

**NEW ISSUE
DTC BOOK-ENTRY ONLY**

STANDARD & POOR'S RATING: A^(†)

In the opinion of Best & Flanagan, of Minneapolis, Minnesota, Bond Counsel, under existing laws, as presently enacted and construed, interest on the Bonds (a) is not included in gross income for purposes of federal income taxation, (b) is not included in net taxable income of individuals, estates and trusts for purposes of State of Minnesota income taxation and (c) is not a separate item of tax preference for purposes of the federal or State of Minnesota alternative minimum tax. Interest on the Bonds is subject to State of Minnesota corporate and financial institution franchise taxes measured by income. The Authority will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Internal Revenue Code of 1986, as amended. (See "Tax Exemption" and "Related Tax Considerations" herein.)

\$3,745,000

**HOUSING AND REDEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF WILLMAR, MINNESOTA**
Multifamily Housing Revenue Bonds
(Highland Apartments Section 8 - Assisted Project)
Series 1993

Dated: Date of Delivery

Due: As shown below

The Multifamily Housing Revenue Bonds (Highland Apartments Section 8 - Assisted Project), Series 1993 (the "Bonds") are issued by the Housing and Redevelopment Authority In and For the City of Willmar, Minnesota (the "Authority"), pursuant to Minnesota Statutes, Sections 469.001 to 469.047, as amended, and an Indenture of Trust, dated as of December 1, 1993 (the "Indenture"), between the Authority and First Trust National Association, in St. Paul, Minnesota, as trustee (with any successor trustee under the Indenture, the "Trustee"), for the purpose of providing funds to permit the Authority to acquire a 79-unit multifamily rental housing project for tenants who are aged 62 or older, or are handicapped or disabled, located in Willmar, Minnesota (the "Project"), to fund a debt service reserve fund for the Bonds, to make a deposit to a maintenance and replacement fund, to make deposits to certain other funds and to pay costs of issuance of the Bonds. The Bonds are issuable as fully registered bonds of single maturities, in denominations of \$5,000 or any integral multiple thereof. Ownership of the Bonds will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as securities depository for the Bonds. Unless and until the book-entry system with respect to the Bonds is terminated by DTC or the Authority, beneficial ownership interests in the Bonds may be acquired in book-entry form only, in the principal amount of \$5,000 or any integral multiple thereof of a single maturity, and will not be evidenced by individual bond certificates. Interest will be payable semiannually on each June 1 and December 1, commencing June 1, 1994. Interest is payable by check or draft mailed by the Trustee to the person who is the registered owner thereof as of the fifteenth day of the immediately preceding calendar month (the "Record Date") at the last address of such registered owner as shown on the bond register maintained by the Trustee, or, with respect to owners of \$1,000,000 aggregate principal amount or more of the Bonds, interest will be paid by wire transfer if the owner provides adequate wire transfer information to the Trustee at least five days prior to the Record Date. Principal and premium, if any, are payable to the registered owners at maturity or upon redemption upon surrender of the Bonds at the principal corporate trust office of the Trustee.

THE BONDS AND THE PREMIUM, IF ANY, AND THE INTEREST THEREON ARE NOT A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE AUTHORITY, THE CITY OF WILLMAR, MINNESOTA, OR ANY OTHER POLITICAL SUB-DIVISION. THE BONDS ARE NOT GENERAL OBLIGATIONS, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY. The Bonds will be secured, in the manner and to the extent described herein, by a first mortgage lien on the Project, subject to certain Permitted Encumbrances (as defined herein), and an assignment of the rents and revenues derived from the Project, including housing assistance payments under a housing assistance payments contract between the Authority and the Minnesota Housing Finance Agency and approved by the United States Department of Housing and Urban Development pursuant to Section 8 of the United States Housing Act of 1937, as amended, and the additional funds and property described herein.

The Bonds are subject to redemption as described under "The Bonds - Redemption" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICE
\$910,000 Serial Bonds

Stated Maturity	Principal Amount	Interest Rate	Stated Maturity	Principal Amount	Interest Rate
June 1, 1994	\$25,000	2.75%	June 1, 1999	\$45,000	4.20%
December 1, 1994	40,000	2.90	December 1, 1999	45,000	4.20
June 1, 1995	40,000	3.00	June 1, 2000	50,000	4.35
December 1, 1995	40,000	3.25	December 1, 2000	50,000	4.35
June 1, 1996	40,000	3.40	June 1, 2001	50,000	4.50
December 1, 1996	40,000	3.60	December 1, 2001	50,000	4.50
June 1, 1997	45,000	3.75	June 1, 2002	50,000	4.70
December 1, 1997	45,000	3.90	December 1, 2002	55,000	4.70
June 1, 1998	45,000	4.00	June 1, 2003	55,000	4.85
December 1, 1998	45,000	4.00	December 1, 2003	55,000	4.85

\$2,835,000 5.85% Term Bonds due June 1, 2019

Price of All Bonds: 100%

The Bonds are offered, subject to prior sale, when, as and if issued and accepted by the Underwriter, subject to an opinion as to validity and tax exemption by Best & Flanagan, Minneapolis, Minnesota, as bond counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by its special counsel, Best & Flanagan, and by its general counsel, Anderson & Burgett, Willmar, Minnesota. Certain legal matters will be passed upon for the Underwriter by Dorsey & Whitney, of Minneapolis, Minnesota. It is expected that the Bonds will be issued and available for delivery on or about December 22, 1993.

The Underwriter has advised the Authority that it presently intends to make a market in the Bonds; however, it is not obligated to do so, any market making may be discontinued at any time, and there can be no assurance that an active public market for the Bonds will develop. For information with respect to the Underwriter, see "Underwriting" herein.

DAIN BOSWORTH INCORPORATED

The date of this Official Statement is December 10, 1993.

^(†)See "Rating" herein.

No dealer, broker, salesman or any other person has been authorized by the Authority or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any of the securities offered hereby in any state to any person to whom it is unlawful to make such offer, solicitation or sale in such state. The information set forth herein has been provided by the Authority. The Underwriter makes no guarantee as to accuracy or completeness of such information, and its inclusion herein is not to be construed as a representation by the Underwriter. Except where otherwise indicated, this Official Statement speaks as of the date hereof. Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority since the date hereof.

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THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(a)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE PERSON OR ENTITY CREATING THE SECURITIES AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

OFFICIAL STATEMENT

\$3,745,000

HOUSING AND REDEVELOPMENT AUTHORITY IN AND FOR THE CITY OF WILLMAR, MINNESOTA MULTIFAMILY HOUSING REVENUE BONDS (HIGHLAND APARTMENTS SECTION 8-ASSISTED PROJECT) SERIES 1993

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices hereto (the "Official Statement"), is furnished to provide information in connection with the issuance and sale by the Housing and Redevelopment Authority In and For the City of Willmar, Minnesota (the "Authority"), of its Multifamily Housing Revenue Bonds (Highland Apartments Section 8-Assisted Project), Series 1993, in the aggregate principal amount of \$3,745,000 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and laws of the State of Minnesota, including Minnesota Statutes, Sections 469.001 to 469.047, as amended, and an Indenture of Trust, dated as of December 1, 1993 (the "Indenture"), between the Authority and First Trust National Association, in St. Paul, Minnesota, as trustee (with any successor trustee under the Indenture, the "Trustee").

The Bonds will be issued by the Authority for the purpose of providing funds to be used to acquire a 79-unit multifamily rental housing project for residents who are aged 62 or older or are handicapped or disabled, known as Highland Apartments (the "Project"), located in the City of Willmar, Minnesota (the "City"), to fund a debt service reserve fund for the Bonds (the "Debt Service Reserve Fund"), to make a deposit to the Maintenance and Replacement Fund established for the Project under the Indenture (the "Maintenance and Repair Fund"), to make other deposits to certain funds under the Indenture and to pay costs of issuance of the Bonds. The Project was first placed in service in May 1979, and has been managed by the Authority since that time. (See "The Project" and "Uses of Proceeds.")

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY AND ARE NOT SECURED BY THE FULL FAITH AND CREDIT OR THE TAXING POWER OF THE AUTHORITY OR THE STATE OF MINNESOTA OR ANY OTHER POLITICAL SUBDIVISION, INCLUDING THE CITY. THE BONDS ARE PAYABLE SOLELY AND EXCLUSIVELY FROM FUNDS HELD BY THE TRUSTEE PURSUANT TO THE INDENTURE AND AMOUNTS REALIZED FROM DISPOSITION OF THE PROJECT OR REALIZED UNDER THE MORTGAGE AND THE ASSIGNMENT OF RENTS (EACH AS HEREINAFTER DEFINED). NO BONDHOLDER MAY ASSERT A VALID CLAIM AGAINST ANY REVENUES OR ASSETS OF THE AUTHORITY OTHER THAN THOSE PLEDGED PURSUANT TO THE INDENTURE, THE MORTGAGE AND THE ASSIGNMENT OF RENTS.

Under the Indenture, the Authority will pledge and deposit with the Trustee all revenues and receipts from the Project, including insurance proceeds and condemnation awards, to the payment of the principal of, premium, if any, and interest on the Bonds and the other obligations of the Authority under the Indenture. In addition, pursuant to a Combination Mortgage, Security Agreement and Fixture Financing Statement, dated as of December 1, 1993 (the "Mortgage"), executed by the Authority in favor of the Trustee (the "Mortgage"), such obligations will also be secured by a first mortgage lien on and security interest in the Project, subject only to those encumbrances and liens permitted by the Mortgage (as defined herein, "Permitted Encumbrances"). As further security for such obligations, the Authority will assign to the Trustee, pursuant to an Assignment of Rents and Leases, dated as of December 1, 1993 (the "Assignment of Rents"), executed by the Authority in favor of the Trustee, the leases of the Project and the rentals derived therefrom.

Subject to the terms of a Housing Assistance Payment Contract, effective as of May 25, 1979, and all addenda thereto (the "HAP Contract"), between the Authority and the Minnesota Housing Finance Agency (the "MHFA") and approved by the United States Department of Housing and Urban Development ("HUD"), the Authority will be entitled to receive certain payments (the "Housing Assistance Payments") funded by the United States of America acting through HUD, with respect to units in the Project (the "Contract Units") occupied by lower-income elderly persons and families eligible to receive rental assistance under Section 8 of the United States Housing Act of 1937, as amended (the "Housing Act"). Such Housing Assistance Payments are assigned by the Authority under the Indenture and a Pledge Agreement, dated as of December 1, 1993, from the Authority to the Trustee, and are required thereby to be deposited directly with the Trustee.

The amount of the Housing Assistance Payments equals the difference between rent permitted by the HAP Contract (the "Contract Rents") for Contract Units and that portion of the rent paid by the tenants. The tenant-paid portion of Contract Rent is limited to 30% of each tenant's adjusted gross income. Contract Rents are established by HUD, and are adjusted at least annually. (See "The HAP Contract.")

Upon issuance of the Bonds, an amount equal to \$142,330 (the initial Bond Reserve Requirement) will be deposited in the Debt Service Reserve Fund. Amounts on hand in the Debt Service Reserve Fund may be transferred to the Principal and Interest Fund established under the Indenture and applied by the Trustee to pay principal of, premium, if any, and interest on the Bonds in the event sums in the Principal and Interest Fund are insufficient for such purpose. Amounts withdrawn from the Debt Service Reserve Fund are required to be restored from Revenues deposited with the Trustee (after required deposits to the Principal and Interest Fund). (See "Security for the Bonds; Flow of Funds.")

Certain capitalized terms are defined in the text hereof and more fully in Appendix A. Any capitalized terms not so defined herein are used with the same meanings assigned such terms in the Indenture, the Mortgage or the Assignment of Rents. All references to documents described herein are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, copies of all of which are available for inspection at the principal corporate trust office of the Trustee.

CERTAIN BONDHOLDERS' RISKS

Potential purchasers of the Bonds should review this Official Statement carefully in its entirety and should particularly note those factors which could affect the operations of and revenues derived from the Project and the ability of the Authority to pay operating expenses of the Project and debt service on the Bonds. Certain of these factors are discussed below. As is more fully described below and elsewhere herein, there is no assurance that the MHFA will not terminate Housing Assistance Payments in the event of noncompliance with the HAP Contract, or that the revenues derived from the Project will be sufficient to pay the operating expenses of the Project and debt service on the Bonds.

Bonds are Special, Limited Obligations

THE BONDS AND THE INTEREST THEREON ARE NOT A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE AUTHORITY, THE CITY OR ANY OTHER POLITICAL SUBDIVISION. THE BONDS ARE NOT GENERAL OBLIGATIONS, BUT ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY. The Bonds will be secured, in the manner and to the extent described herein, by a first mortgage lien on the Project, subject to Permitted Encumbrances, an assignment of the rents and revenues derived from the Project, including Housing Assistance Payments under the HAP Contract, and the additional funds and property described herein.

Payment of the Bonds in accordance with their terms thus depends principally on the timely receipt of Housing Assistance Payments under the HAP Contract and tenant rents, on the ability of the Authority to pay the operating expenses of the Project and debt service on the Bonds from such sources, and on the ability of the Authority to operate the Project in compliance with MHFA and HUD requirements and conditions relating to the HAP Contract. In the event of a default on the Bonds, there is no assurance that the Project could be sold for an amount sufficient to pay the Bonds in full upon acceleration.

No Assurance as to Future Revenues and Expenses

There is no assurance that the revenues from the Project (consisting principally of Housing Assistance Payments and tenant rents) will be sufficient, together with funds in the Debt Service Reserve Fund and other amounts pledged under the Indenture, to pay the scheduled debt service on the Bonds and to meet the operating expenses of the Project and other expenses of the Authority. During calendar 1992, Housing Assistance Payments constituted approximately 73% of the rents received with respect to the Project, with tenant rents accounting for the remainder. The level of future Housing Assistance Payments, and hence revenues, with respect to the Project will depend largely on the level of Contract Rents established by HUD. In addition, the HAP Contract is subject to termination by the MHFA if the Authority does not meet certain conditions and requirements. (See the subheading "Dependence on the HAP Contract" herein.) No assurance can be given as to the future level of Contract Rents or Housing Assistance Payments with respect to the Project.

The level of revenues with respect to the Project also will depend on the actual occupancy rate achieved for the Project. Future occupancy rates may depend on a variety of factors, including federal and state policies affecting housing generally and housing for low- and moderate-income persons and the elderly in particular; the demand for housing for low- and moderate-income persons and the elderly, and changes in the number of persons eligible for assisted housing under the Section 8 program; the capability of management of the Project; the nature and condition of the housing stock in the neighborhood in which the Project is located and the potential development of new market-rate or assisted housing projects in the area; changes in zoning laws and regulations; and general economic conditions. For these reasons, no assurance can be given as to future occupancy rates with respect to the Project. Although the HAP Contract provides for the payment of reduced Housing Assistance Payments with respect to vacant units in the Project for limited periods of time, it is not anticipated that such payments would be sufficient to pay in full the operating expenses and debt service associated with an extended elevated vacancy rate. (See the subheading "Dependence on the HAP Contract—Vacancies" herein.)

