LIBOR | \$ (956) | \$ (506) |
| RHFB 2015G | 35,000 | December 8, 2015 | January 1, 2034 | 1.953% | 67% of 1 month LIBOR | (1,706) | (1,132) |
| RHFB 2016F | 50,000 | December 22, 2016 | January 1, 2041 | 2.175% | 67% of 1 month LIBOR | (3,571) | (1,987) |
| RHFB 2018H | 35,000 | December 12, 2018 | July 1, 2041 | 2.8035% | 70% of 1 month LIBOR | (3,656) | (1,134) |
| RHFB 2019D | 45,000 | April 11, 2019 | January 1, 2042 | 2.409% | 70% of 1 month LIBOR | (4,603) | (2,427) |
| Counterparty Total | \$183,225 | | | | | \$(14,492) | \$(7,186) |

Counterparty: Wells Fargo Bank

Moody's* Aa2 (Negative outlook) / Standard & Poor's** A+ (Stable outlook)

| Associated Bond Series | Notional Amount as of June 30, 2020 (in thousands) | Effective Date | Swap Maturity Date | Fixed Rate Payable | Variable Rate Receivable | Fair Value ¹ as of June 30, 2020 (in thousands) | Increase (Decrease) in Fair Value since June 30, 2019 (in thousands) |
|------------------------|--|-------------------|--------------------|--------------------|--------------------------|--|--|
| RHFB 2017C | \$ 40,000 | January 1, 2019 | January 1, 2038 | 2.180% | 67% of 1 month LIBOR | \$ (3,106) | \$ (1,718) |
| RHFB 2017F | 40,000 | December 27, 2017 | January 1, 2041 | 2.261% | 67% of 1 month LIBOR | (2,167) | (1,112) |
| Counterparty Total | \$ 80,000 | | | | | \$ (5,273) | \$ (2,830) |
| Combined Totals | \$342,210 | | | | | \$(25,518) | \$(14,039) |

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

* Moody's Investor Service Inc.

** Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies

*** London Inter-Bank Offered Rate

Termination Risk

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

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

**Derivative
Instruments-
Interest
Rate Swaps
(continued)**

Credit Risk

A swap potentially exposes the Agency to credit risk with the counterparty. The fair value of a swap represents the Agency's current potential credit exposure to the swap counterparty assuming the occurrence of a termination event. As of June 30, 2020, the Agency did not have a net credit risk exposure to any of its three counterparties because their respective combined swap positions had a negative net fair value, as set forth in the foregoing tables. Each of the swap agreements requires that, upon demand, a party post collateral to secure its obligation to make a termination payment to the extent the fair value exceeds a collateral threshold specified in the agreement. The collateral threshold for each counterparty and the Agency is \$50 million if the ratings on the unsubordinated, unsecured long-term indebtedness of the counterparty, in the case of the counterparty, or the hedged bonds, in the case of the Agency, are not less than "AA-" and "Aa3" from Standard & Poor's and Moody's, respectively, \$5 million if the ratings are not less than "A+" and "A1", \$5 million if the ratings are not less than "A" and "A2", and \$0, if either rating is lower. These bilateral requirements are established to mitigate potential credit risk exposure. As of June 30, 2020, neither the Agency nor any counterparty had been required to post collateral.

Amortization Risk

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

Basis Risk

The potential for basis risk exists when variable interest payments on the Agency's bonds do not equal variable interest receipts payable by the counterparty under the associated swap. The variable rate the Agency pays on its bonds resets weekly, but the variable rate received on its swaps is based upon a specified percentage of the one-month taxable LIBOR rate, plus, in some cases, a specified spread. Basis risk will vary over time due to inter-market conditions. As of June 30, 2020, the interest rate on the Agency's variable rate tax-exempt debt ranged from 0.13% to 0.68% per annum while the variable interest rate on the associated swaps ranged from 0.12% to 0.56% per annum. In order to reduce the cumulative effects of basis risk on the swaps relating to tax-exempt variable rate debt, the determination of the spread from one-month LIBOR payable by the counterparty under the swap was based upon a regression analysis of the long-term relationship between one-month LIBOR and the tax-exempt variable rate SIFMA index (which ordinarily would approximate the weekly variable rate on the Agency's tax-exempt variable rate bonds).

Tax Risk

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

**Derivative
Instruments-
Forward Sales**

The Agency has entered into forward sales contracts for the future delivery of Ginnie Mae and Fannie Mae securities. The contracts offset the financial impact to the Agency of changes in interest rates between the time of loan reservations and the securitization and sale of such loans as Ginnie Mae or Fannie Mae securities. These contracts are considered investment derivative instruments. Therefore, the change in value is reported as unrealized gains (losses) on investments. Outstanding forward sales contracts, summarized by counterparty as of June 30, 2020, are as follows: (in thousands):

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Derivative
Instruments-
Forward Sales
(continued)**

| | Counter Party Short-term Rating | Number of Contracts | Notional Amount | Original Price | Market Price | Fair Value |
|--------------------------|--|--------------------------------|----------------------------|---------------------------|-------------------------|-----------------------|
| Bank of Oklahoma | A-2*/F1** | 10 | \$ 49,000 | \$ 51,397 | \$ 51,547 | (\$149) |
| Daiwa | A-2*/F1** | 26 | 81,000 | 85,052 | 85,208 | -155 |
| ED&F Man Capital Markets | A-1*/F1+** | 11 | 27,000 | 28,457 | 28,476 | -19 |
| Fannie Mae | Not rated*/F1+** | 79 | 69,000 | 72,805 | 72,989 | -184 |
| Janney Montgomery Scott | Not Rated*/Not Rated** | 24 | 75,000 | 78,886 | 79,013 | -127 |
| South Street Securities | A-1*/F1+** | 42 | 161,000 | 168,689 | 169,101 | -412 |
| | | <u>192</u> | <u>\$462,000</u> | <u>\$485,287</u> | <u>\$486,333</u> | <u>(\$1,046)</u> |

* Standard and Poor's Rating Services Inc.

** Fitch Ratings, Ltd

**State
Appropriation-
Backed Debt
Obligation**

The Agency has outstanding bonds under two indentures of trust that permit capital funding for loans for permanent supportive housing for long-term homeless households, preservation of federally assisted housing and other purposes. As of June 30, 2020, \$179.845 million of bonds were outstanding. This debt is not a general obligation of the Agency and is not payable from any funds or assets of the Agency including any loan repayments. These bonds are payable solely from the appropriations the Agency receives from the State General Fund pursuant to standing appropriations made by the Legislature as authorized by state laws adopted in 2008, 2012, 2014, 2015, 2017, 2018 and 2019.

State Appropriation-Backed Bonds at June 30, 2020 consisted of the following (in thousands):

| Series | Interest Rate | Final Maturity | Original Amount | Outstanding Amount |
|----------------------------------|----------------------|-----------------------|----------------------------|-------------------------------|
| <u>State Appropriated</u> | | | | |
| 2009 Series | 3.125% to 4.00% | 2029 | \$ 13,270 | \$ 6,810 |
| 2011 Series | 3.625% to 5.25% | 2031 | 21,750 | 15,175 |
| 2013 Series AB | 2.55% to 5.00% | 2033 | 15,460 | 11,020 |
| 2014 Series AB | 2.00% to 5.00% | 2035 | 14,540 | 12,375 |
| 2015 Series AB | 2.15% to 5.00% | 2035 | 37,570 | 28,040 |
| 2015 Series C | 3.25% to 5.00% | 2037 | 31,095 | 28,065 |
| 2016 Series ABC | 2.00% to 4.00% | 2038 | 18,625 | 16,670 |
| 2017 Series A | 3.25% to 5.00% | 2037 | 12,690 | 11,840 |
| 2018 Series ABCD | 2.375% to 5.00% | 2040 | 25,295 | 23,075 |
| 2019ABCD | 1.75% to 5.00% | 2041 | 26,775 | 26,775 |
| | | | <u>\$217,070</u> | <u>\$179,845</u> |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**State
Appropriation-
Backed Debt
Obligation
(continued)**

State Appropriation-Backed bond debt service requirements at June 30, 2020 consisted of the following:

| Fiscal Year | State Appropriated | |
|--------------------|---------------------------|-----------------|
| | Principal | Interest |
| 2021 | \$ 7,365 | \$ 7,312 |
| 2022 | 7,645 | 7,038 |
| 2223 | 7,935 | 6,738 |
| 2024 | 8,225 | 6,450 |
| 2025 | 8,515 | 6,158 |
| 2026-2030 | 48,265 | 25,110 |
| 2031-2035 | 52,060 | 14,160 |
| 2036-2040 | 36,130 | 3,603 |
| 2041-2045 | 3,705 | 103 |
| Total | \$179,845 | \$76,672 |

As the issuer of the state appropriation-backed debt, the Agency is required to record these bonds as bonds payable with the correlating reduction in net position.

