STABILITY DURING CHANGING TIMES.

PENNSYLVANIA HOUSING FINANCE AGENCY ANNUAL REPORT 2009 AND 2010

Contents

"I have been dealing with PHFA for over 17 years and your programs have really allowed me to help buyers and are also a pleasure to use."

–Dan Carnation
Boulevard Mortgage Company

Pictured at right on page 3:
Phase two of **Pheasant Hill Estates, Dauphin County,** *provides 48 units of affordable, attractive housing for older Pennsylvanians, age 62 and above. Four of the units are designed to be accessible by residents with physical challenges.*

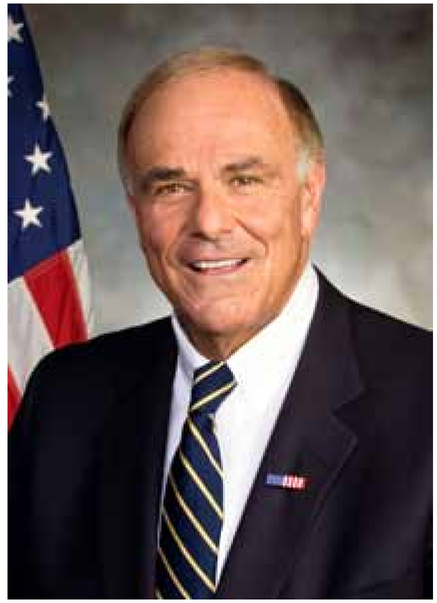
Pictured at right on page 4:
Crawford Square, Hill District, Pittsburgh, *provides 348 units of housing for people of various ages and income levels, including 19 units for residents with physical challenges.*

PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

Our mission

In order to make the Commonwealth a better place to live while fostering community and economic development, the Pennsylvania Housing Finance Agency provides the capital for decent, safe, and affordable homes and apartments for older adults, persons of modest means, and those with special housing needs.

A Message from the Governor Edward G. Rendell



From my vantage point as Governor, the Pennsylvania Housing Finance Agency serves at least two key functions that benefit our state and its residents.

First, it provides expanded affordable housing options for Pennsylvania families. For some, that may mean a safe and clean apartment in a well-run multifamily building. For others, PHFA provides the competitive mortgage and closing cost assistance they need to achieve their dream of homeownership. Housing is such a basic need that we must work to ensure the state's residents have access to rental and ownership opportunities that are right for their needs and their wallets.

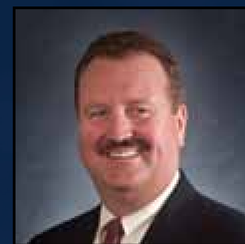
Second, PHFA promotes economic development across Pennsylvania. When the agency awards funding and federal tax credits for multifamily developments, it stimulates new construction or existing building rehabilitation that produces good-paying jobs for construction workers. Also, when PHFA helps an individual or family purchase their first home, it starts a positive economic ripple effect throughout that local community. Real estate agents, home inspectors, hardware shops, furniture stores, appliance dealers and others all get new business.

Both these responsibilities are essential to our state's residents and our state's economic health. I'm pleased to say that, as one of the leading housing finance agencies in the nation, PHFA excels in this vital role. Especially during the challenging times of the past two years, the agency has been vitally important for bringing stability to the state's housing market, which benefits all our citizens.

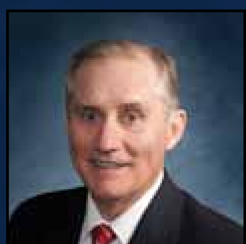
Board of Directors

The Board of Directors of the Pennsylvania Housing Finance Agency

The Honorable
Steven Kaplan



Gary E. Lenker



The Honorable
Austin J. Burke

Morris J. Dean, Esq.

The Honorable
Harriet Dichter

Noel Eisenstat

Lisa R. Gaffney

Thomas B. Hagen

The Honorable
Robert M. McCord

James J. Mellow

Jeremy Nowak

John Paone

Mark Schwartz, Esq.

Howard B. Slaughter, Jr.,
D.Sc.

Highlights
2009 and 2010

- PHFA received more than $320 million in funds from the federal American Recovery and Reinvestment Act (ARRA) of 2009 for the development of rental housing projects throughout Pennsylvania. During the last year, 60 developments consisting of more than 3,000 rental units began construction throughout Pennsylvania using these ARRA funds.

- During fiscal year 2010, PHFA received 85 proposals from organizations seeking agency funding for potential multifamily developments in Pennsylvania. This reflects a significant increase from the 65-to-70 proposals normally submitted. In mid-2010, PHFA announced the winning proposals for 28 multifamily developments statewide receiving $38 million in agency funding and federal tax credits. When completed, these construction projects will provide an additional 1,201 housing units for Pennsylvania residents.

- Each year, PHFA monitors and ensures the successful management of more than 2,030 multifamily properties consisting of more than 118,200 units for compliance with various federal and state housing programs.

- More than 7,500 Pennsylvania households were able to purchase homes with PHFA loans during fiscal year 2010, with more than half of them receiving closing-cost and down-payment assistance. This high volume of home loans is a record for the agency.

- During fiscal years 2009 and 2010, demand for assistance from PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) was the highest ever in its 27 years of existence. HEMAP received more than 27,000 applications from Pennsylvania homeowners in danger of foreclosure, representing a 25 percent increase over the previous two-year period.