The level of actual future operating expenses with respect to the Project will depend, among other things, upon the ability of the manager of the Project to manage and control such expenses and on general economic conditions, including the rate of inflation. Although Contract Rents, and hence Housing Assistance Payments, are subject to automatic and special increases under the HAP Contract as described elsewhere herein, there is no assurance that such increases will be in an amount sufficient to offset future increases in operating expenses. No assurance can be given as to actual future levels of operating expenses with respect to the Project.

Dependence on the HAP Contract

As noted above, the economic viability of the Project and the payment of the Bonds depend largely on Housing Assistance Payments under the HAP Contract. In addition to the information concerning the HAP Contract set forth under "The HAP Contract" herein, potential investors should note the following factors relating to the HAP Contract:

Potential Effect of Noncompliance with HAP Contract. The HAP Contract requires the Authority to comply with several conditions and requirements concerning the operation of the Project. A violation of these provisions gives rise to various remedies on the part of the MHFA and HUD, including the termination of the HAP Contract or the abatement of Housing Assistance Payments. If Housing Assistance Payments were substantially

abated or the HAP contract was terminated, it is unlikely that the Project would generate sufficient revenues to meet the scheduled payments on the Bonds or that the Project could be sold for an amount sufficient to pay the Bonds in full upon acceleration. Therefore, although the Authority will covenant in the Indenture to operate the Project so as to comply with the conditions and requirements set forth in the HAP Contract, a failure on its part to do so could result in a default on the Bonds.

Potential Inadequacy of Contract Rents and Housing Assistance Payments. The Contract Rents established by HUD with respect to the Project are subject to periodic automatic adjustments upward or downward by HUD (subject to market-based limitations on increases) and to special adjustments by HUD at the request of the Authority, as described under "The HAP Contract—Adjustments to Contract Rents." There is no assurance that such periodic automatic adjustments will cause Housing Assistance Payments to increase commensurate with any future increases in operating expenses of the Project or that any special adjustments which may be requested by the Authority in the future will be approved by HUD. In addition, the maximum aggregate annual amount of Housing Assistance Payments required to be made by the MHFA under the HAP Contract is \$310,872 plus the amount, if any, then in the Project Account established by HUD pursuant to the ACC Contract (as hereinafter defined). As of December 31, 1992, the amount in such Project Account was \$202,934. If future automatic annual or special adjustments otherwise would result in annual Housing Assistance Payments exceeding the maximum amount payable by HUD under the ACC Contract and would cause the amount in the Project Account to be less than 40% of such maximum amount, HUD would be obligated to seek to replenish the Project Account. (See "The HAP Contract—Annual HUD Contribution Limit; Project Account") No assurance can be given that Congress would appropriate funds to HUD for this purpose.

Vacancies. Under the HAP Contract, the MHFA is required to make Housing Assistance Payments in an amount equal to 80% of the Contract Rent applicable to the vacant unit for a vacancy period not exceeding 60 days, subject to satisfaction of certain conditions by the Authority. If a unit remains vacant for more than 60 days, the Authority may submit claims to the MHFA for additional Housing Assistance Payments in an amount equal to the debt service attributable to the vacant unit for up to 12 months of each vacancy period. The payment of claims with respect to such extended vacancies is subject to several additional conditions, including conditions related to the continued economic viability of the Project. (See "The HAP Contract—Use of the Project; Housing Assistance Payments.") Because of these limitations on the making of Housing Assistance Payments with respect to vacant units, the ability of the Authority to pay debt service on the Bonds and operating expenses of the Project will depend in large part on its ability to maintain a high occupancy rate for the Project.

Potential Delays in Exercise of Remedies

If it became necessary for the Trustee to commence foreclosure proceedings with respect to the Project and the other security for the Bonds following an event of default under the Indenture, such proceedings could result in protracted litigation and/or the institution of bankruptcy proceedings on the part of the Authority. If such litigation or bankruptcy proceedings were instituted, lengthy delays could result in the Trustee's exercise of remedies on behalf of holders of the Bonds.

Adequacy of the Project as Security

Security for the Bonds includes a first mortgage lien on the Project, subject to Permitted Encumbrances, evidenced by the Mortgage in favor of the Trustee and a first assignment of leases and rents evidenced by the Assignment of Rents in favor of the Trustee. In the event the Authority fails to make sufficient and timely payments required under the Indenture it may be necessary for the Trustee to exercise its remedies under the Mortgage, the Assignment of Rents or the Indenture, including foreclosure. There can be no assurance that if and when the Trustee forecloses and obtains possession of the Project or realizes amounts from the sale thereof, the resulting proceeds or revenues (if the Project is retained and operated by the Trustee), would be sufficient to fully pay principal of and interest on the Bonds. The Trustee is not in the business of operating facilities such as the Project

and any amounts which might be realized from operation of the Project are uncertain. Further, attempts to foreclose under the Mortgage and the Assignment of Rents may be met with protracted litigation or bankruptcy proceedings, which cause delays. Thus, there can be no assurance that in the event of default the Trustee will be able to obtain possession of the Project and generate revenue therefrom in a timely fashion.

Damage or Destruction

Although the Authority will be required to obtain certain insurance as set forth in the Mortgage, including business interruption insurance in an amount equal to one year of Revenues, there can be no assurance that the Project will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss, or the period during which the Project cannot generate revenues, will not exceed the coverage of such insurance policies. Although the HAP Contract does not specifically address the effect of damage or destruction of some or all of the Contract Units, because the Authority is required to maintain decent, safe, and sanitary housing, the failure to do so due to such damage or destruction will allow the MHFA to exercise any of its rights or remedies under the HAP Contract, including termination. Furthermore, under the HAP Contract if the Authority, for any reason (including damage or destruction) fails for a continuous period of six months to have at least 80% of the Contract Units leased or available to qualified tenants, the number of Contract Units eligible for payments under the HAP Contract (and, correspondingly, the Housing Assistance Payments) may be reduced. (See "The HAP Contract.")

PLAN OF FINANCING

The Project has been owned since May 1979, when it was first placed in service, by Highland Apartments, a Minnesota Limited Partnership (the "Seller"). The Authority has managed the Project since it was placed in service. The Seller has agreed to sell the Project to the Authority at a price of \$3,200,000.

The Authority will issue the Bonds to provide funds to pay the cash portion of the purchase price of the Project, to fund the Debt Service Reserve Fund, to make an initial deposit to the Maintenance and Replacement Fund and certain other deposits to other funds established under the Indenture and to pay costs of issuance of the Bonds. The proceeds of the Bonds are expected to be applied as described under "Uses of Proceeds."

USES OF PROCEEDS

The proceeds from the sale of the Bonds are expected to be used by the Authority as follows:

Purchase Price of Project	\$3,200,000
Closing costs of Purchase of Project	52,333
Debt Service Reserve Fund	142,330
Costs of Issuance (including Underwriter's compensation)	149,411
Deposit to Principal and Interest Fund	23,722
Deposit to Maintenance and Replacement Fund	158,000
Deposit to Surplus Fund	10,368
Deposit to Operating Fund	<u>8,836</u>
Total Uses	\$3,745,000

SECURITY FOR THE BONDS; FLOW OF FUNDS

Limited Obligations; No Pledge of Taxing Authority

The Bonds are special, limited obligations payable solely from amounts held therefor pursuant to the Indenture, including (1) Revenues (which include Housing Assistance Payments), (2) amounts in the Debt Service Reserve Fund and other funds established under the Indenture as provided therein, (3) proceeds of enforcement of the Mortgage and the Assignment of Rents, and (4) earnings on the foregoing. The Bonds are not general obligations of the Authority and are not secured by a pledge of the full faith or credit of the Authority or the City. No Holder of the Bonds shall have the right to demand that the Authority exercise its limited taxing power for the purpose of paying the Bonds. No Holder shall have any claim against the assets or revenues of the Authority except for the Authority's interest in the Project, the HAP Contract and amounts held or pledged pursuant to the Indenture, the Mortgage and the Assignment of Rents.

Pledge and Deposit of Revenues; Flow of Funds

All Revenues are pledged to pay the Bonds before payment of Project expenses. By the 20th day of each month the Authority is required by the Indenture to request Housing Assistance Payments for the next month and to use its best efforts to direct such payments to be made directly to the Trustee for deposit in the Revenue Fund. Pursuant to a Pledge Agreement, dated as of December 1, 1993, the Authority, with the consent of MHFA and HUD, will assign its right to receive payments under the HAP Contract to the Trustee, as security for the Bonds, and HUD will make such payments directly to the Trustee for deposit in the Revenue Fund. The Authority is also required to deposit all other Revenues in a depository account established solely for that purpose and to transfer all such Revenues to the Trustee within three Business Days after receipt. Such Revenues are to be distributed not later than the 10th day of each calendar month by the Trustee as follows:

FIRST - To the Principal and Interest Fund, one-sixth (one-fifth for deposits made from January 1994 to May 1994) of the interest to become due on the next Interest Payment Date and one-sixth (one-fifth for deposits made from January 1994 to May 1994) of the principal to become due on the next Principal Payment Date (at maturity or by operation of any mandatory sinking fund requirement); provided that when the amount in the Principal and Interest Fund is equal to the next required payments of principal and interest no further payments shall be required that month;

SECOND - To the Debt Service Reserve Fund, if the balance therein is less than the Bond Reserve Requirement, the amount required to cause the balance therein to equal the Bond Reserve Requirement, in not less than six equal monthly installments;

THIRD - To the Insurance and Tax Escrow Fund one-twelfth (1/12) of the amount budgeted by the Authority for the current fiscal year for annual premiums for insurance required to be maintained pursuant to the Indenture and the Mortgage and for annual real estate taxes (or payments in lieu of taxes) or other charges for governmental services for the current year (except for utility charges); which are to be disbursed by the Trustee from time to time as required to pay such premiums and taxes (or payments in lieu of taxes) when due or reimburse the Authority upon receipt of satisfactory evidence of payment thereof;

FOURTH - To the Operating Fund, the amount necessary to pay the Current Expenses for the Project for the month following the month of the transfer thereto as set forth in the Budget prepared annually by the Authority, as amended from time to time, for the Fiscal Year in which the determination is made, excluding those items of Current Expenses for which allowance has previously been made in such month as provided above;

FIFTH - To the Servicer, the amount of its fees and expenses;

SIXTH - To the Trustee, the amount of its fees and expenses (including reimbursement or payment of out-of-pocket costs or expenses);

SEVENTH - To the Maintenance and Replacement Fund, if the balance therein is less than the Maintenance Reserve Requirement (i.e., \$118,500), an amount equal to the greater of: (i) the amount required to cause the balance therein to equal the Maintenance Reserve Requirement, or (ii) during 1994, \$1,316.66, and in subsequent fiscal years, the Adjusted Amount; and

EIGHTH - To the Surplus Fund, any moneys not required currently to be paid into any of the above funds.

Moneys in the Surplus Fund are to be disbursed by the Trustee (1) to remedy any deficiency or any cumulative deficiency in any other Fund, in the following order of priority: the Principal and Interest Fund, the Debt Service Reserve Fund, the Insurance and Tax Escrow Fund, the Maintenance and Replacement Fund, the Operating Fund and the Rebate Fund; (2) to pay to the Rating Agency upon request its annual surveillance fee of \$1,500, (3) to pay \$500 toward any fees, costs or expenses incurred in the calculation of any amount required to be rebated to the United States, and (4) after the payment of all of the foregoing then accrued, to pay any amounts due and owing with respect to the Project which have not been paid by the Authority after request for payment has been made by the Trustee. In addition, any balance in the Surplus Fund in excess of \$10,368 is to be paid to the Authority once each fiscal year if on the date of payment the balance on hand in the Debt Service Reserve Fund is not less than the Bond Reserve Requirement, the amount on deposit in the Maintenance and Replacement Fund is not less than the Maintenance Reserve Requirement and after receipt by the Trustee and the Rating Agency of (i) the audit report of the financial statement of the Authority for the Project for the preceding fiscal year, prepared by an independent certified public accountant, demonstrating that the Debt Service Coverage Ratio in the preceding fiscal year was at least 113%, (ii) a Cash Flow Projection for the succeeding fiscal year, prepared by the Authority and approved by the Servicer, projecting that the Debt Service Coverage Ratio for such fiscal year will be not less than 113%; (iii) an insurance policy in effect providing hazard insurance for the Project, on a replacement cost basis, in an amount not less than the then principal amount of the Outstanding Bonds less the amount then on deposit in the Debt Service Reserve Fund; and (iv) a certificate of an Authority representative stating that no Event of Default under the Indenture has occurred and is continuing and that no event has occurred which, with the passage of time or the giving of notice, would constitute such an Event of Default.

Debt Service Reserve Fund

Upon issuance of the Bonds, proceeds of the Bonds in the amount of \$142,330 (the initial Bond Reserve Requirement) will be deposited in the Debt Service Reserve Fund. The Bond Reserve Requirement is defined to equal the amount, as of the date of calculation, equal to one-half of the maximum annual debt service payable on the Bonds in any future calendar year. Amounts in the Debt Service Reserve Fund are to be transferred to the Principal and Interest Fund in the event funds in the Principal and Interest Fund are inadequate to pay when due any principal of, premium, if any, or interest on the Bonds. Amounts in the Debt Service Reserve Fund are not available to pay any other costs or expenses of the Project. Amounts withdrawn from the Debt Service Reserve Fund which cause the balance therein to be less than the Bond Reserve Requirement are required to be restored from Revenues deposited with the Trustee (after required deposits to the Principal and Interest Fund) within six months after any such withdrawal. (See "Pledge and Deposit of Revenues" herein.)

Mortgage and Assignment of Leases and Rents

Under the Mortgage, the Authority will grant to the Trustee a first mortgage lien on the real estate comprising the Project and a first security interest in items of fixtures and other personal property of the Authority installed therein. The Authority will agree to keep the Project free of liens or encumbrances except Permitted Encumbrances, which include the mortgage securing the Note, inchoate mechanics' and materialmen's liens, liens for

property taxes and assessments not yet due, and other encumbrances or clouds on title that the Authority certifies will not impair the operating capabilities of the Project. By the Assignment of Rents, the Authority will assign to the Trustee its interests in all rentals to be received under leases of any portion of the Project. Under the Assignment of Rents, until an Event of Default occurs, the Authority will be entitled to collect and apply rents payable under the leases. (See "The Mortgage" and "The Assignment of Rents" in Appendix A to this Official Statement.)

Because of the character and special function of the Project, as well as other factors which may affect the value thereof upon foreclosure, the cost of the Project as financed by the Bonds may not constitute a realizable amount in the event of a foreclosure of the Mortgage and forced sale of the Project. If foreclosure were to occur prior to the payment of a significant amount of principal of the Bonds, the proceeds realized from foreclosure are not likely to be sufficient to pay the Bonds in full. (See "Certain Bondholders' Risks.")

Defeasance

Upon certain terms and conditions specified in the Indenture, the Bonds or portions thereof will be deemed to be paid and the security provided in the Indenture, the Mortgage and the Assignment of Rents may be discharged prior to maturity or redemption of the Bonds upon the provision for the payment of such Bonds. In that case, the Bonds will be secured solely by the cash and securities deposited with the Trustee for such purposes. (See "The Indenture—Defeasance" in Appendix A to this Official Statement.)