**Conduit Debt-
Obligation**

On December 21, 2005, the Agency issued tax-exempt bonds on a conduit basis to assist a Minnesota nonprofit organization in preserving assisted elderly rental housing. The proceeds of the bonds were used by the organization to refinance certain HUD Section 202 elderly housing projects. The bonds were sold on a private placement basis. As of June 30, 2020, \$23.722 million of the bonds were outstanding.

On March 1, 2016, the Agency issued a long-term tax-exempt multifamily revenue note on a conduit basis that was purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sale were lent to the owner to pay for a portion of the costs of the acquisition, construction, and equipping of a multifamily senior rental housing development. As of June 30, 2020, \$20.712 million of the bonds were outstanding.

On April 20, 2016 and May 11, 2016, the Agency issued long-term tax-exempt multifamily revenue notes on a conduit basis that was purchased by Freddie Mac under their Tax Exempt Loan Program. The proceeds of the sales were lent to the owner to pay for a portion of the costs of the acquisition and rehabilitation of three HUD Section 8 multifamily housing developments. As of June 30, 2020, \$31.324 million of the bonds were outstanding.

On December 28, 2017, the Agency issued long-term conduit tax-exempt revenue bonds and a short-term conduit tax exempt revenue note. The proceeds of the sales were used to finance the acquisition, rehabilitation and equipping of two multi-family rental housing development projects that will preserve units with federal rental assistance. As of June 30, 2020, \$5.180 million of bonds were outstanding.

The total outstanding conduit debt as of June 30, 2020, was \$80.939 million.

Neither the Agency, the State of Minnesota, nor any political subdivision thereof is obligated in any manner for repayment of these conduit bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Accounts Payable

Accounts payable and other liabilities at June 30, 2020 consisted of the following (in thousands):

| Funds | Accrued Salaries, Compensated Absences and Employee Benefits | Other Liabilities and Accounts Payable | Total |
|-----------------------------|---|--|-----------------|
| General Reserve Account | \$4,640 | \$ 519 | \$ 5,159 |
| Rental Housing | - | 3,420 | 3,420 |
| Residential Housing Finance | - | 41,811 | 41,811 |
| Homeownership Finance | - | 100 | 100 |
| State Appropriated | - | 1,352 | 1,352 |
| Federal Appropriated | - | 15 | 15 |
| Combined Totals | <u>\$4,640</u> | <u>\$47,217</u> | <u>\$51,857</u> |

Interfund Balances

Interfund balances displayed as Interfund Payable (Receivable) at June 30, 2020 consisted of the following (in thousands):

| | | Due from | | | | | | | | |
|--------|-----------------------------|-----------------|----------------|-----------------------------|------------------------|---------------------|---------------------|--------------------|----------------------|----------------|
| Funds | | General Reserve | Rental Housing | Residential Housing Finance | Home-ownership Finance | Multifamily Housing | HOMES SM | State Appropriated | Federal Appropriated | Total |
| Due to | General Reserve | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$425 | \$157 | \$ 582 |
| | Residential Housing Finance | 1,022 | - | - | - | - | - | - | - | 1,022 |
| | Agency-wide Totals | <u>\$ 1,022</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$425</u> | <u>\$157</u> | <u>\$1,604</u> |

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

Interfund transfers recorded in Interfund Payable (Receivable) for the year ended June 30, 2020 consisted of the following (in thousands):

| | | Transfer from | | | | | | | | |
|-------------|-----------------------------|-----------------|-----------------|-----------------------------|------------------------|---------------------|---------------------|--------------------|----------------------|-----------------|
| Funds | | General Reserve | Rental Housing | Residential Housing Finance | Home-ownership Finance | Multifamily Housing | HOMES SM | State Appropriated | Federal Appropriated | Total |
| Transfer to | General Reserve | \$ - | \$ 1,181 | \$16,697 | \$10,213 | \$93 | - | \$2,972 | \$596 | \$31,752 |
| | Residential Housing Finance | 32 | 17,695 | - | - | - | - | 4,118 | - | 21,845 |
| | Agency-wide Totals | <u>\$32</u> | <u>\$18,876</u> | <u>\$16,697</u> | <u>\$10,213</u> | <u>\$93</u> | <u>\$ -</u> | <u>\$7,090</u> | <u>\$596</u> | <u>\$53,597</u> |

Interfund transfers recorded in Interfund Payable (Receivable) were made to move loan payments that were deposited for administrative convenience in a fund not holding the loans; to make administrative reimbursements to the General Reserve from other funds; to pay for loans transferred between funds including \$4.118 million of entry cost assistance loans transferred from Residential Housing Finance to State Appropriated.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Interfund Balances (continued)

Interfund transfers recorded in Non-operating Transfer of Assets Between Funds for the year ended June 30, 2020, consisted of the following (in thousands):

| Funds | Transfer from | | | | | | | | Total |
|-----------------------------|-----------------|----------------|-----------------------------|------------------------|---------------------|---------------------|--------------------|----------------------|-----------------|
| | General Reserve | Rental Housing | Residential Housing Finance | Home-ownership Finance | Multifamily Housing | HOMES SM | State Appropriated | Federal Appropriated | |
| Rental Housing | \$ - | \$ - | \$ 59 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 59 |
| Residential Housing Finance | 10,396 | - | - | - | - | - | - | - | 10,396 |
| Homeownership Finance | - | - | 19,169 | - | - | - | - | - | 19,169 |
| Agency-wide Totals | <u>\$10,396</u> | <u>\$ -</u> | <u>\$19,228</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$29,624</u> |

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

Net Position

Restricted by Bond Resolution

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

Restricted by Covenant

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

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

The \$494.044 million restricted by covenant portion of net position is restricted by a covenant made with bondholders authorized by the Agency’s enabling legislation.

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

The combined net position of the General Reserve and bond funds (exclusive of Pool 3, accumulated unrealized gains/losses on investments, and realized gains/losses in sale of investments between Agency funds) is required by Board investment guidelines to be not less than the combined net position of the same funds (exclusive of cumulative unrealized gains/losses on investments) as of the immediately preceding fiscal year end. That combined net position was \$808.448 million as of June 30, 2020.