- Since its inception, HEMAP has received more than $255 million in loan repayments from the homeowners it's assisted. This is more than 55 percent of the money loaned, which is a testament to the disciplined management of the program.

- In the summer of 2010, the federal government identified Pennsylvania's HEMAP program as a helpful model to address the nation's continuing foreclosure challenge caused by the slowed economy. As a result, the 10 states with the most severe foreclosure issues received federal funding to develop emergency assistance programs similar to HEMAP – reflecting national recognition of the program's long success.

- As the demand for homeownership counseling has increased, the PHFA Comprehensive Housing Counseling Initiative (CHCI) has educated and helped a record numbers of consumers, serving more than 26,000 Pennsylvania residents during fiscal years 2009 and 2010.

- Since the 2008 launch of the National Foreclosure Mitigation Counseling Program, PHFA has been awarded more than $18 million in competitive grant funding to provide foreclosure intervention counseling. PHFA's 2009-2010 allocation of funding from this program is one of the highest awarded to a housing finance agency, reflecting the success of PHFA's counseling program.

- During the last two years, PHFA's Foreclosure Mitigation Counseling Initiative (FMCI) provided 28,483 Pennsylvania homeowners with valuable advice to help save their homes from foreclosure and make their mortgages more affordable.

Stability During Changing Times

When I tell you nothing's changed at PHFA, you might, at first read, take that as a negative. But it's not. In fact, quite the opposite is true.

During the last two years, we've seen instability touch our lives in many ways. Those of us with retirement accounts have seen our stocks and mutual funds shudder from the market's retreat. Most likely, each of us has had a friend or neighbor whose job has been lost or restructured as companies tightened up their workforce. Consumer purchases are down, reflecting people's weakened confidence in the economy.

Yes, that's all true. But it's all the more reason why it's vitally important PHFA didn't change during that time. Sure, we've added new programs and services aimed at meeting the varied housing needs of Pennsylvanians. Plus, you can be certain we've revamped old programs that were no longer relevant and adjusted existing programs to respond to the evolving marketplace of the new millennium.

Nevertheless, what's most important are the things we didn't change.

At PHFA, the vast majority of our funding comes from our own investments through the selling of public bonds. As a result, at a time when markets are down, it's been more important than ever that we stick to our disciplined approach to money management so that we have the financial resources necessary to continue our essential mission to the state's citizens.

It's also been important we not waiver from our philosophy of offering financial products for homeownership based on sound underwriting principles and a long-term perspective. Or that we not change our established process for funding multifamily developments. Our firmly grounded approach to housing investments has not been tattered by shifting economic winds. Instead, their reasonableness has passed the test of time and, as a result, we continue to stand ready to help Pennsylvanians meet their housing needs.

PHFA remains a viable resource for our customers in need of affordable housing options because we continue to manage the agency in a manner that promotes stability in our internal operations and in the state's housing markets. We take seriously our charge to help low- and moderate-income families meet their housing needs, and we assure the state's residents that, when you need us, we'll still be here with products and services adapted to these changing times.

Yes, we've innovated and adapted during the past two years. But on all that matters most, we're the same PHFA upon which you've come to rely.

Brian A. Hudson

Brian A. Hudson, Sr.,
Executive Director and CEO

Multifamily Housing Programs

As many families during the last two years were looking in different locales to find a place to call home, few new affordable rental communities were opening their doors. This period of time has seen a combination of factors in play described by some in the affordable housing field as the "perfect storm" – tougher lending standards for buying a house, homeowners losing their dwellings to foreclosure, and limited affordable rental opportunities. Much of the focus during this time period has been on the housing market, buyers and sellers, builders and bankers. But a similar story can be told for rental housing.

During the last 20 years, PHFA has funded more than 83,000 units of rental housing in Pennsylvania through a number of its multifamily programs. With the downward slide of financial markets that began during the fall of 2008, there was little or no interest in investing in affordable rental housing. As a result, the building or rehabilitation of most rental housing in Pennsylvania came to halt.