THE BONDS

General

The Bonds are being issued as fully registered bonds without coupons in denominations of \$5,000 or integral multiples thereof of single maturities. The Bonds will bear interest from their date of original delivery at the annual rates and mature in the principal amounts on the dates set forth on the cover of this Official Statement. Interest on the Bonds is payable on each June 1 and December 1, commencing June 1, 1994, to the owners of the Bonds of record in the Bond Register maintained by the Trustee as of the fifteenth day (whether or not a Business Day) of the immediately preceding calendar month (the "Record Date") by check or draft mailed by the Trustee to the addresses of such holders appearing in the bond register or, with respect to owners of \$1,000,000 aggregate principal amount or more of the Bonds, interest will be paid by wire transfer if the owner provides adequate wire transfer information to the Trustee at least five days prior to the Record Date. Interest on the Bonds is calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of and premium, if any, on the Bonds are payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee. Principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. The ownership of one fully registered Bond for each stated maturity as set forth on the cover hereof, each in the aggregate principal amount of such stated maturity, will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of securities brokers and dealers, banks, and other financial institutions (the "DTC Participants"), some of whom (and/or their representatives) own DTC, and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own

DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect Participants").

Ownership interests in the Bonds may be purchased by or through DTC Participants. Such DTC Participants and the persons for which such DTC Participants as nominees acquire interests in the Bonds (the "Beneficial Owners") will not receive certificated Bonds, but each DTC Participant will receive a credit balance in the records of DTC in the amount of the DTC Participant's interest in the Bonds, which will be confirmed by an initial-transaction statement stating the details of the Bonds in which such DTC Participant has an interest. Each Beneficial Owner for which a DTC Participant acquires an interest in the Bonds, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have all notices of redemption or other communications to DTC, which may affect such Beneficial Owner, to be forwarded in writing by such DTC Participant and to have notification made of all interest payments.

THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR BENEFICIAL OWNERS.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, references herein to the Bondholders or registered owners of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

DTC will receive payments from the Paying Agent to be remitted to the DTC Participants for the benefit of the Beneficial Owners. The ownership interest of each Beneficial Owner in the Bonds will be recorded through the records of the DTC Participants and a computerized book-entry system operated by DTC.

Principal and interest payments on the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Disbursement of such payments to the Beneficial Owners is the responsibility of DTC, the DTC Participants and the Indirect Participants. Upon receipt of payment, DTC's current practice is to immediately credit the accounts of the DTC Participants in accordance with their respective holdings as shown on the records of DTC. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in the name of a nominee, and will be the responsibility of DTC Participants or Indirect Participants and not of DTC or the Authority, subject to any statutory and regulatory requirements which may be in effect from time to time.

Reference herein to any action which is required or permitted to be taken by the Beneficial Owners, shall relate only to action by such Beneficial Owner or those permitted (by statute, regulation or otherwise) to act on behalf of such Beneficial Owner for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

Beneficial Owners will receive a written confirmation of their purchase detailing the terms of the ownership interest in the Bonds acquired. Transfers of ownership interests in the Bonds will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of the Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except as specifically provided in the Indenture. Interest and principal will be paid by the Paying Agent to DTC, then paid by DTC to the DTC Participants and thereafter paid by the DTC Participants to the Beneficial Owners when due.

For every transfer and exchange of the ownership interests in the Bonds, the Paying Agent and DTC may charge the Beneficial Owner a sum sufficient to cover any tax, fee or governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, (if there is not a successor securities depository and if so determined by DTC Participants having interests, as shown in the records of DTC, in an aggregate principal amount not less than 50% of the aggregate principal amount of the Bonds, as the case may be) Bond certificates are required to be delivered as described in the Indenture. The Beneficial Owner, upon registration of such Bonds in the Beneficial Owner's name, will become the Bondholder.

The Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners of the Bonds. In such event, Bond certificates will be required to be delivered to the Beneficial Owners as described in the Bond Resolution.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the Person for which the participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the Authority or the Trustee will be given only to DTC. DTC will be required to forward (or cause to be forwarded) the notices to the participants by its usual procedures, so that such participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

The information in this section concerning DTC and DTC's Book-Entry System has been obtained from sources the Authority believes to be reliable, but neither the Authority nor the Underwriter take any responsibility for the accuracy, sufficiency or completeness thereof.

Transfer and Exchange

The Authority will cause to be kept, at the principal corporate trust office of the Trustee, the Bond Register in which the Authority shall provide for the transfer of Bonds. Upon surrender for transfer of any Bond at the principal corporate trust office of the Trustee, the Authority shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of any authorized denomination or denominations of the same aggregate principal amount having the same stated maturity and interest rate. Likewise, upon surrender of Bonds for exchange at the principal corporate trust office of the Trustee, the Authority shall execute and the Trustee shall authenticate and deliver to the owner thereof new Bonds of the same aggregate principal amount having the same stated maturity and interest rate as that delivered for exchange and in such authorized denominations as the registered owner shall request. Every Bond presented or surrendered for transfer, exchange, registration, redemption or payment shall be duly endorsed or be accompanied by a written statement of transfer or authorization for exchange, in form and with guaranty of signature satisfactory to the Trustee, duly executed by the registered owner thereof or the owner's attorney duly authorized in writing.

No service charge shall be made to the Holder for any transfer or exchange but the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with such transfer or exchange.

The Trustee shall not be required to transfer or exchange (i) any Bond during a period beginning at the opening of business 10 days before the date of mailing of notice of redemption of any Bond or (ii) any Bond called for redemption in whole or in part.

Redemption

Optional Redemption. The Bonds with a stated maturity of June 1, 2019 (the "Term Bonds") are subject to optional redemption by the Authority, in whole or in part on any date on or after December 1, 2003, at a redemption price equal to the principal amount thereof to be redeemed with interest accrued to the date of redemption plus a premium, expressed as a percentage of the principal amount to be redeemed, as set forth below:

<u>Redemption Period</u>	<u>Premium</u>
December 1, 2003 to and including November 30, 2004	2.0%
December 1, 2004, to and including November 30, 2005	1.0
December 1, 2005 and thereafter	None

Mandatory Sinking Fund Redemption. The Term Bonds shall be redeemed by lot or other manner deemed fair by the Trustee on each June 1 and December 1, commencing June 1, 2004 and concluding December 1, 2018, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued to the date of redemption, without premium, in the respective principal amounts set forth below, subject to pro rata reduction (as further described below) or, if less than such principal amount of Term Bonds is then Outstanding, an amount equal to the aggregate principal amount of the Term Bonds then Outstanding.

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
June 1, 2004	\$55,000	June 1, 2012	\$ 90,000
December 1, 2004	60,000	December 1, 2012	95,000
June 1, 2005	60,000	June 1, 2013	95,000
December 1, 2005	65,000	December 1, 2013	100,000
June 1, 2006	65,000	June 1, 2014	100,000
December 1, 2006	65,000	December 1, 2014	105,000
June 1, 2007	70,000	June 1, 2015	110,000
December 1, 2007	70,000	December 1, 201	110,000
June 1, 2008	70,000	June 1, 2016	115,000
December 1, 2008	75,000	December 1, 2016	120,000
June 1, 2009	75,000	June 1, 2017	120,000
December 1, 2009	80,000	December 1, 2017	125,000
June 1, 2010	80,000	June 1, 2018	130,000
December 1, 2010	85,000	December 1, 2018	135,000
June 1, 2011	85,000	June 1, 2019*	135,000
December 1, 2011	90,000		

*Stated Maturity

Upon the optional or special redemption of Term Bonds or the purchase of Term Bonds by the Authority and delivery to the Trustee for cancellation, and, in the event of optional redemption or purchase, at the election of the Authority exercised not less than 45 days before the date a Mandatory Redemption Payment is payable, the principal amount of such Term Bonds so redeemed or purchased shall be credited against each remaining Mandatory Redemption Payment (in multiples of \$5,000) in, as nearly as practicable, the same proportion as the aggregate principal amount of such Mandatory Redemption Payment bears to the aggregate principal amount of all Outstanding Term Bonds.

Special Redemption for Certain Events of Casualty and Condemnation or Title Defects. The Bonds shall be called for redemption in whole or in part at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest to the redemption date if (i) Net Proceeds of insurance received on damage or destruction of the Project or title insurance proceeds are deposited in the Bond Redemption Fund; or (ii) Net Proceeds received from any condemnation award, or settlement in lieu thereof, are deposited in the Bond Redemption Fund. For a description of the conditions under which such a deposit may be made, see "The Indenture—Damage, Destruction; Application of Net Proceeds" in Appendix A to this Official Statement. The redemption date shall be determined by the Trustee and shall be the earliest practicable date for which notice of redemption can be given after the happening of any one of the events specified in the preceding sentence. The principal amount of Bonds subject to redemption shall be determined as the greatest principal amount (determined in multiples of \$5,000 principal amount) which, together with accrued interest thereon to the redemption date, can be paid from the amounts so deposited in the Bond Redemption Fund. If the Authority elects to redeem less than all of the Bonds and if the Cash Flow Projection projects that Income Available for Debt Service will be sufficient to pay the Debt Service Requirements on any Outstanding Bonds not to be redeemed to their stated maturities (subject to Mandatory Redemption Payments), the Bonds so to be redeemed shall be selected from each stated maturity of Outstanding Bonds (in multiples of \$5,000) in, as nearly as practicable, the same proportion as the aggregate principal amount of Outstanding Bonds of such stated maturity bears to the aggregate principal amount of all Outstanding Bonds, and, within a stated maturity, in \$5,000 principal amounts selected by lot or other manner deemed fair by the Trustee. If the Authority fails to elect to restore the Project or to redeem only a portion of the Outstanding Bonds from the available Net Proceeds, all Outstanding Bonds shall be redeemed, in part, in proportion to the principal amounts thereof, notwithstanding that such redemption may result in denominations of Bonds other than multiples of \$5,000. Unapplied proceeds of title insurance may similarly result in the redemption of Bonds, in whole or in part. (See "The Indenture—Damage, Destruction; Application of Net Proceeds" in Appendix A to this Official Statement.)

Notice of Redemption. Notice of redemption shall be mailed by first-class mail not less than 30 days prior to the redemption date by the Trustee to the Holders of Bonds to be redeemed at the addresses shown on the Bond Register. No defect in or failure to give mailed notice shall affect the validity of the proceedings for redemption of any Bond not affected thereby.

THE AUTHORITY

General

The Authority is a public body, corporate and politic, organized and existing under the laws of the State of Minnesota, activated in 1966 by the City Council of the City. The offices of the Authority are located at 302 SW 4th Street, Willmar, Minnesota. The Authority has eight full-time employees and one part-time employee.

The Authority uses available state and local resources to serve the residents of the City by (1) upgrading and maintaining the existing housing stock; (2) encouraging the construction of new housing affordable to low and moderate income households; and (3) providing low and moderate income families and elderly households with decent, safe and affordable rental housing opportunities. The services are provided by the Authority through the administration of various programs, including community development programs, federal and state home improvement and energy conservation programs, construction and management of low rent public housing facilities, administration of the federal Section 8 Certificate program, management of a Farmers Home Administration family housing project (Dana Heights Apartments), and management of the Project.

Powers

Under the Act, the Authority has the following powers, among others, within the City: to undertake and operate housing projects and redevelopment projects and to provide for the construction, reconstruction,

improvement, extension, alteration or repair of any project or part thereof; to acquire real or personal property by gifts, grant, purchase, exchange, lease, transfer, bequest, devise or otherwise and by the exercise of the power of eminent domain and to own, hold and improve property and to sell, lease, exchange, pledge or otherwise dispose of property; to issue bonds for any of its corporate purposes and to secure the bonds by mortgages on its property or by pledge of its revenues; to lease or rent any dwellings, accommodations, lands, buildings, structures or facilities and to establish and revise rents.

Board of Commissioners

Under the Act, the City Council of the City appoints a board of five commissioners of the Authority. The commissioners of the Authority are appointed to five-year terms. The current commissioners (the "Board of Commissioners") of the Authority are:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Gary McDowell, Chair Commissioner	Banker	January 11, 1994 January 31, 1996
Suzanne Napczek Vice Chair Commissioner	Consultant	January 11, 1994 January 31, 1998
Betty Schneider Secretary Commissioner	Consultant	January 11, 1994 January 31, 1997
Dennis Engelmann Commissioner	Retailer	January 31, 1995
Ted Olson Commissioner	Assistant Administrator, Willmar Regional Treatment Center	January 31, 1994

The Board of Commissioners meets in regular session once each month and in special meetings upon due notice.

Organization and Administration

The powers of the Authority are vested in its Board of Commissioners. The Board of Commissioners has appointed an Executive Director who reports directly to the Board of Commissioners. The following are brief resumes of the Executive Director and certain other employees of the Authority.

Dorothy Gaffaney, Executive Director. Ms. Gaffaney has been employed by the Authority since 1970, and has served in numerous capacities until becoming the Executive Director in 1985. Ms. Gaffaney is also a Certified Housing Manager. During her tenure with the Authority, Ms. Gaffaney has had some degree of involvement in every project or program the Authority has administered. She has been extensively involved in (1) the initial rent-up and ongoing administration of the 127-unit Lakeview Apartments Highrise (elderly public housing); (2) development, initial rent-up, and ongoing administration of the Authority's 47-unit family public housing project; (3) application for and administration of at least seven Comprehensive Improvements Assessment Projects (CIAP) under public housing; (4) administering the MHFA's property improvement programs; (5) application for and administration of numerous Small Cities Development Programs for the City; (6) application,

development assistance, and administration of a 48-unit FmHA Section 515 family housing project; (7) application, development assistance, and administration of a 12-unit Section 811 project for the chronically mentally ill; (8) development assistance, marketing, and on-going management of the Project; and (9) other miscellaneous projects.

Carol Gluth, Administrative Assistant. Ms. Gluth has been employed by the Authority since 1978, and has served in numerous capacities. Ms. Gluth is also a Certified Housing Manager. During her tenure with the Authority, Ms. Gluth has been extensively involved in (1) the ongoing administration of the 127-unit Lakeview Apartments Highrise (elderly public housing); (2) ongoing administration of the HRA's 47-unit family public housing project; (3) ongoing administration of the public housing CIAP projects; (4) administration of a 48-unit FmHA Section 515 family housing project; (5) administration of a 12-unit Section 811 project for the chronically mentally ill; (6) on-going administration of the Project; (7) initial lease-up and ongoing administration of the Section 8 Existing Certificate Program (50 Certificates); (8) conversion of the HRA's bookkeeping and records systems to computer; (9) financial accounting of all programs administered by the Authority; and (10) other miscellaneous projects.

Jim Anderson, Rehabilitation Specialist. Mr. Anderson has been employed by the Authority since 1981 primarily in the capacity of property improvement program administration. He has administered (1) loans and grants under the MHFA Home Improvement Loan Program, the MHFA Energy Loan Program, and MHFA Rehabilitation Loan Program; (2) loans and grants under numerous small cities development programs; (3) inspection services under the City of Willmar's Rental Registration Program; (4) property inspections for the Section 8 Existing Certificate Program (50 Certificates); and (5) ongoing occupancy of the 48-unit FmHA Section 515 family housing project (Dana Heights).