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Net Position
(continued)**

The following table describes the restricted by covenant portion of net position, including the balances to be maintained according to the Agency's Board investment guidelines, as of June 30, 2020 (in thousands):

| Net Position — Restricted By Covenant | Certain Balances Maintained According to Agency's Board Guidelines | Unrealized Appreciation (Depreciation) in Fair Market Value of Investments | Total Net Position Restricted by Covenant |
|--|---|---|--|
| Housing Endowment Fund (Pool 1), General Reserve | | | |
| Pool 1 is an amount equal to 1% of gross loans outstanding (excluding Pool 3 and appropriation-funded loans) and must be invested in short-term, investment-grade securities at market interest rates | \$ 8,027 | \$ - | \$ 8,027 |
| Subtotal, Housing Endowment Fund (Pool 1), General Reserve | <u>8,027</u> | <u>-</u> | <u>8,027</u> |
| Housing Investment Fund (Pool 2), Residential Housing Finance | | | |
| An amount that causes the combined net position in the General Reserve and bond funds (exclusive of: Pool 3, unrealized gains/losses on investments, and realized gains/losses from the sale of investments between Agency funds) to be at least equal to the combined net position of the same funds for the immediately preceding audited fiscal year end (after restatements, if any, required by generally accepted accounting principles). During fiscal year 2020, \$16.0 million was transferred from Pool 2 to Pool 3 in compliance with these Board guidelines. Pool 2 is invested in investment-quality housing loans, as defined by the Agency, or investment-grade securities. | 358,579 | - | 358,579 |
| Unrealized appreciation in fair market value of investments | <u>-</u> | <u>2,432</u> | <u>2,432</u> |
| Subtotal, Housing Investment Fund (Pool 2), Residential Housing Finance | <u>358,579</u> | <u>2,432</u> | <u>361,011</u> |
| Housing Affordability Fund (Pool 3), Residential Housing Finance | | | |
| Funds in excess of the combined requirement of Pool 1, Pool 2 and General Reserve may be transferred to Pool 3. Assets are invested in deferred loans, zero percent and low interest-rate loans, other loans with higher than ordinary risk factors, or, pending use, investment-grade securities. | 124,525 | - | 124,525 |
| Unrealized appreciation in fair market value of investments | <u>-</u> | <u>481</u> | <u>481</u> |
| Subtotal, Housing Affordability Fund (Pool 3), Residential Housing Finance | <u>124,525</u> | <u>481</u> | <u>125,006</u> |
| Agency-wide Total | <u>\$491,131</u> | <u>\$2,913</u> | <u>\$494,044</u> |

Restricted by Law

Undisbursed, recognized federal and state appropriations are classified as Restricted by Law under Net Position. The \$14.477 million balance of Restricted by Law in the Federal Appropriated fund as of June 30, 2020 is restricted by federal requirements that control the use of the funds. The \$153.608 million balance of Restricted by Law in the State Appropriated fund as of June 30, 2020 is restricted by the state laws appropriating such funds.

Unrestricted - State Appropriation-Backed Bonds

The \$179.845 million balance of Unrestricted - State Appropriation-backed Bonds as of June 30, 2020 does not represent a general obligation of the Agency and is not payable from any funds or assets of the Agency.

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Defined Benefit Pension Plan

The Agency contributes to the MSRS, a multiple-employer public employee retirement system, which provides pension benefits for all permanent employees.

The State Employees Retirement Fund (SERF) is administered by the MSRS, and is established and administered in accordance with Minnesota Statutes, Chapters 352 and 356. SERF includes the General Employees Retirement Plan (General Plan), a multiple-employer, cost-sharing defined benefit plan, and three single-employer defined benefit plans: the Military Affairs Plan, the Transportation Pilots Plan, and the Fire Marshals Plan. Only certain employees of the Department of Military Affairs, the Department of Transportation, and the State Fire Marshal's Division are eligible to be members of those plans, but all state of Minnesota employees who are not members of another plan are covered by the General Plan.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

Benefits Provided

MSRS provides retirement, disability, and death benefits through the SERF. Benefit provisions are established by state statute and can only be modified by the state legislature. Benefits are based on a member's age, years of credit, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases or decreases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year through December 31, 2018, 1% January 1, 2019 – December 31, 2023, and 1.5% January 1, 2024 and thereafter. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of the June 30 of the calendar year immediately before the adjustment will receive a pro rata increase.

Prior to 2002, members who retired under the laws in effect before July 1, 1973, received an additional lump sum payment each year. In 1989, this lump sum payment was the greater of \$25 times each full year of Allowable Service or \$400 per full year of service less any Social Security benefits received or annuity from a Minnesota public employee pension plan. In each following year, the lump sum payment was increased by the same percentage increase that was applied to regular annuities paid from the Minnesota Post Retirement Investment Fund. Effective January 1, 2002, the annual lump sum payment was divided by 12 and paid as a monthly life annuity in the annuity form elected.

Contributions

Minnesota Statutes Chapter 352 sets the rates for employer and employee contributions. Eligible General Plan members contribute 6.00 percent and participating employers are required to contribute 6.25 percent of their annual covered salary in fiscal year 2020. The Agency's contribution to the General Plan for the fiscal year ending June 30, 2020 was \$1.264 million. These contributions were equal to the contractually required contributions for each year as set by state statute.

Actuarial Assumptions

The Agency's net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Defined Benefit
Pension Plan
(continued)**

| | |
|------------------------------|-----------------------|
| Inflation | 2.50 percent per year |
| Active Member Payroll Growth | 3.25 percent per year |
| Investment Rate of Return | 7.50 percent |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 generational mortality table projected with mortality improvement Scale MP-2015 for males or females, as appropriate, with adjustments to match fund experience. Benefit increases for retirees are assumed to be 2.0 percent every January 1st.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience study, dated June 27, 2019.

The long-term expected rate of return on pension plan investments is 7.5 percent. The rate assumption was selected as the result of a review of inflation and investment return assumptions dated June 27, 2019 and a recent liability study. The review combined the asset class target allocations and long-term rate of return expectations from the State Board of Investment (SBI).

The SBI, which manages the investments of MSRS, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method. Best-estimates of expected future real rates of return are developed for each major asset class. These asset class estimates and target allocations are combined to produce a geometric, expected long-term rate of return as summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>SBI's Long-Term Expected Real Rate of Return (Geometric Mean)</u> |
|----------------------|--------------------------|--|
| Domestic Stocks | 36% | 5.10% |
| International Stocks | 17% | 5.30% |
| Bonds | 25% | 5.90% |
| Alternative Assets | 20% | 0.75% |
| Cash | 2% | 0.00% |

Changes in Actuarial Assumptions

The Combined Service Annuity (CSA) loads were 1.20% for active member liability and 40% for vested and non-vested deferred member liability. The revised CSA loads are now 9.99% for active member liability, 4.00% for vested deferred member liability, and 5.00% for non-vested deferred member liability. The Single Discount Rate was changed from 4.17% per annum to 5.42% per annum.

Single Discount Rate

A Single Discount Rate of 7.50% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this Single Discount Rate assumed that employee and employer contributions will be made at the current statutory contribution rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Net Pension Liability

At June 30, 2020, the Agency reported a liability of \$8.740 million for its proportionate share of MSRS' net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's contributions received by MSRS during

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Defined Benefit Pension Plan (continued)

the measurement period July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of MSRS's participating employers. At June 30, 2019, the Agency's proportionate share of the entire plan was 0.62125 percent a decrease of .009 percent over prior reporting period.

Pension Liability Sensitivity

The following presents the Agency's proportionate share of the net pension liability, calculated using the discount rate disclosed above, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate (in thousands):

| | 1% Decrease in Discount Rate (6.5%) | Discount Rate (7.5%) | 1% Increase in Discount Rate (8.5%) |
|--|--|---------------------------------|--|
| Agency proportionate share of the net pension liability: | \$20,356 | \$8,740 | (\$903) |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the MSRS Comprehensive Annual Financial Report, available on the MSRS website (www.msrs.state.mn.us/financial-information).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the Agency recognized pension expense of \$1.914 million. At June 30, 2020, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 265 | \$ 30 |
| Changes of assumptions | 12,315 | 27,385 |
| Net difference between projected and actual earnings on investments | - | 2,135 |
| Changes in proportion and differences between actual contributions and proportionate share of contributions | 270 | - |
| Contributions paid to MSRS subsequent to the measurement date | 1,264 | - |
| Total | \$14,114 | \$29,550 |

Amounts reported as deferred outflows of resources related to pensions resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

| Year ended June 30: | Pension Expense Amount |
|--------------------------------|-----------------------------------|
| 2021 | \$ 532 |
| 2022 | (11,808) |
| 2023 | (5,485) |
| 2024 | 61 |

MINNESOTA HOUSING FINANCE AGENCY

Notes to Financial Statements

Year ended June 30, 2020 (continued)

Post-Employment Benefits Other Than Pensions

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

The State of Minnesota obtains an actuarial valuation from an independent firm of its postretirement medical benefits and to determine its OPEB liability. The state intends to fund the OPEB liability on a "pay as you go" basis. The net other postemployment benefit obligation (NOO) for the Agency is \$1.672 million for fiscal year 2020.

MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at www.msrs.state.mn.us/financial-information; by writing to MSRS at 60 Empire Drive, #300, St. Paul, Minnesota, 55103; or by calling (651) 296-2761 or 1-800-657-5757.

Net OPEB Liability

The Total OPEB Liability, Net OPEB Liability (Total OPEB Liability minus Fiduciary Net Position), OPEB expense, and certain sensitivity information shown are based on actuarial valuations performed as of July 1, 2018. The Total OPEB Liability was rolled-forward from the valuation date to the Measurement Date of June 30, 2019 using generally accepted actuarial principles.

As of July 1, 2019 the following assumptions were used for the actuarial valuation. The actuarial cost method was updated from Entry Age Normal as a level dollar amount to Entry Age Normal as a level percentage of pay.

| | |
|-----------------------------|---|
| Inflation | 2.50 percent per year |
| Initial Medical Trend Rate | 3.8 to 6.5 percent per year |
| Ultimate Medical Trend Rate | 3.8 percent |
| Salary Increases | 14.0 percent with one year of service to 3.50 percent with 25 or more years of service |
| Mortality Rate | Refer to the RP-2014 Employee Mortality tables with mortality improvement Scale MP-2018 |

The majority of the State of Minnesota employees are participants in the Minnesota State Retirement System (MSRS), Minnesota Teacher's Retirement Association (TRA), or the Minnesota Public Employees' Retirement System (PERA). For this reason, the aggregate payroll growth, individual salary increase, mortality, withdrawal, retirement, and age of spouse assumptions are based on the assumptions used for the respective plans' Actuarial Valuation Reports as of July 1, 2019.

OPEB Sensitivity Based on Trend Rate

The following presents the Agency's share of total OPEB, calculated using a discount rate disclosed above, as well as what the total OPEB calculated using 1 percentage point higher and 1 percentage point lower than the current Trend rate.

| | 1% Decrease in Trend Rate (2.80%) | Trend Rate (3.80%) | 1% Increase in Trend Rate (4.80%) |
|---|--|-------------------------------|--|
| Agency proportionate share of the total OPEB liability: | \$1,504 | \$1,672 | \$1,870 |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

**Post-Employment
Benefits Other
Than Pensions
(continued)**

Single Discount Rate

The State of Minnesota elected to change its discount rate methodology to be consistent with the requirements of GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which will be in effect for the fiscal year ending June 30, 2020. Since the State's retiree health benefits are not funded by assets in a separate trust the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date, as prescribed by GASB 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The State of Minnesota elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate was 3.50% as of June 30, 2019.

OPEB Sensitivity Based on Discount Rate

The following presents the Agency's share of total OPEB, calculated using a discount rate disclosed above, as well as what the total OPEB calculated using 1 percentage point higher and 1 percentage point lower than the current Discount rate.

| | 1% Decrease in Discount Rate (2.50%) | Discount Rate (3.50%) | 1% Increase in Discount Rate (4.50%) |
|---|---|----------------------------------|---|
| Agency proportionate share of the OPEB liability: | \$1,794 | \$1,672 | \$1,557 |

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the Agency recognized OPEB expense of \$.137 million. At June 30, 2020, the Agency reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 0 | \$ 0 |
| Changes of assumptions | - | 184 |
| Contributions paid to OPEB subsequent to the measurement date | 97 | - |
| Total | \$97 | \$184 |

Amounts reported as deferred outflows of resources related to OPEB resulting from Agency's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

| Year Ended June 30: | OPEB Expense Amount |
|--------------------------------|--------------------------------|
| 2020 | 36 |
| 2021 | 36 |
| 2022 | 36 |
| 2023 | 36 |
| 2024 | 30 |
| Thereafter | 10 |

**Risk
Management**

Minnesota Housing is exposed to various insurable risks of loss related to tort; theft of, damage to, or destruction of assets; errors or omissions; and employer obligations. Minnesota Housing manages these risks through State of Minnesota insurance plans including the State of Minnesota Risk Management Fund (a self-insurance fund) and through purchased insurance coverage. Property, casualty, liability, and crime

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Risk Management (continued)

coverage is provided by the Minnesota Risk Management Fund which may also purchase other insurance from qualified insurers for Minnesota Housing's needs. Minnesota Housing bears a \$2,500 deductible per claim for the following coverage limits (in thousands):

| Type of Coverage | Coverage Limits |
|--|-----------------|
| Real and personal property loss | \$ 6,084 |
| Business interruption/loss of use/extra expense | 500 |
| Bodily injury and property damage per person | 500 |
| Bodily injury and property damage per occurrence | 1,500 |
| Faithful performance/commercial crime | 14,000 |
| Employee dishonesty | 250 |

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

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

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

Commitments

As of June 30, 2020, the Agency had committed the following amounts for the purchase or origination of future loans or other housing assistance amounts (in thousands):

| Funds | Amount |
|-----------------------------|------------------|
| Rental Housing | \$ 43,043 |
| Residential Housing Finance | 466,650 |
| State Appropriated | 136,914 |
| Federal Appropriated | 31,470 |
| Agency Wide Totals | <u>\$678,077</u> |

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

The Agency has cancellable lease commitments for office facilities through August 2028 and for parking through August 2028, totaling \$14.248 million. Combined office facilities and parking lease expense for fiscal year 2020 was \$1.711 million.

Line of Credit Federal Home Loan Bank

On June 30, 2020 the Agency had in place a revolving line of credit with the Federal Home Loan Bank of Des Moines. Draws against the line of credit are required to be collateralized with mortgage-backed securities which reside in Pool 2. As of June 30, 2020, \$63.346 million of mortgage-backed securities were pledged. The advances taken during fiscal year 2020 were used to purchase and warehouse mortgage-backed securities in Pool 2.

The line of credit activity for the year ended June 30, 2020, is summarized as follows (in thousands):

| Beginning Balance | Cumulative Draws | Cumulative Repayments | Ending Balance |
|-------------------|------------------|-----------------------|----------------|
| \$ - | \$1,925,000 | \$1,925,000 | \$ - |

MINNESOTA HOUSING FINANCE AGENCY
Notes to Financial Statements
Year ended June 30, 2020 (continued)

Litigation

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

Subsequent Events

The Agency called for redemption or repayment subsequent to June 30, 2020 the following bonds (in thousands):

| Program | Scheduled Retirement Date | Par |
|-----------------------------|----------------------------------|------------|
| Homeownership Finance | July 1, 2020 | \$ 850 |
| Residential Housing Finance | July 1, 2020 | 24,090 |
| Homeownership Finance | August 1, 2020 | 195 |
| Residential Housing Finance | August 1, 2020 | 8,410 |
| Rental Housing | August 1, 2020 | 3,270 |
| Homeownership Finance | September 1, 2020 | 625 |
| Residential Housing Finance | September 1, 2020 | 14,625 |

On June 25, 2020, the Board of the Agency adopted a series resolution authorizing the issuance of bonds for the purpose of providing funds for certain of the Agency's multifamily programs. The Rental Housing Bonds, 2020 Series A, in the principal amount of \$4.610 million are expected to be delivered in late summer 2020 pursuant to that authorization.

On July 23, 2020, the Board of the Agency adopted a resolution authorizing the issuance of additional State Appropriation Bonds (Housing Infrastructure) up to the aggregate principal amount of \$60 million for the purpose of providing funds to make loans for certain statutory-authorized purposes. The State Appropriated Bonds (Housing Infrastructure), 2020 Series ABCD, in the aggregate principal amount of approximately \$108.280 million are expected to be delivered in September 2020 pursuant to that authorization as well as a previous authorization in July 2019.