The Positive Impact of Federal Funding

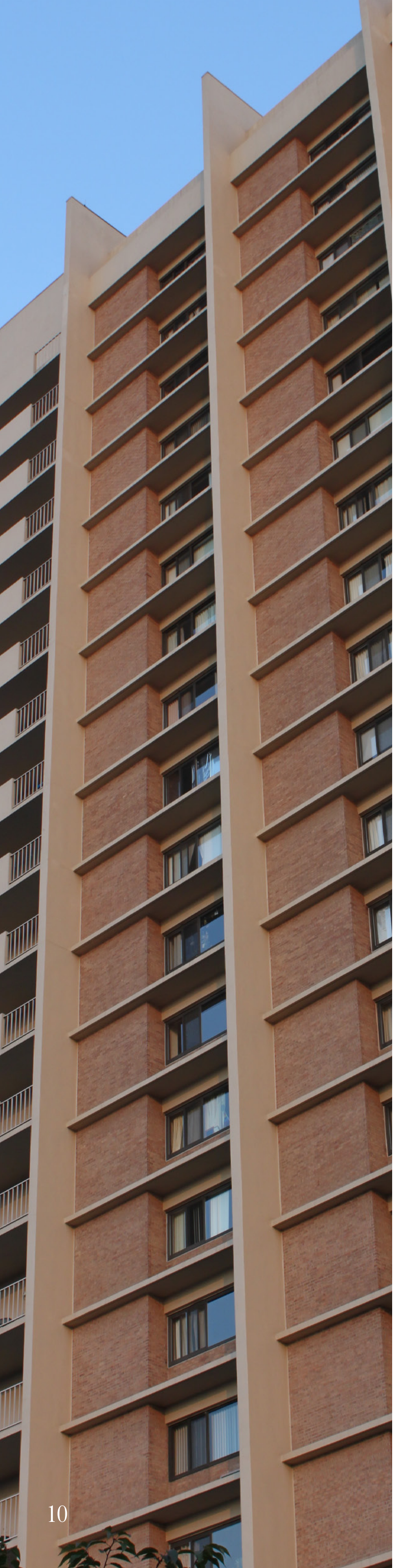
Fortunately, the story does not end here. With the passage of the American Recovery and Reinvestment Act of 2009 (ARRA), PHFA received more than $320 million in funds for the development of "shovel-ready" rental housing projects throughout Pennsylvania. Time was of the essence for investing these funds; the agency had strict timelines to meet, so PHFA made awards to developments that could get "in the ground" with little delay. The first of these projects started construction in August 2009. By the numbers, it's a great success story. During the last year, 60 developments consisting of more than 3,000 rental units have been under construction throughout Pennsylvania using ARRA funds. It's rewarding to see families start moving into these new residences.

But a roof over people's heads is not sufficient. The agency is committed to the long-term success of its properties in order to ensure that residents have a place to call home. To this end, PHFA is creating ways to reduce energy consumption and address the escalating cost of utilities through the forward-thinking Preservation through Smart Rehab Program. Through this program, funding is being made available to retrofit buildings and make them more energy efficient. To date, more than 185 properties are participating in this program.

More than Simply Bricks and Mortar

At the end of the day, what would housing be without the residents? All PHFA developments provide a number of supportive services to their tenants. Developments are encouraged to partner with local agencies to provide helpful and needed services, including health and

Presbyterian Apartments in downtown Harrisburg was selected as PHFA's first recipient of Preservation through Smart Rehab funding. This program seeks to extend the usefulness of existing multifamily housing by upgrading their energy efficiency, thereby making them more cost effective to operate and keeping rent affordable for residents. The building was developed in 1960 and contains 165 units of mixed-income senior housing on 23 floors.



wellness programs, after-school activities, counseling, and job training and transportation opportunities. In order to achieve these program goals, PHFA has collaborated with state, local and private entities to build the necessary funding support. One such partnership, for instance, is between the Commonwealth's Department of Public Welfare, the Self-Determination Project of Pennsylvania and PHFA. Through this initiative, technical assistance, outreach, education, and coordination between service providers and housing providers is being made available during more than 80 workshops conducted for residents each year. One especially significant program worth noting that is being offered through this initiative is the Prepared Renters Program, or PREP, which helps people become successful renters.

Pennsylvania Affordable Apartment Locator (PAL).

As PHFA continues to offer Commonwealth residents opportunities to access affordable rental housing, the agency has streamlined a number of its reporting and data systems. For example, we have enhanced the Pennsylvania Affordable Apartment Locator (PAL), a Web-based search engine that provides users with the latest information on available rental units in communities around the state.

Enhancements to Data Management Systems

PHFA continues to find ways to better manage our information systems and to assist owners and property management agents assessing the ongoing needs of developments. Each year, the agency monitors and ensures the successful management of more than 2,030 properties consisting of more than 118,200 units for compliance with various housing programs, which include those funded by the federal Department of Housing and Urban Development, the federal Low Income Housing Tax Credit program (LIHTC), and the Commonwealth's Department of Community and Economic Development. In 2009, the agency updated a number of its information technology systems so owners of multifamily buildings can now report tenant and operating data online and have up-to-the-minute access to their account balances being held by PHFA. These user-friendly systems have been well received by our housing partners.

Significant and positive changes have been made to the way PHFA does business during the last two years. We have successfully met the needs of the development community, our funding partners and, most importantly, renters of quality, affordable housing in Pennsylvania. The staff looks forward to continuing down this productive path.

Homeownership Programs

PHFA has offered affordable home purchase loans since 1982. Funding for the program has historically been through the sale of mortgage revenue bonds (MRBs), which are sold by the agency to private and institutional investors. Because PHFA is able to sell tax-exempt bonds (i.e., the purchasers of the bonds do not pay federal taxes and, in some cases, state income taxes on the interest they earn), it is typically able to borrow money at a lower interest rate. This savings is then passed on to eligible homebuyers in the form of mortgage loans with below-market interest rates and fees.

Dona Palmer (right), PHFA Homeownership Division, conducts training with staff from Susquehanna Bank, one of the agency's lending partners.

The Internal Revenue Service dictates the type of loans that may be funded with MRBs. The buyer must live in the home as a principal residence (investment properties are not permitted), and the household income must not exceed a certain amount, which is determined by the federal government and varies by the county in which the home is located and the family size. There are also federally set maximum purchase price limits which vary by county. Although many of the homeownership programs are geared toward first-time homebuyers, there are 39 targeted counties (and specific targeted census tracts in 13 additional counties) in Pennsylvania where the first-time homebuyer requirement is waived. Special programs are available to help people with disabilities, as well as homebuyers with lower incomes and limited assets.