Maxine Schmit, Housing Administrator. Ms. Schmit has been employed by the Authority since 1987 primarily in the capacity of occupancy administration. Ms. Schmit is also a Certified Occupancy Specialist. She has been involved with the ongoing occupancy administration of (1) the 127-unit Lakeview Apartments (elderly public housing); (2) the 47-unit family public housing project; (3) the Section 8 Existing Certificate Program (50 Certificates); and (4) the Project.

Mary Fran Huff, Housing Administrator. Ms. Huff has been employed by the Authority since 1987 in various capacities. Ms. Huff has been involved with the administration of (1) the Central Northeast Small Cities Development Program; (2) the MHFA Home Improvement/Home Energy Loan Program; (3) applications for Emergency Shelter Grants through the Minnesota Department of Jobs and Training; (4) the initial rent-up and ongoing occupancy of the 48-unit FmHA Section 515 family housing project (Dana Heights); and (5) the ongoing occupancy of the 127-unit Lakeview Apartments Highrise (elderly public housing).

Experience in Development and Management of Housing Projects

The Authority owns and manages 174 units of low-rent public housing in the City. These include the Lakeview Apartments Highrise (127 units) and the Family Public Housing Project (47 units). The Authority developed Lakeview Apartments in 1970 and has administered the facility since then. It is an eight-story, poured concrete building with 126 1-bedroom units for the elderly (persons 62 years of age or older, disabled, or handicapped) and one 2-bedroom unit for the caretaker employee. The Family Public Housing project consisted of 38 2-, 3-, and 4-bedroom units when it was first constructed in 1981. Since then, the Authority applied for and received funding for an additional nine units (3- and 4-bedroom) under HUD's Acquisition/Rehabilitation Public Housing Program. Both Lakeview Apartments and the Family Public Housing Project are administered pursuant to HUD regulations.

The Authority also manages on behalf of private owners 138 units of assisted housing. These include 78 units of MHFA/Section 8 New Construction housing for the elderly (the Project); 48 units of FmHA Section 515 family housing (Dana Heights Apartments); and 12 units of Section 811 housing for the chronically mentally ill

(West Central Mental Health Housing Project). The Authority assisted in the development and marketing of Dana Heights Apartments with initial rent-up beginning in February 1992. The Authority has managed Dana Heights since then. Dana Heights consists of 24 1- and 2-bedroom apartments and 24 3-bedroom townhouses. Dana Heights is administered pursuant to FmHA regulations. For the West Central Mental Health Housing Project, the Authority also assisted in its development and marketing with initial rent-up in April 1993. The Authority has managed this project since that time. The ten 1-bedroom and two 2-bedroom units in this project for the chronically mentally ill are scattered over three separate sites. The West Central Mental Health Housing Project is administered pursuant to HUD regulations.

In addition to the above, the Authority administers 50 certificates (2-, 3-, 4-bedroom) under Section 8 Existing Certificate Program. The Authority initially received an allocation of 15 2- and 3-bedroom certificates under this rental assistance program in 1985. Since then 35 2-, 3- and 4-bedroom certificates have been added.

Separate waiting lists are maintained for all of the projects owned and/or managed by the HRA. Once approved for occupancy, the tenant pays 30% of his/her adjusted gross income toward rent. The annual income of each tenant/tenant family must fall under the income limits established by the respective program requirements.

Other Activities

The Authority has taken an active role in other housing and redevelopment activities in the City. Among other activities, the Authority:

- in 1974 administered a HUD Neighborhood Development Program which provided funds for the planning, site acquisition/relocation, and construction of the downtown by-pass in Willmar;
- in 1975 to 1979 administered a HUD Community Development Block Grant Entitlement Program which, among other projects, financed the redevelopment of properties in the City's central business district;
- during 1980 to 1982, administered a HUD Small Cities Community Development Block Grant to provide various improvements to the Northside Neighborhood Area in the City, including home improvement programs, infrastructure improvements and acquisition/relocation/demolition programs of dilapidated houses to provide sites for development of family public housing;
- in 1982 and in 1984 used tax increment financing to improve infrastructure in the central business district and to redevelop certain property;
- has administered various small cities development programs funded by the Minnesota Department of Trade and Economic Development, including home improvement activities, property acquisition/relocation/rehabilitation, street/sidewalk repairs/replacements, upgrading utility systems, and tree replacements, commercial and rental housing rehabilitation, certain housing improvements for income-eligible owners and tenants; and
- has administered Rehabilitation Loan Program Funds in a revolving fund loan program funded with MHFA funds to provide very low income property owners home improvement and energy loans; approximately \$3,000,000 have been extended as loans or deferred loans.

The Authority has received approximately \$1,900,000 in HUD funding under the Comprehensive Improvements Assessments Program for public housing improvements. Improvements thereunder at Lakeview Apartments included conversion of the heating plant from natural gas to district hot water, re-roofing, window and water softener replacements, replacement of community space carpeting, installation of carpeting and vinyl flooring in some apartments, new bedroom and storage closet doors, elevator updates, window replacement in certain community space areas, a new fire alarm system, building exterior treatment, expansion of parking lot and construction of a storage building.

THE PROJECT

General

The Project is operated under the name "Highland Apartments," and has been managed by the Authority since it was first occupied in May 1979. The Project is located at 115 East Becker Avenue in the City on an approximately two-acre site. The Project consists of a three-story wood-frame apartment building with 78 one-bedroom units, principally occupied by elderly persons, and one two-bedroom unit for the caretaker. The Project has a paved parking area for 41 cars.

The Project offers residents laundry facilities, a community room with a kitchen, a craft room, small community spaces on each floor, storage rooms, a security system and emergency call system, an elevator and off-street parking. Each apartment has a combination living room/dining room, a kitchen (with stove and refrigerator), a bedroom and a bathroom (with a shower). There is a "tub" room on the second and third floors for use by residents.

Apartments in the Project are intended to be occupied by "elderly families," defined by the federal government as persons 62 years old and older or persons having a handicap or disability. Tenants pay 30% of their adjusted gross income for rent. The average tenant-paid portion of rent (not including an allowance for tenant-paid electrical usage) was \$140 per month as of October 1, 1993. There were no vacancies in the Project at year end in 1990, 1991 and 1992, respectively. In each of these years, all units were available for occupancy. As of November 30, 1993, there were 35 people on a waiting list for the Project. The turnover rate in units of the Project over the last five calendar years has averaged 5.3 units per year.

Contract Rents

Pursuant to the HAP Contract, Contract Rents for assisted units are established by HUD on an annual basis. A Contract Rent increase occurs in May of each year. Contract Rents include payment of all utilities except electricity and telephone charges. Resident's electricity charges are subsidized through a credit to their monthly rent. The following table sets forth the monthly Contract Rents for each of the calendar years identified. For the years shown, increases in Contract Rents have averaged approximately 2.5% per year and have taken effect on May 25 in such years.

Unit Type	<u>Monthly Contract Rent</u>			
	1993	1992	1991	1990
One-Bedroom (Elderly)	\$516	\$509	\$496	\$480
Two-Bedroom (Elderly)	\$602	\$596	\$583	\$567

Competition

The following table lists the principal facilities providing elderly rental housing in the City, apart from the Project:

Name	Number of Units	Type
Lakeview Apartments	126	Elderly Public Housing Project
Cardinal Apartments	32	Elderly FmHA Project
Lake Place Apartments	12	Elderly FmHA Project

Operating Data and Pro Forma Debt Service Coverage

Set forth below is a summary of the unaudited operating results of the Project for each of the indicated fiscal years (ended December 31) and for the 10-month period from January 1, 1993 to October 31, 1993, which have been excerpted from the operating reports prepared by the Authority, together with pro forma 1992 and 1993 statements, assuming the Project was owned by the Authority and the funds established under the Indenture were in place during those periods and, for 1993, the results for the 10-month period have been annualized based on the MHFA-approved budget for the Project for 1993:

	1990	1991	1992	Pro Forma 1992	10 Months 1993	Pro Forma 12 Months 1993
Revenue						
Rental Income	\$443,851	\$454,468	\$476,060	\$476,060	\$441,765	\$481,116
Other Income	<u>3,439</u>	<u>2,915</u>	<u>3,133</u>	<u>3,133</u>	<u>2,513</u>	<u>2,885</u>
Total Revenue	447,290	457,383	479,193	479,193	444,278	484,001
Operating Expenses						
Administrative	39,164	40,354	39,819	39,819	34,335	40,673
Maintenance	47,133	49,252	45,544	45,544	34,168	46,442
Utilities	21,197	22,788	24,550	24,550	20,074	26,100
Real Estate Taxes ¹	38,960	40,960	42,160	31,831	33,230	32,079
Insurance	<u>5,900</u>	<u>5,750</u>	<u>6,000</u>	<u>6,000</u>	<u>5,150</u>	<u>6,200</u>
Total Operating Expenses	<u>152,354</u>	<u>159,104</u>	<u>158,073</u>	<u>147,744</u>	<u>126,957</u>	<u>151,494</u>
Net Operating Income	294,936	298,279	321,120	331,449	317,321	332,507
Plus: Interest Income ²				10,433		10,433
Less: Maintenance and Replacement Fund Deposit ³				<u>15,800</u>		<u>15,800</u>
Pro Forma Income Available for Debt Service				326,082		327,140
Maximum Annual Debt Service on Bonds				284,659		284,659
Pro Forma Maximum Annual Debt Service Coverage				1.15x		1.15x

¹For pro forma 1992 and 1993, payments in lieu of taxes.

²Interest income on certain funds held under the Indenture, assuming an investment rate of 4.00% per annum on \$142,330 on deposit in the Debt Service Reserve Fund and an investment rate of 4.00% on \$118,500 on deposit in the Maintenance and Repair Fund. Investment income on other funds held under the Indenture is expected to be sufficient to pay the ordinary fees and expenses of the Trustee and the Servicer.

³Maintenance and Replacement Fund deposit required by the Indenture in 1994.

The availability of Revenues to pay principal of and interest on the Bonds is estimated in the foregoing table, based on historical operating results of the Project. *There can be no assurance that the financial results of the Project in the future will be similar to historical results. Such future results will vary from historical results, and actual variations may be material. Consequently, the historical operating results and pro forma debt service coverage information contained herein cannot be taken as a representation that the Authority will be able to generate sufficient revenues in the future to make payment of principal of, premium, if any, and interest on the Bonds when due. No financial feasibility study has been prepared relating to the Project, the issuance of the Bonds or the future financial performance of the Authority.* (See "Certain Bondholders' Risks.")

Capital Expenditures

The Maintenance and Replacement Fund established under the Indenture is to be used for necessary maintenance, repairs and replacements of the Project, including, among other things, replacement of equipment, repair or replacement of any roof or other structural component, exterior painting and major repairs to or replacement of heating, air conditioning, plumbing and electrical systems. From the proceeds of the Bonds, \$158,000 is to be deposited in the Maintenance and Replacement Fund. The Trustee is to make monthly deposits in the Maintenance and Replacement Fund from Revenues, if any, remaining after the payment of debt service on the Bonds, replenishment of the Debt Service Reserve Fund, payment of Current Expenses of operation of the Project and the payment of the fees and expenses of the Servicer and the Trustee, in the amount of \$1,316 in 1994 or the relevant Adjusted Amount in subsequent years or, if the balance in the Maintenance and Replacement Fund is less than \$118,500, an amount to increase the balance therein to \$118,500. Disbursements from the Maintenance and Replacement Fund must be approved by the Servicer under the Indenture. (See "The Indenture—Funds and Accounts" in Appendix A to this Official Statement.)

Capital expenditures made with respect to the Project in the last five calendar years were as follows:

<u>Year</u>	<u>Amount</u>
1988	\$28,018
1989	13,891
1990	2,775
1991	10,507
1992	40,044

There is no requirement in the Indenture or the Servicing Agreement that the Authority make capital repairs or improvements to the Project at the direction of the Servicer. The Authority will covenant in the Indenture and the Mortgage to maintain the Project as required under the HAP Contract and to otherwise keep the Project generally in safe and good repair and condition, ordinary wear and tear excepted.

The City

Willmar is located on U.S. Highway 12 in west central Minnesota, approximately 100 miles west of the Minneapolis/St. Paul metropolitan area. The City is the county seat of Kandiyohi County (the "County").

The population of the City and the County are shown below, based on information from the United States Bureau of the Census and, for 1991, an estimate prepared by the Minnesota State Demographer:

	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1991</u>
City	10,417	12,869	15,895	17,533	17,630
County	29,987	30,548	36,763	38,761	38,973

Although the economy of the surrounding area relies primarily on agriculture and related businesses and industries, the City serves as a trade center for a seven-county area for retail trade and medical care.

THE HAP CONTRACT

General

As part of the security for the Bonds, the Authority will pledge to the Trustee all of its rights to receive Housing Assistance Payments under the HAP Contract. (See "Certain Bondholders' Risks.") The following summaries of the HAP Contract, the ACC Contract referred to below, and the applicable provisions of Section 8 ("Section 8") of the United States Housing Act of 1937, as amended, 42 U.S.C. § 1437f (the "Housing Act") and related administrative regulations, are subject to, and are qualified in their entirety by reference to, such HAP Contract, ACC Contract, Housing Act and regulations. Copies of the HAP Contract and the ACC Contract will be provided to potential purchasers of the Bonds upon request.

The HAP Contract was initially entered into between the Seller and the MHFA effective May 25, 1979, and the Seller will assign the HAP Contract to the Authority, with the approval of HUD. The HAP Contract provides for an initial term of five years and a series of seven automatic five-year renewals unless one party to the contract notifies the other of its desire not to renew the contract and such other party agrees to nonrenewal. Assuming that all available renewals take effect, the HAP Contract will expire on May 25, 2019. The Authority will covenant in the Indenture that as long as the Bonds are Outstanding, it will not give notice of or agree to nonrenewal of the HAP Contract. (See "The Indenture—Covenants Concerning HAP Contract and Occupancy" in Appendix A to this Official Statement.)

Use of the Project; Housing Assistance Payments

Under the HAP Contract, the units in the Project are required to be leased to "Eligible Tenants" for use and occupancy solely as private dwellings. In general, "Eligible Tenants" include elderly and handicapped individuals and families whose incomes do not exceed 80% of the median income for the area as determined by HUD, adjusted for family size. In the HAP Contract, the MHFA has agreed to make Housing Assistance Payments on behalf of Eligible Tenants, solely from amounts received by the MHFA from HUD, to enable such tenants to lease decent, safe and sanitary housing. Pursuant to an annual contributions contract (the "ACC Contract") entered into between the MHFA and HUD with respect to the Project, HUD is to make periodic payments to the MHFA upon requisition in an amount equal to the Housing Assistance Payments to be made by the MHFA under the HAP Contract. The annual contribution required to be made by HUD under the ACC Contract for the Project is subject to certain limitations. (See the subheading "Annual HUD Contribution Limit; Project Account" herein.)