On August 20, 2020, the Agency delivered its Homeownership Finance Bonds, 2020 Series D (Taxable) (Mortgage-Backed Securities Pass-Through Program) in the aggregate principal amount of \$100 million pursuant to a series resolution adopted by the Board of the Agency on February 27, 2020 authorizing the issuance of bonds in the aggregate principal amount of \$300 million for the purpose of providing funds for certain of the Agency's homeownership programs.

The Agency made, or has committed to make, draws from the Index Bank notes subsequent to June 30, 2020 as shown in the table below.

| Program | Series | Advance Date | Par |
|-----------------|---------------|---------------------|------------|
| Index Bank Note | 2018 AMT | August 3, 2020 | \$ 1,082 |
| Index Bank Note | 2018 Non-AMT | August 3, 2020 | 40,165 |

The Agency has evaluated subsequent events through August 27, 2020, the date on which the financial statements were available to be issued.

MINNESOTA HOUSING FINANCE AGENCY
Required Supplementary Information
General Reserve and Bond Funds
Scheduled of Selected Pension Information-Unaudited (in thousands)
Fiscal Year 2020

**Schedule of Employer's Share of
Net Pension Liability
State Employees Retirement Fund
Last 10 Fiscal Years***
(dollars in thousands)

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------------|-------------|-------------|-------------|-------------|
| Employer Unit's Proportion of the Net Pension Liability | 0.781% | 0.822% | 0.830% | 0.836% | 0.820% |
| Employer Unit's Proportionate Share of the Net Pension Liability | \$ 8,979 | \$76,077 | \$46,137 | \$ 8,725 | \$ 8,740 |
| Employer Unit's Covered-Employee Payroll | 22,438 | 23,836 | 19,693 | 20,931 | 21,408 |
| Employer Unit's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 40.017% | 319.168% | 234.281% | 41.685% | 40.826% |
| Plan fiduciary net position as a percentage of the total pension liability | 88.320% | 47.51% | 62.73% | 90.56% | 90.73% |

The measurement date is June 30 of each fiscal year.

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**Schedule of Employer's Contributions
State Employees Retirement Fund
Last 10 Fiscal Years***
(dollars in thousands)

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually Required Contribution | \$ 874 | \$ 968 | \$ 1,018 | \$ 1,151 | \$ 1,151 |
| Contributions in relation to the contractually required contribution | 874 | 968 | 1,018 | 1,151 | 1,151 |
| Contribution deficiency (excess) | - | - | - | - | - |
| Employer Unit's covered-employee payroll | 22,438 | 23,836 | 19,693 | 20,931 | 21,408 |
| Contributions as a percentage of covered-employee payroll | 3.895% | 4.061% | 5.169% | 5.499% | 5.376% |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

MINNESOTA HOUSING FINANCE AGENCY
Required Supplementary Information
General Reserve and Bond Funds
Scheduled of Selected OPEB Information-Unaudited (in thousands)
Fiscal Year 2020

**Schedule of Changes in the Employer's Share of Total OPEB
Liability and Related Ratios
Last 10 Fiscal Years***
(dollars in thousands)

| | 2018 | 2019 | 2020 |
|---|-----------------|-----------------|-----------------|
| Total OPEB Liability | | | |
| Service Cost | \$ 144 | \$ 135 | \$ 124 |
| Interest | 52 | 66 | 65 |
| Change in Benefit Term | - | - | - |
| Difference Between Expected And Actual Experience | - | - | (40) |
| Change in Assumptions - Discount rate | (94) | (84) | - |
| Change in Assumptions - Other | - | (42) | (102) |
| Benefit Payments | | | |
| Explicit Subsidy | (43) | (48) | (45) |
| Implicit Subsidy | (45) | (51) | (46) |
| Net Change in Total OPEB Liability | 15 | (25) | (43) |
| Total OPEB Liability-Beginning | 1,727 | 1742 | 1,716 |
| Total OPEB Liability-Ending (a) | <u>1,742</u> | <u>1716</u> | <u>1,672</u> |
| Plan Fiduciary Net Position | | | |
| Contribution Employer | | | |
| Explicit Subsidy | 43 | 48 | \$ 45 |
| Implicit Subsidy | 45 | 51 | 46 |
| Net Investment Income | | | |
| Expected Investment Earnings | - | 0 | - |
| Difference Between Projected And Actual Investment Earning | - | 0 | - |
| Benefit Payments | | | |
| Explicit Subsidy | (43) | -48 | (45) |
| Implicit Subsidy | (45) | -51 | (46) |
| Administrative Expense | - | - | - |
| Net Change In Fiduciary Net Position | - | - | - |
| Plan Fiduciary Net Position-Beginning | - | - | - |
| Plan Fiduciary Net Position-Ending(b) | - | \$ - | \$ - |
| Employer's Total OPEB Liability-Ending(a-b) | <u>\$ 1,742</u> | <u>\$ 1,716</u> | <u>\$ 1,672</u> |
| Plan Fiduciary Total Position as a percentage of the total OPEB Liability | | | - |
| Covered Employee Payroll | <u>\$19,963</u> | <u>\$20,283</u> | <u>\$21,408</u> |
| Employer's Net OPEB Liability as a percentage of covered Employee Payroll | <u>8.72%</u> | <u>8.46%</u> | <u>7.81%</u> |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer's Contributions-OPEB
Last 10 Fiscal Years*
(dollars in thousands)

| | 2018 | 2019 | 2020 |
|--|--------|--------|--------|
| Actuarially Required Contribution | | | |
| Explicit Subsidy | \$43 | \$48 | \$45 |
| Implicit Subsidy | 45 | 51 | 46 |
| Contributions in relation to the Actuarially required contribution | | | |
| Explicit Subsidy | 43 | 48 | 45 |
| Implicit Subsidy | 45 | 51 | 46 |
| Employer Unit's covered-employee payroll | 19,963 | 20,283 | 21,408 |
| Contributions as a percentage of covered-employee payroll | | | |
| Explicit Subsidy | 0.215% | 0.237% | 0.210% |
| Implicit Subsidy | 0.225% | 0.251% | 0.215% |

* This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Net Position (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | Bond Funds | | | |
|---------------------------------------|---|-----------------------------|------------------|--------------------|------------------|
| | | Residential Housing Finance | | | |
| | | General Reserve | Rental Housing | Bonds | Pool 2 |
| Assets | Cash and cash equivalents | \$105,232 | \$ 26,826 | \$ 181,321 | \$ 22,651 |
| | Investments-program mortgage-backed securities | - | - | 1,460,096 | - |
| | Investment securities-other | - | 22,997 | 41,807 | 77,622 |
| | Loans receivable, net | - | 148,356 | 331,570 | 303,110 |
| | Interest receivable on loans and program mortgage-backed securities | - | 609 | 5,829 | 1,283 |
| | Interest receivable on investments | 57 | 66 | 265 | 216 |
| | Interest Rate Swap Agreements | - | - | - | - |
| | FHA/VA insurance claims, net | - | - | 312 | - |
| | Real estate owned, net | - | - | 753 | 543 |
| | Capital assets, net | 4,280 | - | - | - |
| | Other assets | 3,038 | 2 | 19 | 675 |
| | Total assets | <u>112,607</u> | <u>198,856</u> | <u>2,021,972</u> | <u>406,100</u> |
| Deferred outflows of Resources | Deferred loss on refunding | - | - | 15 | - |
| | Deferred loss on interest rate swap agreements | - | - | 23,605 | - |
| | Deferred pension and OPEB expense | 14,211 | - | - | - |
| | Total deferred outflows of resources | <u>14,211</u> | <u>-</u> | <u>23,620</u> | <u>-</u> |
| Liabilities | Bonds payable, net | \$ - | \$ 50,055 | \$1,738,108 | \$ - |
| | Interest payable | - | 600 | 23,172 | 4 |
| | Interest rate swap agreements | - | - | 23,605 | - |
| | Net pension and OPEB liability | 10,412 | - | - | - |
| | Accounts payable and other liabilities | 5,159 | 3,420 | 580 | 40,719 |
| | Interfund payable (receivable) | 440 | - | - | (1,022) |
| | Funds held for others | 68,766 | - | - | 1,495 |
| | Total liabilities | <u>84,777</u> | <u>54,075</u> | <u>1,785,465</u> | <u>41,196</u> |
| Deferred inflows of Resources | Deferred gain on interest rate swap agreements | \$ - | \$ - | \$ - | \$ - |
| | Deferred service release fee | - | - | 8,604 | 3,893 |
| | Deferred pension and OPEB credit | 29,734 | - | - | - |
| | Total deferred inflows of resources | <u>29,734</u> | <u>-</u> | <u>8,604</u> | <u>3,893</u> |
| Net Position | Restricted by bond resolution | - | 144,781 | 251,523 | - |
| | Restricted by covenant | 8,027 | - | - | 361,011 |
| | Invested in capital assets | 4,280 | - | - | - |
| | Total net position | <u>12,307</u> | <u>144,781</u> | <u>251,523</u> | <u>361,011</u> |
| | Total liabilities, deferred inflows, and net position | <u>\$126,818</u> | <u>\$198,856</u> | <u>\$2,045,592</u> | <u>\$406,100</u> |