PHFA does not originate the loans. Instead, it uses a statewide network of participating lenders and brokers who take loan applications, process and close the loans, and sell them to PHFA. The agency then services all loans until they are paid off or otherwise satisfied.

The agency has worked in a challenging environment during the past few years. Due to turmoil in the financial markets, interest rates on PHFA's home purchase loans remained well above the market for most of fiscal year 2009. This, coupled with consumer uncertainty, stricter underwriting standards, and major regulatory changes, had a major impact on loan production. Even with other favorable product components — such as flexible underwriting, closing-cost and down-payment assistance, PHFA servicing and lower fees — an interest rate that was about 1.5 percent above market kept most buyers away, except for those who absolutely could not obtain financing elsewhere.

I wanted to express my appreciation for the entire PHFA team and their outstanding performance over the past several months. The volume of first-time homebuyers using the PHFA programs was substantial. The turn time on files was extraordinary knowing the volume that was being sent from Soverign alone.

I have continually made the comment that PHFA is a big part of my origination success and it couldn't have been more true than during these unprecedented times. We just completed our first Purchase and Renovate program for a customer closing next week and LOVE that program.

Helene Dougherty
Mortgage Retail Development Officer

Challenges Spur Innovation

Sitting on the sidelines was not an option. The agency had to think of creative ways to carry out its mission of providing affordable homeownership opportunities even in the toughest of times. In response to the tumultuous environment, the agency took the following key decisive actions:

- PHFA obtained approval as a Ginnie Mae mortgage-backed securities (MBS) issuer. This allowed for a new funding stream and the creation of a new home purchase mortgage program, called the Keystone Government Loan. Under this program, the agency offers government insured/guaranteed loans (through the Federal Housing Administration, Veterans Administration, and United States Department of Agriculture/Rural Development) without the added eligibility criteria required under MRB programs. Additionally, Keystone Government first-time homebuyers may obtain up to $2,000 – and non-first-time buyers up to $1,000 – in closing-cost and down-payment assistance. The agency currently has more than 1,600 loans in Ginnie Mae pools for a total of about $185 million.

- The agency increased the amount of assistance available under MRB programs from $2,000 to $3,000 for the Keystone Home Loan PLUS and made up to $1,500 available under the standard Keystone Home Loan (which had never previously provided closing cost assistance).

- PHFA created a new assistance program called the Tax Credit Advance Loan which monetized the federal first-time homebuyer tax credit so that borrowers could use their anticipated refund as cash for closing. This advance was available with Keystone Home Loan programs, as well as Keystone Government. More than 3,300 advance loans were made for a total of almost $15 million, which leveraged $373 million in first mortgage financing. Of the 743 advance loans made in 2009, 563 have already been repaid to the agency.

- The agency made a conscious decision to maintain its same underwriting guidelines, despite the tightening of guidelines in the general market. The agency will continue to use a common sense approach to lending, including thorough analysis and full documentation from consumers.

Month	Total # Loans Reserved	Total $ Loans Reserved
Q3 2008	1,190	$115,776,505
Q4 2008	297	$25,710,521
Q1 2009	130	$9,831,718
Q2 2009	594	$61,361,397
Q3 2009	1,536	$149,550,316
Q4 2009	983	$90,099,770
Q1 2010	1,948	$209,831,818
Q2 2010	3,149	$332,038,228
Totals:	9,827	$994,200,273

PHFA home loan reservations by quarter for FY 2009 and FY 2010

By the end of May 2009, with improving market conditions and the ability to issue Ginnie Mae MBS, the agency was finally able to lower its interest rates to a level comparable with those in the market. Despite the challenging environment, the agency helped more than 3,600 households purchase a home during fiscal year 2009 with total first-mortgage financing of about $360 million. More than one-third of those buyers also received PHFA-funded down-payment and closing-cost assistance.

Restoring Competitive Financial Products

As 2009 came to a close, the Obama Administration announced an exciting new initiative to help support the affordable housing mission of the country's housing finance agencies (HFAs). As part of the initiative, the New Issue Bond Program provides temporary financing support for HFAs to issue new mortgage revenue bonds. Using authority granted under the Housing and Economic Recovery Act of 2008, this program is a partnership between the U.S. Treasury, Fannie Mae, Freddie Mac, and housing finance agencies. It enables HFAs to offer more competitively priced home loans and to continue to provide affordable homeownership opportunities. PHFA's presence in the home mortgage market was, and remains, especially vital to its target homebuyers who were being shut out of homeownership opportunities due to increasingly restrictive underwriting guidelines.

PHFA closed on its first bond deal under the new program in late December 2009 and then completed another deal at the end of March 2010. This initiative has enabled PHFA's mortgage revenue bond program to once again have competitive interest rates, which in turn has increased demand for the agency's loan products by consumers, as expected. The agency plans to continue taking advantage of this special financing well into 2011, when the bond market will hopefully be more viable once again.

The introduction of these various new programs and program enhancements, as well as new funding streams, had a dramatic impact on demand for the agency's home purchase mortgages, as shown in the chart on page 12 which depicts the number of loan reservations (rate locks) by quarter. More than 7,500 households were able to purchase homes with PHFA funding during fiscal year 2010, with more than half of them receiving closing-cost and down-payment assistance. These enhancements will continue to be of great benefit to the agency in the future, even when the financial market improves.