The amount of the Housing Assistance Payments made by the MHFA with respect to a unit equals the difference between (i) the "Contract Rent" established by HUD with respect to such unit, and (ii) the amount of rent which an Eligible Tenant is required to pay to the landlord with respect to such unit pursuant to the Section 8 program. The amount required to be paid by an Eligible Tenant is determined by the Authority in accordance with schedules and criteria established by HUD and generally does not exceed 30% of the tenant's adjusted income. The initial Contract Rents for the units in the Project were established by HUD at the time the HAP Contract and the ACC Contract were entered into, based on the quality, location, amenities and management and maintenance services of the Project. The Contract Rents, and hence the amount of Housing Assistance Payments, applicable to the Project are subject to adjustment as described under the subheading "Adjustments to Contract Rents" herein.

If a vacancy arises in the Project (other than as a result of action by the Authority which is in violation of the applicable lease, the HAP Contract or any applicable law), the MHFA is required to make Housing Assistance

Payments in an amount equal to 80% of the Contract Rent applicable to the vacant unit for a vacancy period not exceeding 60 days; provided that the Authority notifies the MHFA of the vacancy or prospective vacancy and the reasons therefor and diligently endeavors to fill the vacancy with an Eligible Tenant in accordance with the HAP Contract. If the Authority evicts a tenant, its request for Housing Assistance Payments with respect to the vacated unit must be supported by its certification that such eviction was not in violation of the applicable lease, the HAP Contract or any applicable law and that the Authority gave such tenant written notice of the proposed eviction, stating the grounds and advising the tenant that the tenant had ten days within which to present objections to the Authority.

If a unit remains vacant for more than 60 days, the Authority may submit claims to the MHFA for additional Housing Assistance Payments in an amount equal to the debt service attributable to the vacant unit for up to 12 months of each vacancy period. Such additional Housing Assistance Payments may be requested on a semiannual basis. In order to receive such additional Housing Assistance Payments, the Authority must, among other things, (i) demonstrate that the Project is not providing the Authority with revenues at least equal to the costs incurred by the Authority with respect to the Project, and that the amount of the payments requested is not in excess of that portion of the deficiency which is attributable to the vacant units for the period of the vacancies, and (ii) submit a statement with supporting evidence that there is a reasonable prospect that the Project can achieve financial soundness within a reasonable time, indicating the causes of the deficiency, the corrective steps that have been and will be taken, and the time by which it is expected that the Project revenues will at least equal project costs without the additional payments requested. In addition, the Authority must continue diligently to endeavor to fill the vacancy with an Eligible Tenant in accordance with the HAP Contract. HUD may deny any such application for additional payments or suspend or terminate payments if it determines that there is not a reasonable prospect that the Project can achieve financial soundness within a reasonable time.

The MHFA is obligated to make Housing Assistance Payments under the HAP Contract only to the extent that funds are provided for such purpose by HUD to the MHFA pursuant to the ACC Contract. (See the subheading "Annual HUD Contribution Limit; Project Account" herein.)

Adjustments to Contract Rents

The HAP Contract provides that HUD shall determine an "Automatic Annual Adjustment Factor" for the area in which the Project is located at least annually; in addition, interim revisions may be made by HUD as market conditions warrant. It further provides that on each anniversary date of the HAP Contract, the Contract Rents applicable to the Project will be adjusted by applying the most recently published Automatic Annual Adjustment Factor to the Contract Rents then in effect. Pursuant to this adjustment mechanism, Contract Rents may be adjusted upward or downward; provided that in no case shall the adjusted Contract Rents be less than the Contract Rents on the effective date of the HAP Contract unless a project has been refinanced to reduce periodic payments. HUD presently determines Automatic Annual Adjustment Factors based on market trends recorded by the Consumer Price Index and the Bureau of the Census American Housing Survey.

In addition to changes in Contract Rents which may result from application of Automatic Annual Adjustment Factors, the Authority may apply to HUD for special additional adjustments in Contract Rents to reflect increases in the actual and necessary expenses of owning and maintaining the Project which have resulted from substantial general increases in real property taxes, utility rates or similar costs (i.e., assessments, and utilities not covered by regulated rates), but only if and to the extent that the Authority submits financial statements and clearly demonstrates that such general increases have resulted in increases in the Authority's operating costs which are not adequately compensated for by the application of Automatic Annual Adjustment Factors. To the best knowledge of the Authority, the Seller has not in the past sought such special additional adjustments. If the Authority were to do so in the future, there is no assurance that they would be granted.

Notwithstanding the two preceding paragraphs, HUD is not required to make adjustments to Contract Rents which otherwise would be required by application of the Automatic Annual Adjustment Factor or which otherwise would be made pursuant to Authority request, if such adjustments would result in material differences between the rents charged for assisted and comparable unassisted units, as determined by HUD; provided that this limitation is not to be construed to prohibit differences in rents between assisted and comparable unassisted units to the extent that such differences may have existed with respect to the initial Contract Rents. In order to determine whether such differences exist, HUD conducts "comparability studies" in which it compares the Contract Rents in effect with respect to an assisted project and the rents charged for unassisted units which it determines to be comparable. To the best knowledge of the Authority, HUD has not performed or commenced such a "comparability study" with respect to the Project. If HUD were to perform such a comparability study in the future, it could result in Contract Rents being reduced with respect to the Project, even if application of the Automatic Annual Adjustment Factor would not result in such a reduction. The United States Supreme Court recently upheld HUD's authority to limit the application of Automatic Annual Adjustment Factors in the manner described above in *Cisneros v. Alpine Ridge Group* (No. 92-551, May 3, 1993).

Annual HUD Contribution Limit; Project Account

Pursuant to the ACC Contract between HUD and the MHFA, HUD makes periodic payments to the MHFA in an amount equal to the Housing Assistance Payments required to be made by the MHFA to the Authority in a fiscal year. The maximum annual amount which HUD is committed to pay to the MHFA under the ACC Contract (the "Maximum ACC Commitment") is \$310,872.

HUD is required to establish and maintain a "Project Account" with respect to the Project and to fund such account, in an amount as determined by HUD consistent with its responsibilities under the Housing Act, out of amounts by which the Maximum ACC Commitment with respect to the Project for a fiscal year exceeds the amount actually paid out by HUD under the ACC Contract during such fiscal year. To the extent that funds are available in the Project Account, HUD is required to make payments from the Project Account for Housing Assistance Payments (and fees for MHFA administration, if appropriate) when needed to cover increases in Contract Rents or decreases in tenant rents. Whenever the HUD-approved estimate of required payments under the ACC Contract for a fiscal year exceeds the Maximum ACC Commitment and would cause the amount in the Project Account to be less than 40% of the Maximum ACC Commitment, HUD is required, within a reasonable period of time, to take such additional steps authorized by Section 8(c)(6) of the Housing Act as may be necessary to assure that payments under the ACC Contract will be adequate to cover increases in Contract Rents and decreases in tenant rents. The steps authorized to be taken by Section 8(c)(6) of the Housing Act include "the reservation of annual contributions authority for the purpose of amending housing assistance contracts or the allocation of a portion of new authorizations for the purpose of amending housing assistance contracts." No assurance can be given that Congress would appropriate funds to HUD for this purpose.

As of December 31, 1992, the balance in the Project Account for the Project was \$202,934. In the event that HUD is required to take the additional steps referred to in the preceding paragraph because the balance in the Project Account falls below the required amount, there could be delays in the payment of Housing Assistance Payments and shortfalls in the Project Account in the future.

Authority's Monthly Requests for Payment

As owner of the Project, the Authority will be required to submit monthly requests for Housing Assistance Payments to the MHFA. Each such monthly request must contain a certification that to the best of the Authority's knowledge and belief, the dwelling units in the Project are in decent, safe and sanitary condition; all of the other facts and data on which the request for funds is based are true and correct; the amount requested has been calculated in accordance with the provisions of the HAP Contract and is payable under the HAP Contract; and none of the amount claimed has been previously claimed or paid. If the Authority receives an excessive payment, the

MHFA may, in addition to any other rights to recovery, deduct the amount of the excess from any subsequent Housing Assistance Payments. The Authority will agree in the Indenture to submit proper requests for payment under the HAP Contract on a timely basis. (See “The Indenture—Covenants Concerning HAP Contract and Occupancy” in Appendix A to this Official Statement.)

MHFA and HUD Not Obligated for Tenant Rent

Neither the MHFA nor HUD has assumed any obligation for the amount of rent payable by any tenant of the Project or the satisfaction of any claim by the Authority against such tenant. The financial obligation of the MHFA to the Authority is limited to making Housing Assistance Payments in accordance with the HAP Contract when, and at the prescribed intervals after, such payments are received by the MHFA from HUD. The financial obligation of HUD is to make the periodic payments to the MHFA called for by the ACC Contract.

Additional Obligations of the Authority under the HAP Contract; Remedies of the MHFA and HUD

Under the HAP Contract, the Authority is obligated, among other things, to maintain the dwelling units contained in the Project in a decent, safe and sanitary condition; to provide the services, maintenance and utilities described in the HAP Contract; to make a reasonable effort to lease units in the Project to Eligible Tenants; and to comply with additional requirements regarding nondiscrimination in housing, tenant selection criteria, and operation of the Project. If the Authority fails to meet any of such obligations after notice from the MHFA or HUD, the MHFA or HUD may abate Housing Assistance Payments in part or in whole, may terminate the HAP Contract and the ACC Contract, or may take such other corrective action as they deem appropriate.

Status of HAP Contract in Event of Foreclosure or Sale of the Project

The HAP Contract provides that in the event of foreclosure, or assignment or sale to the Trustee, as the mortgagee under the Mortgage, in lieu of foreclosure, or in the event of assignment or sale agreed to by the Trustee, as mortgagee, and approved by HUD (which approval shall not be unreasonably delayed or withheld), Housing Assistance Payments shall continue in accordance with the terms of the HAP Contract (subject to abatement or termination for violations thereof as described above).

THE SERVICING AGREEMENT

Under the Servicing Agreement, Glaser Financial Group, Inc., a Minnesota corporation (the “Servicer”), will agree to perform certain services for the Trustee under the Indenture, primarily monitoring compliance by the Authority with certain covenants and agreements under the Indenture and the Mortgage. Among other activities, the Servicer is to conduct, or cause to be conducted, an inspection of the Project semiannually to ascertain compliance with covenants in the Indenture relating to the HAP Contract and maintenance of insurance and to approve each fiscal year Project budget of the Authority and any amendments to such budgets. (See “The Indenture—Covenants Concerning HAP Contract and Occupancy” and “—Other Covenants of the Authority” in Appendix A to this Official Statement.) The Servicer will not hold any funds under the Indenture or relating to the Project.

TAX EXEMPTION

In the opinion of Best & Flanagan, Bond Counsel, based on certain representations of the Authority as to the anticipated application of the proceeds of the Bonds and as to continuing compliance with certain limitations imposed by the Internal Revenue Code of 1986, as amended (the “Code”), under existing laws, as presently enacted and construed, interest on the Bonds (a) is not included in gross income for purposes of federal income taxation, (b)

is not included in taxable net income of individuals, estates and trusts for purposes of State of Minnesota income taxation and (c) is not a separate item of tax preference for purposes of the federal and State of Minnesota alternative minimum tax provisions. In the opinion of Bond Counsel, interest on the Bonds is subject to State of Minnesota corporate and financial institution franchise taxes measured by income.

Bond Counsel's opinion assumes continuing compliance with the covenants of the Indenture pertaining to those provisions of Section 103, 141, 148 and 149 of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, relies on representations by the Authority with respect to matters solely within the knowledge of the Authority, which Bond Counsel has not independently verified. If the Authority should fail to comply with the covenants in the Indenture, or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Section 148(a) of the Code provides that the Bonds may be declared "arbitrage bonds" "if the Authority intentionally use[s] any portion of the proceeds of the issue in a manner which would have caused the Bonds to be 'arbitrage bonds' had such use been reasonably expected at the time of their original issuance." In addition, Section 148(f) of the Code imposes certain additional "rebate" requirements, under which the Authority is required to remit to the United States of America in five-year intervals amounts earned on certain investments in excess of the amount which would have been earned on such investments at the "yield" on the Bonds.

The Authority and the Trustee have covenanted under the Indenture to maintain continued compliance with all applicable "arbitrage" provisions of Section 148 of the Code.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds.

RELATED TAX CONSIDERATIONS

Interest on the Bonds is not an item of tax preference for purposes of the federal and Minnesota alternative minimum taxes, but such interest is includable in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal and Minnesota alternative minimum taxes and the environmental tax imposed by Section 59A of the Code. Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to taxation under Section 1375 of the Code and corresponding provisions of Minnesota law for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Interest on the Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year.

Section 265 of the Code denies a deduction of interest on indebtedness incurred or continued to purchase or carry the Bonds, and Minnesota law similarly denies a deduction for such interest expenses in the case of individuals, estates and trusts. Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds. The Authority will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, and financial institutions described in Section 265(b)(5) of the Code may treat the Bonds for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7,

1986. Noncompliance with certain requirements of the Code may cause the Bonds retroactively to lose their character as qualified tax-exempt obligations.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the determination of gain or loss on the sale of a Bond, the calculations of alternative minimum tax liability, the inclusion of Social Security or other retirement payments in taxable income, the disallowance of deductions for certain expenses attributable to the Bonds, and the state and local tax rules in states other than Minnesota.

LEGAL MATTERS

The issuance and delivery of the Bonds are subject to the approving legal opinion of Best & Flanagan, of Minneapolis, Minnesota, as Bond Counsel. Certain legal matters will be passed upon for the Authority by its special counsel, Best & Flanagan, and by its general counsel, Anderson & Burgett, Willmar, Minnesota. Certain legal matters will be passed upon solely for the benefit of the Underwriter by Dorsey & Whitney, Minneapolis, Minnesota.

ENFORCEABILITY OF OBLIGATIONS

On the closing date for delivery of the Bonds to the Underwriter, Best & Flanagan, Minneapolis, Minnesota, Bond Counsel and special counsel to the Authority shall deliver its opinion, dated the delivery date, that the Bonds, the Mortgage, the Assignment of Rents, the Indenture, the HAP Contract and the Pledge Agreement are valid and legally binding on the Authority, enforceable in accordance with their terms. The foregoing opinions will be qualified in general to the extent that the enforceability of the respective instruments in accordance with their terms may be limited by laws, decisions and equitable principles affecting remedies and by bankruptcy or insolvency or other laws, decisions and equitable principles affecting creditors' rights generally.

While the Bonds are secured or payable pursuant to the Indenture, the Mortgage, the Assignment of Rents, the HAP Contract and the Pledge Agreement, the practical realization of payment from any security will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified by the Indenture, the Mortgage, the Assignment of Rents, the HAP Contract and the Pledge Agreement may not be readily available or may be limited.

LITIGATION

There is no controversy or litigation of any nature pending or, to the best knowledge of officers of the Authority, threatened restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance and sale thereof, the pledge or application of any moneys or securities provided for the payment of the Bonds, the existence or powers of the Authority or the title of any officers of the Authority to their respective offices.