| Bond Funds | | | General Reserve & Bond Funds Excluding Pool 3 | General Reserve & Bond Funds Excluding Pool 3 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds | General Reserve & Bond Funds |
|------------------------|---------------------|---------------------|---|---|--|--|--|
| Home-ownership Finance | Multifamily Housing | HOMES SM | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2019 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2019 |
| \$ 65,183 | \$ 1,639 | \$ - | \$ 402,852 | \$ 373,949 | \$ 3,950 | \$ 406,802 | \$ 382,004 |
| 1,724,194 | - | - | 3,184,290 | 2,687,661 | - | 3,184,290 | 2,687,661 |
| - | - | 14,389 | 156,815 | 171,838 | 22,463 | 179,278 | 194,075 |
| - | 13,551 | - | 796,587 | 832,530 | 99,037 | 895,624 | 915,598 |
| 5,229 | 50 | - | 13,000 | 12,304 | 35 | 13,035 | 12,342 |
| 1 | - | 35 | 640 | 1,148 | 33 | 673 | 1,202 |
| - | - | - | - | - | - | - | - |
| - | - | - | 312 | 686 | - | 312 | 686 |
| - | - | - | 1,296 | 1,965 | - | 1,296 | 1,965 |
| - | - | - | 4,280 | 6,082 | - | 4,280 | 6,082 |
| - | - | - | 3,734 | 2,851 | - | 3,734 | 2,854 |
| 1,794,607 | 15,240 | 14,424 | 4,563,806 | 4,091,014 | 125,518 | 4,689,324 | 4,204,469 |
| - | - | - | 15 | 62 | - | 15 | 62 |
| - | - | - | 23,605 | 10,984 | - | 23,605 | 10,984 |
| - | - | - | 14,211 | 26,658 | - | 14,211 | 26,658 |
| - | - | - | 37,831 | 37,704 | - | 37,831 | 37,704 |
| \$1,639,009 | \$13,240 | \$13,392 | \$3,453,804 | \$3,104,008 | \$ - | 3,453,804 | \$3,104,008 |
| 5,360 | 33 | 35 | 29,204 | 27,086 | - | 29,204 | 27,086 |
| - | - | - | 23,605 | 10,984 | - | 23,605 | 10,984 |
| - | - | - | 10,412 | 10,441 | - | 10,412 | 10,441 |
| 100 | - | - | 49,978 | 39,287 | 512 | 50,490 | 39,741 |
| - | - | - | (582) | (935) | - | (582) | (936) |
| - | - | 997 | 71,258 | 70,102 | - | 71,258 | 70,102 |
| 1,644,469 | 13,273 | 14,424 | 3,637,679 | 3,260,973 | 512 | 3,638,191 | 3,261,426 |
| 8,391 | - | \$ - | 20,888 | \$ - | - | 20,888 | \$ - |
| - | - | - | 29,734 | 42,028 | - | 29,734 | 42,028 |
| 8,391 | - | - | 50,622 | 60,474 | - | 50,622 | 60,474 |
| 141,747 | 1,967 | - | 540,018 | 426,482 | - | 540,018 | 426,482 |
| - | - | - | 369,038 | 374,707 | 125,006 | 494,044 | 487,709 |
| - | - | - | 4,280 | 6,082 | - | 4,280 | 6,082 |
| 141,747 | 1,967 | - | 913,336 | 807,271 | 125,006 | 1,038,342 | 920,273 |
| <u>\$1,794,607</u> | <u>\$15,240</u> | <u>\$14,424</u> | <u>\$4,601,637</u> | <u>\$4,128,718</u> | <u>\$125,518</u> | <u>\$4,727,155</u> | <u>\$4,242,173</u> |

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | Bond Funds | | | |
|----------------------|---|------------------------------------|-----------------------|------------------|------------------|
| | | Residential Housing Finance | | | |
| | | General Reserve | Rental Housing | Bonds | Pool 2 |
| Revenues | Interest earned on loans | \$ - | \$ 7,661 | \$ 19,051 | \$ 14,728 |
| | Interest earned on investments-program mortgage-backed securities | - | - | 35,731 | - |
| | Interest earned on investments-other | 590 | 970 | 2,735 | 6,163 |
| | Net G/L on Sale of MBS Held for Sale/HOMES Certificate | - | - | - | 8,770 |
| | Administrative reimbursement | 31,336 | - | - | - |
| | Fees earned and other income | 12,971 | 147 | 1,286 | 1,445 |
| | Unrealized gains (losses) on Investments | - | 1,472 | 39,450 | 16,004 |
| | Total revenues | <u>44,897</u> | <u>10,250</u> | <u>98,253</u> | <u>47,110</u> |
| Expenses | Interest | - | 1,434 | 41,461 | 2,122 |
| | Financing, net | - | 5 | 14,171 | 52 |
| | Loan administration and trustee fees | - | 80 | 1,536 | 1,034 |
| | Administrative reimbursement | - | 1,181 | 9,897 | 5,300 |
| | Salaries and benefits | 30,283 | - | - | - |
| | Other general operating | 6,900 | 4 | 38 | 1,667 |
| | Reduction in carrying value of certain low interest rate deferred loans | - | - | - | 78 |
| | Provision for loan losses | - | (195) | 345 | 159 |
| | Total expenses | <u>37,183</u> | <u>2,509</u> | <u>67,448</u> | <u>10,412</u> |
| | Revenue over(Under) expenses | 7,714 | 7,741 | 30,805 | 36,698 |
| Other Changes | Non-operating transfer of assets between funds | (9,876) | 59 | 17,175 | (42,007) |
| | Change in net position | (2,162) | 7,800 | 47,980 | (5,309) |
| Net Position | Total net position, beginning of Year, as restated | <u>14,469</u> | <u>136,981</u> | <u>203,543</u> | <u>366,320</u> |
| | Total net position, end of Year | <u>\$12,307</u> | <u>\$144,781</u> | <u>\$251,523</u> | <u>\$361,011</u> |