From the desk of:
Keith Boyles, Jersey Shore State Bank

"Your PHFA two-unit program has allowed a young man to realize his dream of self-sufficiency. The rental income from his property along with his disability income made it possible for him to get a decent home in a great area. The house is in a neighborhood that allows him to travel to necessary stores by using his motorized wheelchair. His grandmother, parents and sister had a wonderful open house a few weeks after we closed. It was so nice to see so many people happy for this young man. His grandmother told everyone that without the help of Jersey Shore State Bank and PHFA this deal would have never happened. It truly can bring me to tears. Words cannot express how wonderful this experience has been for his freedom and for him to feel so proud to be a homeowner."

Mortgage Refinance and Workout Initiatives

In addition to its home-loan products and services for homebuyers, PHFA's Homeownership Division offers helpful programs for homeowners, too. The Refinance to an Affordable Loan (REAL) program and the Homeowners' Equity Recovery Opportunity (HERO) program were created in late 2007 to address the subprime mortgage crisis which was gaining attention at that time. These programs continue to provide options for homeowners with unaffordable mortgages, although volume has leveled off due to the numerous other options now available under federal Making Home Affordable programs and various local initiatives, such as foreclosure diversion programs operated by some county courts. The HERO staff also works closely with PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) to coordinate resources whenever possible; additionally, the staff coordinates its efforts with the Foreclosure Mitigation Counseling Initiative (FMCI). Under the REAL and HERO initiatives, the agency funded 103 loans for a total of about $16 million during fiscal year 2009, and 77 loans for a total of about $7.5 million during fiscal year 2010. Every applicant to these programs, even if not ultimately approved for a loan, received an expert analysis of their current financial situation, at no cost to them, and was provided with valuable information, such as the amount of a mortgage loan they could afford based upon their current income and expenses. More than 4,000 people received this service.

Ashley Miller received a PHFA loan and down-payment and closing-cost assistance to build this home in Terre Hill, Lancaster County. The loan included funding to make his home easier in which to maneuver with features like a wheelchair-accessible kitchen sink and a residential elevator, helping him be more independent. Ashley is shown with his wife, Laura, and their baby.

Renovate and Repair Program

The Renovate and Repair program (R&R), rolled out in late 2007, continues to provide financing for home repairs, improvements, and energy efficiency enhancements at attractive terms with flexible underwriting criteria. In the beginning of 2008, the agency partnered with the state Treasury Department's Keystone HELP program to assist homeowners who wanted to do more extensive work than was possible with HELP funds, which were capped at $10,000 per home. The R&R program allowed HELP applicants qualify for up to $35,000, as permitted under the R&R program. This was a great fit for homeowners who, for example, wanted to switch to a geothermal heating system. This partnership was further expanded in

2009 to incorporate funding made available to the state Department of Environmental Protection through the Alternative Energy Investment Act. This funding provides a lower interest rate to R&R borrowers who choose to complete improvements that are recommended after a home energy audit. The agency funded 286 R&R loans for a total of about $5 million during fiscal year 2009, and 379 loans for a total of about $8 million during fiscal year 2010.

Home Energy Efficiency Loan Program

The Home Energy Efficiency Loan Program (HEELP) was created in July 2008 by the Alternative Energy Investment Act and funded by an allocation of $5 million from state appropriations. Loans may not exceed $10,000 with 10-year terms and must be used for specific weatherization projects. Due to the increased funding of the federal Weatherization Assistance Program (WAP), PHFA has coordinated its HEELP program with local WAP providers. The agency's goal is to assist homeowners who require more work than WAP can provide. A common example is roof replacement. The HEELP program provides one percent interest rate loans so that low-income homeowners can comprehensively address their home's energy needs and realize a greater savings on their utility bills. By the close of fiscal year 2010, 20 loans have been closed or are scheduled to close, with another 12 in the pipeline.

Home Modification and Assistive Technology Initiative

PHFA is working with the Office of Long Term Living (OLTL), a joint office of the Department of Public Welfare and the Department of Aging, to improve access to Home Modification and Assistive Technology (HMAT) services for Pennsylvania residents who are seniors or have disabilities. The HMAT initiative's goal is to improve and expand the capacity of OLTL local service providers working in all 67 counties. Specifically, this involves making sure providers can appropriately identify their clients' needs and deliver suitable home adaptations and assistive devices in the most efficient and economical manner. PHFA staff has delivered the initial training for executive leadership of OLTL service providers and Area Agencies on Aging. This training shared HMAT best practices and encouraged a useful dialog about the policy issues, technical assistance, and financial resources that limit HMAT service provision capacity. Additional activities will include two more training sessions for the front-line staff of these service providers and AAAs, and efforts to increase the number of people in the state who have the unique skill set needed to become a "Home Modification Construction Officer" (a key component needed to deliver improved home modification outcomes). Seventy people received home modifications funded by the HMAT initiative in 2008-09 and others received home modification technical assistance, ranging from relatively brief phone calls to ongoing case management assistance spanning several months.

Homeownership Counseling and Education

The Comprehensive Housing Counseling Initiative

As the demand for homeownership counseling has increased, the PHFA Comprehensive Housing Counseling Initiative (CHCI) network is educating and helping record numbers of consumers, serving more than 26,000 Pennsylvania residents during fiscal years 2009 and 2010.