RATING

As noted on the cover hereof, Standard & Poor's Rating Group, located at 25 Broadway, New York, New York 10004, telephone (212) 248-2625, has assigned the Bonds a rating of "A." A rating reflects the view only of the rating agency and is not a recommendation to buy, sell or hold the securities which are the subject of the rating. The Authority has furnished to Standard & Poor's Rating Group certain information and materials relating to the Bonds and the Project. Generally, a rating agency bases its rating on such information and materials and its own investigations, studies and assumptions. There is no assurance that the rating will continue for any given period or that it may not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change in or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

Standard & Poor's Rating Group defines an "A" rating, which is the third highest of ten principal rating categories, as follows: "Bonds rating 'A' have a strong capacity to pay interest and repay principal, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than bonds in higher-rated categories."

UNDERWRITING

The Underwriter has agreed to purchase the Bonds from the Authority at a price of \$3,745,000, subject to the terms of a Bond Purchase Agreement between the Authority and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. Under the Bond Purchase Agreement, the Authority agrees to pay the Underwriter \$65,538 as compensation for its purchase of the Bonds. The Underwriter intends to offer the Bonds initially at the prices set forth on the cover of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering prices stated on the cover hereof. The Authority has agreed in the Bond Purchase Agreement to indemnify the Underwriter for certain liabilities, including liabilities under the federal and state securities laws.

MISCELLANEOUS

The foregoing does not purport to be comprehensive or definitive and all references to the documents summarized above or in Appendix A to this Official Statement are qualified in their entirety by reference to each such document. All references to the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of these documents are available for inspection during the period of the offering at the offices of the Underwriter in Minneapolis, Minnesota, and thereafter at the principal corporate trust office of the Trustee.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

This Official Statement has been duly approved, executed and delivered by the Authority. The Authority has furnished the information contained in this Official Statement (with the exception of the prices on the Bonds, the last paragraph on the cover of this Official Statement, the information under the heading "The Bonds—Book-Entry Only System" and the "Underwriting" section) and has represented the completeness and accuracy of such information.

HOUSING AND REDEVELOPMENT AUTHORITY
IN AND FOR THE CITY OF WILLMAR, MINNESOTA

By _____ /s/ Gary McDowell
Chair of the Board of Commissioners

APPENDIX A
DEFINITIONS AND SUMMARIES OF CERTAIN DOCUMENTS

DEFINITIONS

The following are definitions of certain terms used in this Official Statement.

Act: Minnesota Statutes, Sections 469.001 to 469.047, as the same now exist or may be hereafter amended or supplemented;

Adjusted Amount: for a fiscal year after 1994, an amount equal to (i) the "All Cities" annual average consumer price index released by the Bureau of Labor Statistics for the calendar year preceding such fiscal year, divided by (ii) the "All Cities" annual average consumer price index for the year 1993, multiplied by (iii) \$1,316.66.

Assignment of Rents: the Assignment of Rents and Leases, dated as of December 1, 1993, executed by the Authority in favor of the Trustee, and relating to the Project, as it may from time to time amended or supplemented in accordance with its terms and the terms of the Indenture;

Authority: the Housing and Redevelopment Authority In and For the City of Willmar, Minnesota, its successors and permitted assigns;

Authorized Officer: the Executive Director of the Authority or such other officer or officers of the Authority from time to time designated as the Authorized Officer with respect to the Bonds by resolution of the Authority;

Bondholder or Holder: the person in whose name a Bond is registered in the Bond Register;

Bond Redemption Fund: the fund by that name created by the Indenture;

Bond Reserve Requirement: as of the date of calculation, one-half of the maximum annual debt service on the Bonds in the current or any future calendar year;

Bonds: the Housing and Redevelopment Authority In and For the City of Willmar, Minnesota Multifamily Housing Revenue Bonds (Highland Apartments Section 8-Assisted Project), Series 1993;

Budget: the annual budget prepared by the Authority pursuant to the Indenture;

Business Day: any day other than a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the principal corporate trust office of the Trustee is located are authorized by law or executive order to close;

Cash Flow Projection: a projection as to future revenues and cash flow for the relevant period based on existing facts and, to the extent not so based, upon assumptions accepted by the Rating Agency and the following assumptions: (1) a 30-day lag in receipt of Revenues, (2) a one percent vacancy rate, (3) an annual investment rate of 4.00% on the Bond Reserve Requirement in the Debt Service Reserve Fund and no investment income on other funds held under the Indenture, (4) no inflationary increase in Revenues or Current Expenses; the foregoing assumptions may, pursuant to a supplemental indenture be replaced with or supplemented by such other reasonable assumptions as will not result in the withdrawal or reduction of the then-current rating of the Outstanding Bonds (see "The Indenture—Supplemental Indentures");

City: the City of Willmar, Minnesota;

Code or Internal Revenue Code: the Internal Revenue Code of 1986, as amended, and all applicable Treasury Regulations;

Collateral Documents: the Mortgage, the Pledge Agreement, the Assignment of Rents, the Servicing Agreement and any other documents or instruments securing payment of the Bonds;

Current Expenses: expenses of the Authority with respect to the Project incurred in its ordinary operations, but excluding any expenditures payable from the Maintenance and Replacement Fund and Trustee's and Servicer's fees and expenses;

Debt Service Coverage Ratio: for any period of calculation, the ratio (expressed as a percentage) of the Income Available for Debt Service for such period to the Maximum Annual Debt Service Requirement;

Debt Service Requirement: for any period of calculation, the aggregate of the payments to be made in respect of principal of and interest on all Outstanding Bonds during such period, giving effect to Mandatory Redemption Payments;

Debt Service Reserve Fund: the fund by that name created by the Indenture;

Dwelling Unit: dwelling accommodations for Eligible Tenants, which dwelling unit is the subject of the HAP Payments;

Eligible Tenants or Occupants: with respect to the Project, persons who qualify for housing assistance under Section 8 of the National Housing Act of 1937, as amended, in accordance with published standards of HUD;

Event of Default: any of the events defined as such in the Indenture;

Extraordinary Revenues: Net Proceeds, but such term shall not include use and occupancy insurance proceeds and rental loss insurance proceeds;

Fiscal Year: the 12-month period from January 1 to December 31;

Governmental Obligations: direct obligations of, or obligations the prompt payment of the principal of and interest on which is fully and unconditionally guaranteed by, the United States of America.

HAP Contract: the Housing Assistance Payments Contract, between the Authority and the MHFA, and approved by HUD with respect to Project No. MN46-H162--175, and all addenda thereto;

Holder or Bondholder: the Person in whose name a Bond is registered in the Bond Register;

Housing Assistance Payments or HAP Payments: those moneys payable under the HAP Contract with respect to each Dwelling Unit of the Project;

HUD: the United States Department of Housing and Urban Development, and its successors and assigns;

Income Available for Debt Service: with respect to the Project, for any period of calculation, the excess of Revenues (including investment income actually received on Special Funds) over the sum of Current Expenses and Trustee's and Servicer's fees and expenses, calculated on a cash basis;

Indenture: the Indenture of Trust by and between the Authority and the Trustee, as the same may from time to time be amended or supplemented as therein provided;

Independent Architect: any architect or firm of architects or engineer or firms of engineers designated by the Authority and approved by the Servicer and duly licensed in the State, who is not an employee or officer of the Authority;

Independent Counsel: any attorney designed by the Trustee, duly admitted to practice law before the highest court of any state, who may be counsel to the Authority but who may not be an officer or an employee of the Authority;

Insurance and Tax Escrow Fund: the fund by that name created by the Indenture;

Interest Payment Date: June 1 or December 1, commencing June 1, 1994;

Internal Revenue Code or Code: the Internal Revenue Code of 1986, as amended and all applicable Treasury Regulations;

Investment Agreement: the Investment Agreement, between the Trustee and Societe Generale, a French bank acting through its New York Branch, or any substitute investment agreement having substantially the same term and conditions and meeting the conditions of (e) under the definition of "Permitted Investments";

Maintenance and Replacement Fund: the fund by that name created by the Indenture;

Mandatory Redemption Payments: the payments which are required to be made to redeem Bonds in accordance with a Mandatory Redemption Schedule after appropriate credits, if any, have been made;

Mandatory Redemption Schedule: the mandatory redemption schedule for the Bonds set forth under "The Bonds—Redemption—Mandatory Sinking Fund Redemption" in this Official Statement;

Maximum Annual Debt Service Requirement: the highest Debt Service Requirement for the then current or any succeeding fiscal year;

Maturity Date: any date on which principal of or interest or premium, if any, on Bonds is due, whether at maturity, on an Interest Payment Date, or upon redemption or acceleration, or otherwise;

MHFA: the Minnesota Housing Finance Agency, and its successors and assigns;

Mortgage: the Combination Mortgage, Security Agreement and Fixture Financing Statement, dated as of December 1, 1993, from the Authority to the Trustee, as it may be supplemented or amended from time to time;

Net Proceeds: with respect to any insurance payment or condemnation award in respect of the Project, the amount (including earnings thereon) remaining after deduction of all expenses reasonably incurred by the Trustee or the Authority in the collection thereof, including but not limited to attorneys' fees, witness fees and any extraordinary expenses of the Trustee or the Authority in connection therewith;

Operating Fund: the fund by that name created by the Indenture;

Outstanding Bonds: as of the date of determination, all Bonds theretofore issued and delivered under the Indenture except:

(A) Bonds theretofore cancelled by the Trustee or Paying Agent or delivered to the Trustee or Paying Agent cancelled or for cancellation;

(B) Bonds for which payment or redemption moneys or Government Obligations shall have been theretofore deposited with the Trustee or Paying Agent in trust for the Holders of such Bonds; provided, however, that if such Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Indenture or irrevocable direction shall have been given to call such Bonds for redemption at a stated redemption date; and

(C) Bonds in exchange for or in lieu of which other Bonds shall have been issued and delivered pursuant to the Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Authority shall be disregarded and deemed not to be Outstanding Bonds, except that in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded;

Paying Agent: the Trustee or any other entity designated pursuant to the Indenture as the agent of the Authority and the Trustee to receive and disburse the principal of and premium, if any, and interest on the Bonds;

Payment Date: any date on which the principal or premium, if any, or interest on any Bonds is required to be paid;

Permitted Encumbrances: as of any particular time, the Mortgage, the Assignment of Rents, the Pledge Agreement and the following:

(a) liens for taxes, special assessments or payments in lieu of taxes not then delinquent or duly contested as permitted under the applicable Collateral Documents;

(b) utility, access and other easements and rights-of-way, building, zoning and subdivision ordinances and regulations and any other restrictions and exceptions that Independent Counsel or an Independent Architect certifies will not interfere with or impair the operation of or marketability of title to the Project (or, if it is not being operated, the operations for which it was designed and last modified);

(c) any mechanic's, laborer's, materialman's, supplier's or vendor's lien or right in respect thereof if payment is not yet due under the contract in question or is duly contested by the Authority as permitted under the applicable Collateral Documents; and

(d) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to properties similar in character to a Project and do not, in the Opinion of Bond Counsel or Opinion of Independent Counsel, materially impair the property affected thereby for the purpose for which it was acquired or is held or materially impair the marketability of title to such property;

Permitted Investments: any of the following:

(a) Governmental Obligations;

(b) shares of an investment company (1) registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, (2) whose only investments are in (i) Governmental Obligations, (ii) general obligation tax-exempt securities rated A or better by the Rating Agency, and (iii) repurchase agreements or reverse repurchase agreements fully collateralized by Government Obligations if the repurchase

agreements or reverse repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the 100 largest United States commercial banks, and (3) which are rated Am or Am-G or better by the Rating Agency;

(c) any security which is a general obligation of the State of Minnesota or any of its municipalities or in general obligations of other state and local governments with taxing powers which are rated at all times A or better by the Rating Agency;

(d) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated A-1 by the Rating Agency and matures in 270 days or less; or

(e) guaranteed investment contracts issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies or their Canadian or United States subsidiaries; provided that the investment contracts rank on a parity with the senior unsecured debt obligation of the issuer or guarantors and, (1) in the case of investment contracts of a term longer than one year, the long-term senior unsecured debt of the issuer or guarantor is rated, or obligations backed by letters of credit of the issuer or guarantor if forming the primary basis of a rating of such obligations would be rated by the Rating Agency, at least as high as the initial rating on the Bonds, or obligations backed by letters of credit of the issuer if forming the primary basis of a rating of such obligations would be rated by the Rating Agency at least as high as the initial rating on the Bonds, or (2) in the case of investment contracts of one year or less, the short-term unsecured credit of the issuer or guarantor if forming the primary basis for a rating of such obligations is rated in the highest short-term rating category of the Rating Agency; or

(f) the Investment Agreement;

Pledge Agreement: the Pledge Agreement, dated as of December 1, 1993, from the Authority to the Trustee, and approved by MHFA and HUD;

Principal and Interest Fund: the fund by that name created by the Indenture;

Principal Payment Date: June 1 and December 1 of each year, commencing June 1, 1994 and concluding June 1, 2019;

Project: the multifamily housing project known as Highland Apartments located on the land described in Exhibit A to the Mortgage, including the equipment and personal property used in connection therewith;

Project Fund: the fund by that name created by the Indenture;

Rating Agency: Standard & Poor's Rating Group or its successors;

Rebate Fund: the fund by that name created by the Indenture;

Reconstruction Fund: the fund by that name created by the Indenture;

Record Date: (i) the fifteenth (15th) day of the calendar month (whether or not a Business Day) immediately preceding an Interest Payment Date or (ii) if the Authority shall be in default in payment of interest due on such Interest Payment Date, a special record date for the payment of such defaulted interest established by notice mailed by the Trustee on behalf of the Authority; notice of such special Record Date shall be mailed not less than

fifteen (15) days preceding such special Record Date, to the Holder at the close of business on the fifth (5th) Business Day preceding the date of mailing;

Revenue Fund: the fund by that name created by the Indenture;

Revenues: all revenues and receipts derived by the Authority from the operation of the Project, including Housing Assistance Payments paid to or on behalf of the Authority pursuant to the HAP Contract, together with tenant rentals and all other moneys as may be paid to or on behalf of the Authority or to which the Authority may be entitled with respect to the project, excluding tenant security deposits, and all proceeds from use and occupancy insurance and rental loss insurance, including earnings on the foregoing; such term shall not include Extraordinary Revenues;

Servicer: Glaser Financial Group, Inc., or any successor appointed pursuant to the Indenture;

Servicing Agreement: the Servicing Agreement, dated as of December 1, 1993, between the Authority, the Trustee and the Servicer;

Special Funds: all of the funds created by the Indenture except the Rebate Fund;

State: the State of Minnesota;

Surplus Fund: the fund by that name created by the Indenture;

Trust Estate: the Trust Estate as defined and set forth in the Granting Clauses of the Indenture;

Trustee: First Trust National Association, in St. Paul, Minnesota, and any co-trustee or successor trustee appointed, qualified and then acting as such under the provisions of the Indenture;

Trustee's Fees: the annual fees payable to the Trustee with respect to the Bonds;

Underwriter: Dain Bosworth Incorporated, of Minneapolis, Minnesota; and

Unpaid Bonds: all Outstanding Bonds and any other Bonds which have neither matured nor been redeemed or purchased and cancelled under the Indenture.