| | Bond Funds | | General Reserve & Bond Funds Excluding Pool 3 | General Reserve & Bond Funds Excluding Pool 3 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds | General Reserve & Bond Funds |
|-----------|------------------------|---------------------|---|---|--|--|--|
| | Home-ownership Finance | Multifamily Housing | HOMES SM | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2019 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 |
| \$ - | \$ 600 | \$ - | \$ 42,040 | \$ 45,995 | \$ 334 | 42,374 | \$ 46,581 |
| 58,533 | - | - | 94,264 | 79,699 | - | 94,264 | 79,699 |
| 427 | 19 | 468 | 11,372 | 13,678 | 587 | 11,959 | 14,445 |
| - | - | - | 8,770 | 4,642 | - | 8,770 | 4,642 |
| - | - | - | 31,336 | 27,730 | - | 31,336 | 27,730 |
| 1,580 | - | - | 17,429 | 14,855 | 17 | 17,446 | 15,137 |
| 47,468 | - | - | 104,394 | 91,444 | 116 | 104,510 | 91,730 |
| 108,008 | 619 | 468 | 309,605 | 278,043 | 1,054 | 310,659 | 279,964 |
| 50,022 | 401 | 468 | 95,908 | 85,837 | - | 95,908 | 85,837 |
| 8,666 | - | - | 22,894 | 11,248 | - | 22,894 | 11,248 |
| 603 | 4 | - | 3,257 | 3,240 | 22 | 3,279 | 3,260 |
| 10,213 | 93 | - | 26,684 | 22,456 | 1,437 | 28,121 | 23,838 |
| - | - | - | 30,283 | 15,117 | - | 30,283 | 15,117 |
| 39 | - | - | 8,648 | 6,786 | 2,295 | 10,943 | 9,687 |
| - | - | - | 78 | 24 | 371 | 449 | (510) |
| - | (1) | - | 308 | (613) | 925 | 1,233 | 277 |
| 69,543 | 497 | 468 | 188,060 | 144,095 | 5,050 | 193,110 | 148,754 |
| 38,465 | 122 | - | 121,545 | 133,948 | (3,996) | 117,549 | 131,210 |
| 19,169 | - | - | (15,480) | (5,328) | 16,000 | 520 | (328) |
| 57,634 | 122 | - | 106,065 | 128,620 | 12,004 | 118,069 | 130,882 |
| 84,113 | 1,845 | - | 807,271 | 678,651 | 113,002 | 920,273 | 789,391 |
| \$141,747 | \$1,967 | \$ - | \$913,336 | \$807,271 | \$125,006 | \$1,038,342 | \$920,273 |

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | <u>Bond Funds</u> | |
|---|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Cash flows from operating activities | Principal repayments on loans and program mortgage-backed securities | \$ - | \$ 19,871 |
| | Investment in loans and program mortgage-backed securities | - | (20,455) |
| | Interest received on loans and program mortgage-backed securities | - | 7,532 |
| | Fees and other income received | 12,373 | 147 |
| | Salaries, benefits and other operating | (32,144) | (82) |
| | Administrative reimbursement from funds | 31,602 | (1,181) |
| | Deposits into funds held for others | 35,956 | - |
| | Disbursements made from funds held for others | (36,086) | - |
| | Interfund transfers and other assets | (2,134) | 1 |
| Net cash provided (used) by operating activities | <u>9,567</u> | <u>5,833</u> | |
| Cash flows from non-capital financing activities | Proceeds from sale of bonds and notes | - | 20,095 |
| | Principal repayment on bonds and notes | - | (16,315) |
| | Interest paid on bonds and notes | - | (1,411) |
| | Financing costs paid related to bonds issued | - | (5) |
| | Interest paid/received between funds | 63 | - |
| | Principal paid/received between funds | - | - |
| | Agency contribution to program funds | - | 59 |
| | Transfer of cash between funds | (2,480) | - |
| Net cash provided (used) by noncapital financing activities | <u>(2,417)</u> | <u>2,423</u> | |
| Cash flows from investing activities | Investment in real estate owned | - | - |
| | Interest received on investments | 1,517 | 1,007 |
| | Net gain (loss) on Sale of MBS Held for Sale and HOMES SM Certificates | - | - |
| | Proceeds from sale of mortgage insurance claims/real estate owned | - | - |
| | Proceeds from maturity, sale or transfer of investment securities | 119,000 | 392 |
| | Purchase of investment securities | (74,645) | - |
| | Purchase of loans between funds | - | (17,695) |
| Net cash provided (used) by investing activities | <u>45,872</u> | <u>(16,296)</u> | |
| | Net increase (decrease) in cash and cash equivalents | 53,022 | (8,040) |
| Cash and cash equivalents | Beginning of year | 52,210 | 34,866 |
| | End of year | <u>\$105,232</u> | <u>\$ 26,826</u> |

| Bond Funds | | | | | General Reserve & Bond Funds Excluding Pool 3 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds | General Reserve & Bond Funds |
|-----------------------------|-------------|------------------------|---------------------|---------------------|---|--|--|--|
| Residential Housing Finance | | Home-ownership Finance | Multifamily Housing | HOMES SM | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2019 |
| Bonds | Pool 2 | Finance | Housing | HOMES SM | June 30, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 |
| \$ 219,201 | \$ 59,905 | \$ 264,940 | \$ 202 | \$ - | \$ 564,119 | \$ 9,665 | \$ 573,784 | \$ 402,793 |
| (567,965) | (77,337) | (261,963) | - | - | (927,720) | (31,048) | (958,768) | (812,390) |
| 57,324 | 13,870 | 63,609 | 600 | - | 142,935 | 337 | 143,272 | 128,016 |
| - | 11,300 | - | - | - | 23,820 | 17 | 23,837 | 22,200 |
| (1,535) | (7,066) | (608) | (4) | - | (41,439) | (2,258) | (43,697) | (41,733) |
| (9,897) | (5,300) | (10,213) | (93) | - | 4,918 | (1,437) | 3,481 | 3,813 |
| - | - | - | - | - | 35,956 | - | 35,956 | 32,602 |
| - | (505) | - | - | - | (36,591) | - | (36,591) | (31,347) |
| 32 | (1) | - | - | - | (2,102) | 3 | (2,099) | (2,514) |
| (302,840) | (5,134) | 55,765 | 705 | - | (236,104) | (24,721) | (260,825) | (298,560) |
| 592,983 | 2,158,434 | 298,852 | - | - | 3,070,364 | - | 3,070,364 | 2,322,300 |
| (230,115) | (2,172,507) | (291,897) | (240) | (3,248) | (2,714,322) | - | (2,714,322) | (1,901,551) |
| (44,321) | (2,143) | (51,270) | (402) | (476) | (100,023) | - | (100,023) | (87,166) |
| (6,428) | (47) | (2,599) | - | - | (9,079) | - | (9,079) | (7,456) |
| - | (63) | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 5,253 | (15,015) | 9,703 | - | - | - | - | - | - |
| - | (13,520) | - | - | - | (16,000) | 16,000 | - | - |
| 317,372 | (44,861) | (37,211) | (642) | (3,724) | 230,940 | 16,000 | 246,940 | 326,127 |
| (578) | (25) | - | - | - | (603) | - | (603) | (872) |
| 3,200 | 6,347 | 486 | 22 | 476 | 13,055 | 298 | 13,353 | 14,751 |
| - | (4,925) | - | - | - | (4,925) | - | (4,925) | 937 |
| 6,121 | 541 | - | - | - | 6,662 | - | 6,662 | 6,495 |
| 1,948 | 1,160,228 | - | - | 3,248 | 1,284,816 | 200 | 1,285,016 | 946,525 |
| (25,060) | (1,165,233) | - | - | - | (1,264,938) | - | (1,264,938) | (955,893) |
| - | 17,695 | - | - | - | - | 4,118 | 4,118 | 2,232 |
| (14,369) | 14,628 | 486 | 22 | 3,724 | 34,067 | 4,616 | 38,683 | 14,175 |
| 163 | (35,367) | 19,040 | 85 | - | 28,903 | (4,105) | 24,798 | 41,742 |
| 181,158 | 58,018 | 46,143 | 1,554 | - | 373,949 | 8,055 | 382,004 | 34,062 |
| \$ 181,321 | \$ 22,651 | \$ 65,183 | \$ 1,639 | \$ - | \$ 402,852 | \$ 3,950 | \$ 406,802 | \$ 382,004 |

(Continued)