The CHCI network offers Pennsylvanians the opportunity to educate themselves about homeownership. This includes advice and support provided by a network of external counseling agencies intended to help homeowners:

- Avoid the trap of predatory lending;
- Gain the tools and knowledge to save their homes from foreclosure; and
- Provide housing opportunities for the elderly, the disabled, and people living in rural communities.

Homeownership counseling session at Tabor Community Services, located in Lancaster, Pa.

Comprehensive counseling programs continue to provide a strategic approach for increasing minority homeownership and sustainable homeownership opportunities. Since 2006, 27 percent of PHFA loan approvals have included counseling provided throughour CHCI program.

PHFA's goal is to ensure that external counseling agencies that participate in our counseling network (housing administrators and counselors), provide education and housing counseling services of a consistently high quality. To that end, PHFA has established its own standards for comprehensive housing counseling services. These standards meet or exceed the national industry standards for homeownership education and counseling, the national industry code of ethics and conduct, and HUD's agency certification requirements.

A Growing Network of Counseling Agencies

With the CHCI network expanding to more than 114 agencies now participating in our housing counseling initiative, there is a need to provide continuous training opportunities for these counselors. The demands on these counseling partners are many, so ongoing training is vital. Because of increased counseling requirements, PHFA has established periodic tuition reimbursement opportunities to help counselors obtain the required homeownership certifications. Agencies in the network are eligible for reimbursement of training costs if course work is completed according to guidelines and if certification exams are passed with a grade of 80 percent or better.

Participating agencies also must develop a policy and procedure manual, a marketing plan, and they must incorporate the use of PHFA's "Home Maintenance and Energy Saving Tips" DVD.

The Foreclosure Mitigation Counseling Initiative

The national foreclosure rate is still at the highest level since 1972, so foreclosure prevention and default counseling is needed now

I thank PHFA for giving me a list of counseling services that I could go to. And for me, I went to the best (counseling service), and it didn't cost me anything.

And the information that PHFA has provided – they didn't hold back information. They distributed it for the people who do not know (how to buy a home). And that opened up a lot of doors. So, again, I thank you for that.

Roger M.,
Philadelphia
(commented during a PHFA focus group session)

more than ever. PHFA's Foreclosure Mitigation Counseling Initiative (FMCI) is intended to give homeowners the facts and advice they needto help them avoid losing their home to foreclosure.

In PHFA's continuing effort to upgrade the quality of its counseling programs, the agency has purchased state-of-the-art loan modification software to help our counselors indentify and compare loan modification opportunities now available at PHFA and through other federal programs. Additionally, during the summer of 2010, the FMCI instituted an online testing system to help participating counselors upgrade their skills. All counselors now must pass a test to obtain a PHFA certification in foreclosure intervention.

Since the 2008 inception of the NeighborWorks-administered National Foreclosure Mitigation Counseling Program, PHFA has been awarded more than $18 million in competitive grant funding to provide foreclosure intervention counseling and, with referral, legal assistance to those who have entered the counseling process. PHFA's 2009-2010 allocation is one of the highest allocations awarded to a housing finance agency, reflecting the success of our program. Today, our FMCI counseling network consists of more than 60 agencies, providing statewide coverage and convenient consumer access to counseling.

Expanded Strategies to Help Troubled Homeowners

Through PHFA's training efforts, technical upgrades, and our partnership with NeighborWorks, the agency has available a variety of strategies that may be used to intervene in a potential mortgage default and hopefully prevent foreclosure. Counselors now have the ability to: deliver foreclosure intervention counseling; analyze the client's financial situation; provide an evaluation of the current value of the home; review options, such as the assumption, purchase or other restructuring of the mortgage, and refinancing strategies; and negotiate a workout strategy.

Of the 28,483 borrowers helped between July 1, 2008 and May 31, 2010:

- 8,380 clients either brought their mortgage current, received a workout/ repayment plan, or received a loan modification or refinance option
- 12,927 clients were counseled and referred to other social service or emergency assistance agencies
- 1,041 clients are currently receiving foreclosure prevention/budget counseling or are entered into a debt management plan
- 983 clients were referred to a legal assistance partner
- Only 721 clients had to sell their home or file bankruptcy

Shown here: Samples of PHFA ads that ran statewide in an effort to raise public awareness of the no-cost counseling services available.

Homeowners' Emergency Mortgage Assistance Program

During the past two years, the United States has experienced a sharp downturn in the economy, which has resulted in high unemployment and a steep rise in home foreclosures. Pennsylvania has mirrored this trend; however, the state's residents have benefitted from the assistance available from the Homeowners' Emergency Mortgage Assistance Program (HEMAP). This program helps prevent wide-spread mortgage foreclosures and the distress sale of homes, which frequently result from default caused by circumstances beyond a homeowner's control.

Serving Homeowners During a Critical Time

Since its inception in 1983, HEMAP has helped save more than 44,000 Pennsylvania families from foreclosure. HEMAP has disbursed more than $463 million to reinstate delinquent mortgages and real estate taxes. HEMAP assistance is in the form of a mortgage loan with required repayment. The real success of HEMAP has been PHFA's responsible management of this program, resulting in a high rate of repayment. To date, HEMAP has received more than $255 million in loan repayments. More than 55 percent of the money loaned has been paid back.