THE INDENTURE

The following is a brief description of certain provisions contained in the Indenture. Other provisions of the Indenture are described in the earlier sections of this Official Statement, and definitions of terms used herein are as set forth in this Appendix A to this Official Statement or otherwise defined in this Official Statement. Neither the following description nor those descriptions contained elsewhere in this Official Statement are intended to be comprehensive or definitive. Reference is made to the Indenture for a complete recital of its terms.

Covenants Concerning HAP Contract and Occupancy

The Authority covenants and agrees to (i) comply with the terms and provisions of the HAP Contract; (ii) actively pursue renewal options or allow all automatic renewal options of the HAP Contract to go into effect automatically as provided therein and waive the right to cancel the HAP Contract to the extent necessary to keep the HAP Contract in force and effect while any Bonds are Outstanding; (iii) apply promptly for "Special Additional Adjustments," of "Contract Rents" under the HAP Contract to the extent that the Authority incurs increased actual

and necessary expenses of operating and maintaining the Project and is entitled to such adjustments; (iv) not consent to a modification or amendment of the HAP Contract without the prior written approval of the Trustee (any such approval to be granted if such modification or amendment does not, in the judgment of the Trustee, impair the security for the Bonds); and (v) operate the dwelling units in the Project exclusively for Eligible Tenants as that term is defined in the HAP Contract and in compliance with all HUD rules and regulations which are or may become applicable to the Project and to use its best efforts to keep the dwelling units in the Project occupied by Eligible Tenants in order to avoid any reduction in the Housing Assistance Payments payable under the HAP Contract.

Funds and Accounts

The following funds are created, and the moneys deposited therein shall be held by the Trustee in trust for the following purposes:

I. The Project Fund, into which \$3,401,744 of the proceeds of the Bonds shall be deposited, \$3,200,000 of which shall be used for the purpose of paying the purchase price of the Project, \$65,538 of which shall be paid to the Underwriter of the Bonds for its underwriting fee, and, at the direction of the Authority, up to \$136,206 of which shall be used for the payment of costs of issuing the Bonds and closing costs in connection with the purchase of the Project. Upon making such deposits and paying such costs, any remaining amounts on March 1, 1994, shall be paid to the Authority in payment of its administrative costs in connection with the Project and the issuance of the Bonds and shall not be subject to the lien of the Indenture or pledged to secure the payment of the Bonds.

II. The Revenue Fund, into which all Revenues shall be paid, shall from time to time be credited by the Trustee to the other funds and accounts as described in the Indenture. (See "Security of the Bonds; Flow of Funds—Pledge and Deposit of Revenues" in this Official Statement.)

III. The Principal and Interest Fund, into which from proceeds of the Bonds \$23,772 shall be deposited, and which shall be held by the Trustee for disbursal by the Trustee from time to time solely for the purpose of paying the principal of and interest on the Bonds as the same shall come due and payable (including redemption payments made in accordance with the Mandatory Redemption Schedule). All accrued interest received on the sale of the Bonds shall also be deposited in the Principal and Interest Fund.

IV. The Debt Service Reserve Fund, into which an amount equal to the initial Bond Reserve Requirement (\$142,330) shall be deposited from the proceeds of the Bonds, which shall be disbursed by the Trustee to the Principal and Interest Fund (a) on any Payment Date whenever a deficiency therein would otherwise exist, (b) on any Interest Payment Date when the amount on deposit exceeds the Bond Reserve Requirement, but only such excess amount, and (c) at the direction of the Authority at such time as the amount therein and in the Principal and Interest Fund, together with interest to accrue from the investment thereof shall be equal to the amount necessary to pay principal and interest on the Bonds to maturity.

V. The Insurance and Tax Escrow Fund, (which may be maintained by the Trustee as two separate accounts) from which the Trustee shall pay the premiums of all insurance on the Project required by the Indenture and the Mortgage and all taxes (or payments in lieu of taxes), assessments or governmental charges except utility services with respect to the Project.

VI. The Maintenance and Replacement Fund, into which \$158,000 from the proceeds of the Bonds shall be deposited, and which shall be used, upon written request of the Authority with the concurrence of the Servicer, for maintenance, repair and replacement which may be required at the Project, including but not limited to, replacement of equipment (including ranges and refrigerators), repair or replacement of any roof or other structural component of the Project, exterior painting and major repairs to or replacement of heating, air conditioning, plumbing and electrical systems. This Fund shall also be used to remedy any deficiency in the Principal and Interest Fund after exhaustion of the Debt Service Reserve Fund.

VII. The Operating Fund, into which \$8,836 from proceeds of the Bonds shall be deposited on the date of issuance of the Bonds, and which shall be disbursed to make monthly payments to the Authority for Current Expenses of operation of the Project pursuant to the requirements of its then current Budget.

VIII. The Surplus Fund, into which \$10,368 from proceeds of the Bonds shall be deposited on the date of issuance of the Bonds, and which shall receive any moneys not required to be disbursed to any other fund or account.

IX. The Bond Redemption Fund, which shall be held in escrow and disbursed by the Trustee solely for the purpose of paying the principal of and interest and redemption prices or premiums, if any, on the Bonds called for redemption in advance of maturity as provided in this Indenture (except for sinking fund redemption). Any moneys derived from optional prepayments made by the Authority from sources other than Revenues and Extraordinary Revenues may be transferred together with earnings thereon in the discretion of the Trustee to be held in special escrow in the Bond Redemption Fund for the payment of principal or interest and any premium on the Bonds.

X. The Reconstruction Fund, which shall be used for reconstruction or restoration following an event of damage, destruction or condemnation as provided in the Indenture.

XI. The Rebate Fund, which shall be used to facilitate compliance with the rebate requirement of the Code.

Investment of Special Funds

Moneys in the Special Funds shall be invested and reinvested by the Trustee in Permitted Investments at the written direction of the Authorized Officer, subject to the terms and conditions of the Indenture.

Other Covenants of the Authority

The Authority will agree that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Bonds to become includable in gross income for purposes of federal income taxation under the Internal Revenue Code and the applicable Treasury Regulations, and to take any and all actions within its powers to ensure that the interest on the Bonds will not become includable in gross income for purposes of federal income taxation under the Code and such Treasury Regulations.

The Authority will agree not to sell, transfer, assign, pledge or otherwise dispose of or encumber all or any part of its interest in the Project, the Collateral Documents or any Housing Assistance Payments it receives nor to assign, pledge or hypothecate (other than to the Trustee under the Indenture, the Mortgage, the Assignment of Rents or the Pledge Agreement) any Revenues or Extraordinary Revenues.

The Authority will agree to cause to be prepared within 120 days after the end of each fiscal year by an independent certified public accountant or firm of independent certified public accountants, an annual financial audit of the operation of the Project, which audit shall be furnished promptly to the Trustee, the Servicer, the Underwriter, the Rating Agency and HUD.

The Authority will agree to prepare, on or before the first day of each fiscal year, a Budget of anticipated Revenues and Current Expenses for such fiscal year, which is required to be approved by the Servicer, and to submit a copy of such Budget to HUD, the Rating Agency and the Trustee. To the extent reasonably possible, such Budget is to be prepared on the forms and in the manner required by HUD for low-rent housing projects financed under the United States Housing Act of 1937, as amended. During the course of a fiscal year, the Authority, with the written approval of the Servicer, may revise its Budget for said fiscal year by an amended Budget. The Issuer shall promptly submit a copy of such amended Budget to the Trustee, with a copy to the Underwriter.

The Authority will agree to maintain in force at all times the insurance coverage required under the terms of the Mortgage. (See "The Mortgage—Insurance.") In addition, the Authority will agree to comply, or cause compliance, with applicable workers' compensation laws of the State and to maintain, or cause to be maintained, the coverage required by such laws.

Damage, Destruction; Application of Net Proceeds

(a) If all or any part of the Project is damaged, destroyed or taken by condemnation and the Net Proceeds of the insurance claim or condemnation award do not exceed \$100,000, the Authority must repair and replace the Project. All of such Net Proceeds are to be deposited in the Reconstruction Fund and disbursed for such purpose as provided in the Indenture.

(b) If all or any part of the Project is damaged, destroyed or taken by condemnation and the Net Proceeds of the insurance claim or condemnation award exceed \$100,000, the Authority must direct redemption of Bonds in whole or in part, subject to the option of the Authority to repair and replace the Project. All of such Net Proceeds are to be deposited in the Project Fund, awaiting further disbursement to the Bond Redemption Fund or the Reconstruction Fund, as hereinafter described.

In order to exercise its option to repair and replace the Project, the Authority must deliver to the Trustee within 120 days after the receipt of such Net Proceeds, the following:

(1) a certificate of an Authority Representative, stating: (A) no Event of Default under the Indenture has occurred and is continuing and no event which, with the giving of notice or the lapsing of time, or both, would constitute such an Event of Default has occurred; (B) specifying the expenditures to be made and any indebtedness to be incurred in connection with such repair and replacement and stating that such Net Proceeds, together with amounts on hand in the Maintenance and Replacement Fund and any other amounts then provided to the Trustee by the Authority and legally available therefor, will be sufficient to pay all costs of such repair and replacement; and (C) the repair and replacement of the Project are expected to be completed and the Project available for occupancy so as to produce Revenues, including the proceeds of any business interruption insurance, sufficient to provide Income Available for Debt Service to pay Debt Service Requirements through the fiscal year after the fiscal year in which the repair and replacement of the Project is estimated to be completed;

(2) a certificate of an Independent Architect confirming in his opinion the amounts and natures of the expenditures to be made in the repair and replacement of the Project and the completion date of the Project, as set forth in the certificate of the Authority Representative; and

(3) the written consent of the Servicer to the election of the Authority to undertake the repair and replacement of the Project.

The Authority shall have the option to direct the Authority to call less than all of the Bonds for redemption, in a principal amount not greater than the Net Proceeds of the insurance claim or condemnation award, if part of the Project is taken by eminent domain or destroyed or damaged, the Authority does not elect to rebuild and the Authority presents to the Trustee, within 120 days after the receipt of such Net Proceeds, (i) a Cash Flow Projection, prepared by the Authority and approved by the Servicer, projecting the sufficiency of the Income Available for Debt Service for each of the succeeding fiscal years will not be less than the Debt Service Requirement in such fiscal year, excluding from the Debt Service Requirement the principal of and interest on the Outstanding Bonds to be called for redemption, and (ii) a certificate of an Authority Representative, stating that no Event of Default under the Indenture has occurred and is continuing and no event which, with the giving of notice or the lapsing of time, or both, would constitute such an Event of Default has occurred.

(c) If the Authority undertakes the repair and replacement of the Project, the Net Proceeds of the insurance claim or condemnation award shall be transferred to the Reconstruction Fund and applied to costs of the repair and replacement as provided in the Indenture. Any excess of Net Proceeds remaining after payment of costs of repair and replacement of the Project will be transferred to the Maintenance and Replacement Fund, if and to the extent the balance on hand in the Maintenance and Replacement Fund is less than the Maintenance Reserve Requirement, and otherwise to the Surplus Fund. If Net Proceeds are to be applied to the redemption of Bonds, they shall be deposited in the Bond Redemption Fund.

(d) Any proceeds of title insurance with respect to the Project shall, first, be used to remedy any title defect resulting in the payment thereof and, second, be deposited in the Bond Redemption Fund to be applied to the redemption of Bonds. If any such proceeds are to be applied to the redemption of Bonds and the Authority delivers to the Trustee within 120 days after the receipt of such proceeds, a certificate of an Authority representative certifying that such title defect to the extent not remedied does not materially impair the market value or the revenue-producing capability of the Project, and a certificate of the Servicer confirming such certifications, the Bonds so to be redeemed shall be selected from each stated maturity of Outstanding Bonds (in multiples of \$5,000) in, as nearly as practicable, the same proportion as the aggregate principal amount of Outstanding Bonds of such stated maturity bears to the aggregate principal amount of all Outstanding Bonds, and, within a stated maturity, in \$5,000 principal amounts selected by lot or other manner deemed fair by the Trustee. If the Authority fails to deliver such documents to the Trustee by such date, all Outstanding Bonds shall be redeemed in a principal amount not greater than the proceeds of the title insurance deposited in the Bond Redemption Fund, and, if not all Outstanding Bonds cannot be redeemed therefrom, then all Outstanding Bonds are to be redeemed in part, in proportion to the principal amounts thereof, notwithstanding that such redemption may result in denominations of Bonds other than multiples of \$5,000.

Defeasance

The Authority may provide for the defeasance of the Bonds by depositing with the Paying Agent cash which shall be sufficient, or with the Trustee cash and/or Government Obligations, which do not permit the redemption thereof at the option of the Authority thereof, the principal of, premium, if any, and interest on which when due (or upon the redemption thereof at the option of the holder), will, without reinvestment, provide cash which together with the cash, if any, deposited with the Trustee at the same time, shall be sufficient, to pay and discharge the entire indebtedness on such Bonds not theretofore cancelled by the Trustee or delivered to the Trustee for cancellation by the payment of interest on and principal (and premium, if any) of such Bonds which have become due and payable or which shall become due at their stated maturity or redemption date, as the case may be, and which are to be discharged under the provisions hereof, and making arrangements satisfactory to the Trustee for the giving of notice of redemption, if any, by the Trustee in the name, and at the expense, of the Authority, and complying with certain other conditions of the Indenture. In such event, the rights of the Bondholders shall be limited to the cash or cash and securities deposited as provided above.

Events of Default

Any of the following events is defined as and declared to be and to constitute an Event of Default (whatever the reason for such an Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) If default shall be made in the due and punctual payment of any interest on any Outstanding Bond secured by the Indenture; or

(2) If default shall be made in the due and punctual payment of the principal of any Outstanding Bond, whether at the stated maturity thereof or at the date fixed for redemption thereof, or upon the maturity thereof by declaration, plus redemption premium, if any; or

(3) If default shall be made in the due and punctual payment of any other moneys required to be paid to the Trustee for deposit in the Principal and Interest Fund under the provisions of the Indenture and such default shall have continued for a period of five (5) days after written notice thereof, specifying such default, shall have been given by the Trustee to the Authority or to the Authority and the Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the then Outstanding Bonds; or

(4) If default shall be made in the due and punctual payment of any other moneys required to be paid to the Trustee under the provisions of the Indenture and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default, shall have been given by the Trustee to the Authority or to the Authority and the Trustee by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the then Outstanding Bonds; or

(5) If default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority contained in the Indenture or in the Bonds, and such default shall have continued for a period of thirty (30) days after written notice there on the manner provided in clause (3) above; or

(6) If default shall be made in the performance or observance of any other of the covenants, agreements or conditions on the part of the Authority contained in any of the Collateral Documents, after any giving of notice or passage of time provided for therein; or

(7) The filing of a petition in bankruptcy by or against the Authority under the United States Bankruptcy Code, or failure by the Authority within thirty (30) days to have discharged any execution, garnishment or attachment of such consequence as would impair the ability of the Authority to carry on its operations, or assignment by the Authority for the benefit of creditors, or the entry by the Authority into an agreement of composition with creditors or the failure generally by the Authority to pay its debts as they become due; or

(8) The HAP Contract shall be terminated or any Housing Assistance Payments thereunder are abated or suspended.