MINNESOTA HOUSING FINANCE AGENCY

Supplementary Information

Statement of Cash Flows (in thousands)

General Reserve and Bond Funds (continued)

Year ended June 30, 2020 (with comparative totals for year ended June 30, 2019)

| | | <u>Bond Funds</u> | |
|--|---|------------------------|-----------------------|
| | | <u>General Reserve</u> | <u>Rental Housing</u> |
| Reconciliation of revenue over (under) expenses to net cash provided (used) by operating activities | Revenues over (under) expenses | \$7,714 | \$7,741 |
| | Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities: | | |
| | Amortization of premiums (discounts) and fees on program mortgage-backed securities | - | (92) |
| | Amortization of premium (discounts) and fees on sale of HOMES Certificates | - | - |
| | Amortization of proportionate share-Pension | 24 | - |
| | Depreciation | 3,739 | - |
| | Gain (loss) on sale of MBS held for sale and HOMES Certificates | - | - |
| | Realized losses (gains) on sale of securities, net | - | - |
| | Unrealized losses (gains) on securities, net | - | (1,472) |
| | Salaries and Benefits-Pensions | 620 | - |
| | Provision for loan losses | - | (195) |
| | Reduction in carrying value of certain low interest rate and/or deferred loans | - | - |
| | Capitalized interest on loans and real estate owned | - | - |
| | Interest earned on investments | (590) | (970) |
| | Interest expense on bonds and notes | - | 1,434 |
| | Financing expense in bonds | - | 5 |
| | Changes in assets and liabilities: | - | - |
| | Decrease (increase) in loans receivable and program mortgage backed securities, excluding loans transferred between funds | - | (584) |
| | Decrease (increase) in interest receivable on loans | - | (37) |
| | Increase (decrease) in accounts payable | 656 | 2 |
| | Increase (decrease) in interfund payable, affecting operating activities only | 235 | - |
| | Increase (decrease) in funds held for others | (130) | - |
| | Other | (2,701) | 1 |
| Total | <u>1,853</u> | <u>(1,908)</u> | |
| Net cash provided (used) by operating activities | <u>\$9,567</u> | <u>\$5,833</u> | |

| Bond Funds | | | | | General Reserve & Bond Funds Excluding Pool 3 | Residential Housing Finance Pool 3 | General Reserve & Bond Funds | General Reserve & Bond Funds |
|-----------------------------|-------------------|------------------------|---------------------|---------------------|---|--|--|--|
| Residential Housing Finance | | Home-ownership Finance | Multifamily Housing | HOMES SM | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2020 | Total For The Year Ended June 30, 2019 |
| Bonds | Pool 2 | | | | | | | |
| \$ 30,805 | \$ 36,698 | \$ 38,465 | \$122 | \$ - | \$ 121,545 | \$ (3,996) | \$ 117,549 | \$ 131,210 |
| 3,682 | (707) | 5,004 | - | - | 7,887 | - | \$7,887 | 3,841 |
| - | - | - | - | - | - | - | 0 | - |
| - | - | - | - | - | 24 | - | 24 | 65 |
| - | - | - | - | - | 3,739 | - | 3,739 | 3,067 |
| - | (8,770) | - | - | - | (8,770) | - | (8,770) | (4,642) |
| - | - | - | - | - | - | - | 0 | (94) |
| (39,450) | (16,004) | (47,468) | - | - | (104,394) | (116) | (104,510) | (91,730) |
| - | - | - | - | - | 620 | - | 620 | (11,542) |
| 345 | 159 | - | (1) | - | 308 | 925 | 1,233 | 277 |
| - | 78 | - | - | - | 78 | 371 | 449 | (510) |
| (449) | (70) | - | - | - | (519) | - | (519) | (504) |
| (2,735) | (5,969) | (427) | (19) | (468) | (11,178) | (587) | (11,765) | (14,351) |
| 41,461 | 2,122 | 50,022 | 401 | 468 | 95,908 | - | 95,908 | 85,837 |
| 14,183 | 47 | 8,666 | - | - | 22,901 | - | 22,901 | 11,262 |
| | | | | | | | 0 | |
| | | | | | | | 0 | |
| (348,764) | (17,432) | 2,977 | 202 | - | (363,601) | (21,383) | (384,984) | (409,597) |
| (691) | (28) | 72 | - | - | (684) | 3 | (681) | (1,601) |
| (1,259) | 5,514 | (1,546) | - | - | 3,367 | 59 | 3,426 | 2,497 |
| | | | | | | | 0 | |
| 32 | (2) | - | - | - | 265 | 1 | 266 | 1,118 |
| - | (505) | - | - | - | (635) | - | (635) | 1,255 |
| - | (265) | - | - | - | (2,965) | 2 | (2,963) | (4,418) |
| (333,645) | (41,832) | 17,300 | 583 | - | (357,649) | (20,725) | (378,374) | (429,770) |
| <u>\$ (302,840)</u> | <u>\$ (5,134)</u> | <u>\$ 55,765</u> | <u>\$705</u> | <u>\$ -</u> | <u>\$ (236,104)</u> | <u>\$ (24,721)</u> | <u>\$ (260,825)</u> | <u>\$ (298,560)</u> |

Other Information (Unaudited)

General Reserve and Bond Funds Five Year Financial Summary (in thousands) Fiscal Years 2016-2020

| | | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Loans Receivable, net (as of June 30) | Multifamily programs | \$330,204 | \$298,355 | \$297,982 | \$299,276 | \$314,588 |
| | Homeownership programs | 776,255 | 661,630 | 586,498 | 548,869 | 510,358 |
| | Home Improvement programs | 76,648 | 71,629 | 66,414 | 67,453 | 70,678 |
| | Total | <u>\$1,183,107</u> | <u>\$1,031,614</u> | <u>\$950,894</u> | <u>\$915,598</u> | <u>\$895,624</u> |
| Mortgage-backed securities, net, at par (as of June 30) | Program mortgage-backed securities | \$1,378,317 | \$1,681,474 | \$2,176,052 | \$2,624,763 | \$3,021,369 |
| | Warehoused mortgaged-backed securities | 116,256 | 125,372 | 61,853 | 68,718 | 73,516 |
| | Total | <u>\$1,494,573</u> | <u>\$1,806,846</u> | <u>\$2,237,905</u> | <u>\$2,693,481</u> | <u>\$3,094,885</u> |
| Bonds Payable, net (as of June 30) | Multifamily programs | \$68,880 | \$51,300 | \$53,250 | \$59,755 | \$63,295 |
| | Homeownership programs | 2,238,342 | 2,318,223 | 2,634,542 | 3,044,251 | 3,390,509 |
| | Home Improvement programs | - | - | - | - | - |
| | Total | <u>\$2,307,222</u> | <u>\$2,369,523</u> | <u>\$2,687,792</u> | <u>\$3,104,006</u> | <u>\$3,453,804</u> |
| Mortgage-backed securities purchased, at par and loans purchased or originated during fiscal year | Multifamily programs | \$42,517 | \$30,351 | \$35,849 | \$52,893 | \$45,307 |
| | Homeownership programs | 33,351 | 29,687 | 42,807 | 47,119 | 61,738 |
| | Program and warehoused mortgage-backed securities | 489,833 | 493,662 | 648,062 | 696,597 | 837,103 |
| | Home Improvement programs | 12,283 | 13,239 | 11,366 | 16,085 | 21,925 |
| | Total | <u>\$577,984</u> | <u>\$566,939</u> | <u>\$738,084</u> | <u>\$812,694</u> | <u>\$966,073</u> |
| Net Position (as of June 30) | Total Net Position | \$747,534 | \$725,833 | \$678,651 | \$807,271 | \$913,336 |
| | Percent of total assets and deferred outflows of resources | 23.1% | 21.9% | 18.9% | 19.6% | 19.8% |
| Revenue over Expenses | Revenues over expenses for the fiscal year | \$50,794 | \$(20,745) | \$(39,857) | \$133,948 | \$121,545 |

Other Information (continued)

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