HEMAP has received a record volume of loan requests in fiscal years 2009 and 2010. The number of applicants seeking assistance rose significantly as Pennsylvania was confronted with unprecedented home loan defaults and foreclosure proceedings. HEMAP received more than 27,000 applications from July 2008 through June 2010. This represents a 6 percent increase over the previous two-year period. The HEMAP staff approved more than 5,700 applications during this time period. This represents a 6 percent increase over the previous two years.

Legislative Changes to HEMAP

In June 2008, the Pennsylvania legislature passed three major changes to HEMAP:

- Lenders must return reinstatement agreements within 30 days of approval;
- The HEMAP interest rate will be set by the agency on an annual basis;
- Lenders are required to notify PHFA of all Act 91 notices that are sent to homeowners.

HEMAP's interest rate had been 9 percent since the inception of the program. Under the new directive from the state legislature, this rate was set at 6.5 percent for loans closed in 2009, and the rate for loans closed in 2010 is 5.25 percent. Beginning with the last quarter of 2008, lenders were required to notify the agency of all Act 91 notices that are sent to homeowners. Quarterly statistics regarding the volume of Act 91 notices, by county, are available on the agency's Web site at www.phfa.org; search the site using the keyword: HEMAP.

As a result of Pennsylvania's unemployment rate exceeding 6.5 percent for three consecutive months as of Febuary 1, 2009, a "trigger" was initiated within HEMAP. This trigger increased the months of assistance available to homeowners to 36 (previously at 24 months) and it reduced the program's repayment percentage test back to 35 percent (from 40 percent). This trigger, along with high public demand for foreclosure assistance and lower loan repayments, resulted in diminished funding levels for the program. In March 2009, HEMAP received an additional emergency appropriation of $5 million from the federal Temporary Assistance for Needy Families program.

Dear PHFA/HEMAP Family,

I wanted to thank you for providing me and my son with your "Life Saving" Program.

If it wasn't for you approving our application and providing this assistance — we would have been homeless!

Please know how much my son and I have appreciated your support!

Thanking you from the bottom of our hearts!

Kevin and Cynthia J.

National Recognition for HEMAP

As nationwide economic problems persist, the federal government has identified Pennsylvania's HEMAP program as a helpful model to address the continuing foreclosure challenge. In early 2010, the 10 states with the most severe foreclosure issues received federal Troubled Asset Relief Program (TARP) funds to develop emergency assistance programs similar to HEMAP – reflecting national recognition of the program's long success. In addition, the recently passed federal financial reform bill earmarks more than $1 billion for the remaining 40 states to address the rising tide of foreclosures. Pennsylvania's portion of these funds will help HEMAP meet increasing homeowner demands during the next fiscal year. HEMAP expects continued high demand until the job market improves.

During fiscal years 2009 and 2010, demand for HEMAP assistance has been the highest ever in its 27 years of existence. The program has continued its proud record of success by acting to reduce Pennsylvania's foreclosure rate and keep Pennsylvania families in their homes.

HEMAP Application Volume

Calendar Year	Applications Received
2006	9,950
2007	10,592
2008	12,121
2009	14,135

The Philadelphia Inquirer

Posted on Thu, Jul. 22, 2010

Homeowner Relief

Included in the Wall Street reform legislation finally passed by Congress was a bill authored by U.S. Rep. Chaka Fattah (D., Pa.) that will create an emergency mortgage-relief program.

Fattah deserves kudos. Foreclosures this year are on pace to exceed the unprecedented 900,000 homes repossessed in 2009.

The program makes more than $1 billion in federal funds available to families about to lose their homes. Homeowners may borrow up to $50,000 if they can show they have a reasonable prospect of resuming mortgage payments within 24 months.

Administered by the Department of Housing and Urban Development, the project will be patterned after Pennsylvania's Homeowners Emergency Mortgage Assistance Program, which has provided 41,500 homeowners with $433 million in aid since 1984.

Nearly 90 percent of the participants in the Pennsylvania program, which Fattah ushered in as a state legislator, have avoided foreclosure, and 19,700 have repaid their loans in full.

This is the type of bailout that produces tangible results that are easy to see. Until the unemployment rate drops significantly, programs that help families make it through tight periods are worth the cost. People need a chance to get back on their feet.

This editorial praising the work of PHFA's Homeowners' Emergency Mortgage Assistance Program (HEMAP) is reprinted by permission of the Philadelphia Inquirer.

Commonwealth Cornerstone Group

The Pennsylvania Housing Finance Agency created the Commonwealth Cornerstone Group (CCG), which is a nonprofit, community development entity. CCG was established in 2004 to enhance, strengthen, and revitalize communities throughout Pennsylvania and to stimulate economic opportunities for low-income residents through the creation of jobs, the enhancement of wealth, and the provision of services within these communities. The goal of CCG is to fund projects in key areas of a community which provide a focal point and/or have an historical or cultural value offering intrinsic catalytic opportunities for revitalization. The projects funded by CCG are characterized by their special standing as pivotal cornerstone initiatives within communities' renewal plans.

Reflecting its vital mission, CCG makes loans to qualified businesses for the development or rehabilitation of real estate, including mixed-use properties, the redevelopment of which is critical for the revitalization of smaller communities. It also makes loans to assist business expansion, to finance community facilities that serve the unmet needs of low-income families, and to provide services not currently available to residents in low-income communities.

Artist rendition of Market Square Place along Fifth and Forbes corridor in downtown Pittsburgh.

CCG has twice been allocated funds under the U.S. Department of Treasury's New Markets Tax Credit Program, receiving a total allocation of $120 million.