Acceleration

Upon the occurrence of an Event of Default under (1) or (2) above, the Trustee may by notice in writing delivered to the Authority, declare the principal of all of the then Outstanding Bonds and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable at the place of payment provided in the Bonds, anything in the Indenture or in the Bonds to the contrary notwithstanding. Upon the occurrence of any other Event of Default, the Trustee, but only (i) with the consent of the Holders of one hundred percent (100%) in aggregate principal amount of the then Outstanding Bonds, or (ii) if funds are on deposit in the Special Funds sufficient to pay principal of the Bonds in full together with accrued interest thereon and to pay fees and expenses due to date, may by notice in writing delivered to the Authority, declare the principal of all of the then Outstanding Bonds and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable at the place of payment provided in the Bonds, anything in the Indenture or in the Bonds to the contrary notwithstanding.

Other Remedies, Direction of Proceeding by Bondholders

Upon the occurrence of an Event of Default, the Trustee may proceed to pursue any available remedy by suit at law or in equity to enforce all rights of the Bondholders, including without limitation the right to the payment of the principal or premium, if any, and interest on the then Outstanding Bonds.

The Holders of 51% in aggregate principal amount of the then Outstanding Bonds shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and

place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Rights and Remedies of Holders

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust thereof or any remedy thereunder or for the appointment of a receiver, unless: (i) a default thereunder shall have become an Event of Default and the Holders of twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers hereunder granted or to institute such action, suit or proceeding in its own name; (ii) such Holders shall have offered to indemnify the Trustee; and (iii) the Trustee shall thereafter fail or refuse to exercise within a reasonable period of time the remedies granted under the Indenture, or to institute such action, suit or proceeding in its own name.

Waiver of an Event of Default

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of maturity or principal, and shall do so upon written request of the Holders of (1) not less than 51% in aggregate principal amount of all the Bonds then Outstanding with respect to which default in the payment of principal, premium, and interest, or any of them, exists, or (2) not less than 51% in aggregate principal amount of all the Bonds then Outstanding in the case of any other Event of Default; provided, however, that there shall not be waived (A) any Event of Default in the payment of the principal of or premium on any Outstanding Bonds on the redemption date or at the date of maturity specified therein or (B) any Event of Default in the payment when due of the interest on any such Bonds, unless prior to such waiver all arrearages of interest, principal and premium, if any, with interest (to the extent permitted by law) at the rate borne by the Bonds with respect to which such Event of Default shall have occurred, and all expenses of the Trustee and Paying Agent in connection with such Event of Default shall have been paid or provided for.

Supplemental Indentures

The Authority and the Trustee may, from time to time and at any time, without the consent of, or notice to, any of the Holders, enter into an indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions thereof, so as to thereby (1) cure any ambiguity or formal defect or omission in the Indenture or in any supplemental indenture, (2) grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Trustee, (3) more precisely identify the Trust Estate, or any other property which may become a part of the Trust Estate, (4) subject to the lien and pledge of the Indenture additional revenues, properties or collateral, (5) evidence the appointment of a separate trustee or a co-trustee or the succession of a new Trustee and/or Paying Agent hereunder, (6) modify, eliminate and/or add to the provisions of the Indenture to such extent as shall be necessary to prevent any interest on the Bonds from becoming taxable under the Federal income tax laws (7) make any other change which is required by any provision of the Indenture, (8) make any change necessary to maintain an "A" rating for the Bonds from the Rating Agency, (9) amend the assumptions contained in the definition of "Cash Flow Projection" (upon receipt by the Trustee from the Rating Agency of written confirmation that the outstanding rating on the Outstanding Bonds will not be reduced or withdrawn as a result of such amendment), or (10) make any other change which in the judgment of the Trustee is necessary or desirable and will not materially prejudice any non-consenting Holder of a Bond.

Exclusive of supplemental indentures covered in the paragraph above, the Trustee, upon receipt of an instrument evidencing the consent to a supplemental indenture by the Holders of not less than 51% of the aggregate principal amount of the then Outstanding Bonds, shall join with the Authority in the execution of such other

indenture or indentures supplemental to the Indenture as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided, however, that no supplemental indenture shall be entered into without the consent of the Holders of all Bonds adversely affected thereby which would permit: (1) an extension of the maturity of the principal or of the interest or the mandatory purchase date on any Bond, or (2) a reduction in the principal amount of any Bond or the rate of interest thereon, or (3) a privilege or property of any Bond or Bonds over any other Bond or Bonds except as may be otherwise expressly provided in the Indenture, or (4) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental indenture, or (5) modifying any of the provisions of this paragraph.

Amendment of Collateral Documents

The Collateral Documents may be amended only with the written consent of the Trustee. Pursuant to the provisions of the Indenture, the consent of the Holders of not less than 51% of the principal amount of all Bonds then Outstanding is also required for any such amendment of any of the Collateral Documents, except for amendments, changes or modifications (1) required by the provisions of any of the Collateral Documents or the Indenture, (2) for the purpose of curing any ambiguity or formal defect or omission, (3) so as to more precisely identify additional property which may be acquired or to substitute or add additional items of property supplied for the Project pursuant to the Indenture or the Mortgage, (4) to add to the covenants of the Authority or to surrender any right or power conferred upon the Authority, or (5) in connection with any other change therein which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Holders of Outstanding Bonds. Such amendments, changes or modifications may be made without notice to or the consent of the Holders of any Bonds.

THE PLEDGE AGREEMENT

The following is a brief description of certain provisions contained in the Pledge Agreement. Other provisions of the Pledge Agreement are described in the earlier sections of this Official Statement, and definitions or terms used herein are as set forth in this Appendix A to this Official Statement or otherwise defined in this Official Statement. Neither the following description nor those descriptions contained elsewhere in this Official Statement are intended to be comprehensive or definitive. Reference is made to the Pledge Agreement for a complete recital of its terms.

Pursuant to the Pledge Agreement between the Authority and the Trustee, the Authority will pledge all of its rights against the MHFA under the HAP Contract, and all of its rights against HUD under the ACC Contract, as security for the performance of the Authority's obligations under the Bonds, the Indenture and related documents. In addition, in the Pledge Agreement the Authority irrevocably will instruct the MHFA to make all Housing Assistance Payments directly to the Trustee unless and until the Trustee provides written instructions to the contrary to the MHFA. The Authority will covenant with the Trustee in the Pledge Agreement that the Authority will (i) not, while any Bonds remain unpaid or any of its other obligations under the Bonds, the Indenture or related documents remain unsatisfied, give a notice to terminate the HAP Contract so that the Contract may remain in effect for the maximum term; (ii) take all actions necessary, in a timely manner, to qualify for Contract Rent adjustments under the HAP Contract; (iii) perform all of its obligations, and exercise all of its rights, under the HAP Contract and the ACC Contract, so as to secure the optimum benefits therefrom; and (iv) not amend or modify the HAP Contract or the ACC Contract in any way without the written consent of Trustee.

The MHFA will acknowledge and approve the Pledge Agreement in writing and will (i) agree to make all Housing Assistance Payments directly to the Trustee unless and until Trustee provides written instructions to the contrary to MHFA, and (ii) acknowledge that the Authority and the Trustee have agreed that any notice of termination or desire not to renew the HAP Contract requires the execution of such notification by both the Authority and the Trustee.

THE MORTGAGE

The following is a brief description of certain provisions contained in the Mortgage. Other provisions of the Mortgage are described in the earlier sections of this Official Statement, and definitions or terms used herein are as set forth in this Appendix A to this Official Statement or otherwise defined in this Official Statement. Neither the following description nor those descriptions contained elsewhere in this Official Statement are intended to be comprehensive or definitive. Reference is made to the Mortgage for a complete recital of its terms.

Grant of Security

Pursuant to the Indenture and the Mortgage, the Authority grants to the Trustee as security for the Bonds, a mortgage on and security interest in the following:

(1) the real property which is the site of the Project;

(2) the Authority's right to all buildings, improvements, personal property, fixtures, fittings and furnishings owned by the Authority and attached to, located at or placed in such real property, as well as renewals, replacements, proceeds, additions, accessories, increases, parts fittings, insurance payments, awards and substitutes thereof;

(3) all rents, income, contract rights, leases and profits due under or by virtue of any lease, license or agreement for the use or occupancy of the mortgaged property or any part thereof, together with all tenant security deposits; and

(4) all awards, compensation and settlements in lieu thereof made as a result of the taking by power of eminent domain of the whole or any part of the mortgaged property, including any awards for damages sustained to the mortgaged property, for a temporary taking, change of grade of streets or taking of access.

General Covenants

The Authority agrees, among other things, that:

-- It will duly and punctually pay all indebtedness secured by the Mortgage from time to time and the interest thereon when and as due and payable and will punctually perform and observe all of its obligations and covenants under the Indenture in accordance with the terms thereof.

-- Subject to its right to contest such amounts, it will:

(a) pay before a penalty attaches for nonpayment thereof, all taxes, or payments in lieu of taxes, and assessments and all other charges whatsoever levied upon or assessed or placed against the mortgaged property;

(b) pay any and all governmental levies or assessments, such as maintenance charges, owner association dues or charges or fees, levies or charges resulting from covenants, conditions and restrictions affecting the mortgaged property, which are assessed or imposed upon the mortgaged property or become due and payable and which create, may create or appear to create a lien upon the mortgaged property; and

(c) pay all taxes, or payments in lieu of taxes, assessments and other charges levied upon or assessed, placed or made against, or measured by, such Mortgage or the recordation thereof or the Bonds secured thereby.

-- Subject to its rights to contest such amounts, it will pay all charges made by utility companies, whether public or private, for electricity, gas, heat, water or sewer, furnished or used in connection with the mortgaged property.

-- Subject to its right to contest such encumbrances:

(a) the Authority shall not create, incur or suffer to exist any lien, encumbrance or charge on the mortgaged property or any part thereof except Permitted Encumbrances; and

(b) the Authority shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the mortgaged property.

The Authority shall not be required to (i) pay any tax, payment in lieu of taxes, assessment or other charge, (ii) pay any utility charges, (iii) discharge or remove any lien, encumbrance or charge, or (iv) comply with any statute, law, rule, regulations, ordinance or encumbrance, so long as the Authority shall (a) contest, in good faith, the existence, amount or the validity thereof, the amount of damages caused thereby or the extent of its liability therefor, by appropriate proceedings which shall operate during the pendency thereof to prevent (A) the collection of, or other realization upon, the tax, payment in lieu of tax, assessment, charge or lien, encumbrance or charge so contested, (B) the sale, forfeiture or loss of the mortgaged property or any part thereof, and (C) any interference with the use or occupancy of the mortgaged property or any part thereof and (b) shall give such security to the Trustee as may be reasonably demanded by the Trustee.

Insurance

The Authority, at its sole cost and expense, shall maintain insurance against the following risks in at least the following amounts:

(i) Insurance against loss or damage by fire and lightning, upon a repair or replacement basis if available, and otherwise to the full insurable value of the Project, but in any event not less than the principal amount of Bonds Outstanding less the balance on deposit in the Debt Service Reserve Fund at the time such policy is in effect, with deductible provisions not to exceed \$2,000 for any one casualty, and with uniform standard extended coverage endorsement limited only as may be provided in the standard form of extended coverage endorsement at the time in use in the State;

(ii) Boiler explosion insurance on all boilers, pressure vessels and pressure piping in the Project in an amount not less than the repair or replacement cost with coverage for bodily injury and a consequential damage endorsement, if available, to the extent those risks shall not be covered by the insurance described in subsection (iv) hereof, and with a business interruption endorsement to the extent that the risk is not covered by the insurance described in subsection (iii) hereof;

(iii) Business interruption or use and occupancy insurance on the Project in an amount equal to the prior fiscal year's Revenues;

(iv) A comprehensive general public liability insurance policy or policies against all direct or contingent loss or liability for property damage, personal injury, or death occasioned by reasons of the premises, with a maximum single limit liability of not less than \$500,000 for personal injury or death arising from a single accident or event, and \$50,000 for a single occurrence of property damage;

(v) Flood insurance to the extent required by HUD; and

(vi) Hazard insurance, to the extent required by HUD under the HAP Contract.

All insurance policies are to name the Authority and the Trustee as insureds as their respective interests may appear, having standard loss payable clauses in favor of the Trustee, and all policies are to be deposited with the Trustee. All insurance policies are to be issued by insurance companies with a long-term claims paying ability rating by Standard & Poor's Rating Group of BBB or higher.

Preservation of Mortgaged Property

The Authority is required to (i) keep the buildings and other improvements which are part of the mortgaged property in safe and good repair and condition, ordinary wear and tear excepted; (ii) upon damage to or destruction of the related mortgaged property or any part thereof, to restore, repair, replace or rebuild the mortgaged property to the extent required in the Indenture; (iii) maintain the parking and landscaped areas of the Mortgaged property; (iv) not commit waste or permit impairment or deterioration of the mortgaged property; (v) not alter or permit the alteration of the mortgaged property if such alteration would impair the value of the mortgaged property, its structural integrity or use; and (vi) not remove from the property any of the fixtures included in the mortgaged property with a value of \$5,000 or more unless the same is immediately replaced with property of at least equal value and utility; provided, however, that the Authority shall have the continuing right to release property subject to certain provisions of the Mortgage.

ASSIGNMENT OF RENTS

The following is a brief description of certain provisions contained in the Assignment of Rents. Other provisions of the Assignment of Rents are described in the earlier sections of this Official Statement, and definitions or terms used herein are as set forth in this Appendix A to this Official Statement or otherwise defined in this Official Statement. Neither the following description nor those descriptions contained elsewhere in this Official Statement are intended to be comprehensive or definitive. Reference is made to the Assignment of Rents for a complete recital of its terms.

The Authority will grant, transfer and assign to the Trustee, its successors and assigns, all of its right, title and interest in and to all leases, licenses or other agreements concerning possession of all or any part of the Project, together with any and all security deposits made thereunder and all extensions, modifications and renewals of any thereof and any guaranties of the tenants' obligations under any thereof. The Authority will further grant, transfer and assign to the Trustee all of the rents, revenues, issues and profits now or hereafter accruing or owing from such leases and the Project or any part thereof, whether occurring before or after foreclosure of the Mortgage or during the period of redemption thereof. All of said leases and rentals are granted, transferred and assigned for the purpose of securing payment of all indebtedness evidenced by the Bonds and all other sums payable pursuant to the Bonds, the Indenture, the Mortgage or the Assignment of Rents, and performance and discharge of each and every obligation, covenant and agreement of the Authority contained in the Bonds, the Indenture, the Mortgage and the Assignment of Rents.

Upon or at any time during the continuance of a default by the Authority under the obligations secured by the Assignment of Rents and subject to applicable law, the Trustee may, at its option and without further notice, enter upon, manage and operate the Project, and may make, enforce, modify or accept surrender of the leases, obtain or evict tenants, fix, collect and modify rentals and perform any other acts that may be necessary or proper to protect the security of the Assignment of Rents. The Trustee may also, upon such a default, apply for the appointment of a receiver of the Project, whether or not proceedings for the foreclosure of the Mortgage have been commenced and whether or not a foreclosure sale has occurred.