To its credit, CCG has financed $95.7 million in high-impact projects since July 2008, including the redevelopment of Coal Street Park in Wilkes-Barre into a prized community facility. Two other significant projects are the historic preservation of buildings along the Fifth and Forbes corridor in downtown Pittsburgh to produce a thriving, mixed-use development consisting of street-level retail, a 30,000-square-foot neighborhood YMCA and rental apartments, and the historic renovation of a former Nabisco bakery building along with the new construction of five additional buildings to complete a retail, office, and hotel center in the East Liberty section of Pittsburgh.

"The Coal Street Park project transformed a blighted building into a state-of-the-art recreational facility for residents of Wilkes-Barre and the Tri-State area.

With activities such as figure skating, hockey leagues, curling, and learn-to-skate prgrams, this building offers to our community some of the most unique, engaging, and family-friendly activities in the region. In addition to these programs, the commercial space in the Coal Street Park Recreation Facility brings revenue to the city and adds to our tax base.

We are grateful for the work and effort Commonwealth Cornerstone Group put into this project in order to achieve this very successful end result."

Mayor Thomas M. Leighton, Wilkes-Barre

In Summary

Balancing Stability and Change

I have been working with clients who came to me pre-approved by 2 lenders....I went to your website [and] printed the rates, qualification info and guidelines for the program. The [loan] processor was totally excited. I told her, while you're at it, make sure that the buyer gets the guaranteed title discount because the property is under $200,000, and sent her the doc 53. She couldn't believe it! Two days later we settled! Hallelujah!

It turned out that only 7 years ago the buyers were homeless. They went through counseling, got great jobs, are back in school and have their lives together. We were all crying. Just wanted you to know that there are some really great success stories!

- Donna McHugh

In any organization, the forces of stability and change always create a natural tension. They are diametrically opposed. Order challenges chaos, and innovation argues for turnover. The well-managed organization learns to balance this tension to thrive. That includes the Pennsylvania Housing Finance Agency.

Solid, Thoughtful Leadership

An organization's character starts from its leadership and infuses the rest of the team with its energy. This begins with the seasoned management team at the agency. Many of PHFA's division directors have served the agency for 20 years or more. They bring rock-solid stability from their understanding of PHFA's core values, and what's worked in the past. They temper that with a mandate to continually seek out efficiencies and enhancements to the agency's internal operations and external services. The result is a management approach that embraces both stability and change, taking the best from both dynamics.

A Motivated and Intelligent Staff

Like the management team, the staff at PHFA brings years of longevity. This speaks to the fact that the agency is a desirable place to work. It also hints at the considerable institutional knowledge harbored within the agency's wall. It's not unusual for front-line employees to raise ideas that can help the agency deliver better service, and then to identify the best ways to implement those suggestions. Staff members sincerely enjoy working with one another. At less than 300 employees, the organization is large enough to provide considerable depth of expertise but small enough so that most everyone knows each other. The result is an atmosphere that is comfortable and still able to easily evolve to meet changing circumstances.

An Engaging Mission in a Dynamic Environment

The staff at PHFA takes seriously its mission to expand affordable housing options for the state's residents – no easy task when the housing marketplace is in a severe recession. But challenging times not only bring burdens; they also present opportunities if one is able to come at problems with a fresh perspective. PHFA is a state agency, but because it generates the majority of its funding from its own investments, its unique structure has bred a private sector mindset that serves the organization well. The agency benefits from being able to draw on the strengths of both public and private sector approaches to arrive at novel solutions to perplexing challenges.

Despite the best efforts of this annual report, the Pennsylvania Housing Finance Agency can't be described by a mere overview of its programs and services. There is an energy within that is better experienced than explained. Our customers who write on a nearly daily basis to share their gratitude for the help they've received know this firsthand. They appreciate the various housing programs that PHFA continually adapts to an ever-changing marketplace. But what they acknowledge most is the compassion and caring they receive from the staff member on the other end of the phone during their personal time of crisis. That is a key part of the core values of PHFA, just as much as our disciplined approach to investments and our rigorous, yet flexible, underwriting standards.

PHFA is able to nimbly balance stability and change because that's how we've always operated. It's simply who we are, and who we'll be decades from now as Pennsylvanians continue to rely on us for decent, safe, and affordable housing options.

PENNSYLVANIA HOUSING FINANCE AGENCY

2008-2009 Basic Financial Statements

AND REQUIRED SUPPLEMENTARY INFORMATION

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Report of Independent Auditors

Ernst & Young
Quality In Everything We Do

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Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the years ended June 30, 2009 and 2008, which collectively comprise the basic financial statements, as listed in the table of contents, of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania. These financial statements are the responsibility of PHFA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of PHFA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to on the following pages present fairly, in all material respects, the respective financial position of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and HEMAP of PHFA as of June 30, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 14 and 15, as of July 1, 2007, PHFA adopted Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures and* GASB Statement No. 45*, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009 on our consideration of PHFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the Schedule of Retirement Plan Funding Progress, and the Schedule of Funding Progress for the Postemployment Healthcare Benefits Plan on pages 5 through 10 and 45 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

October 5, 2009

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2009, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated October 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies, in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PHFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Members of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

October 5, 2009

Introduction

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency (Agency) is required supplementary information. It introduces the financial statements for the year ended June 30, 2009 with selected comparative information for the years ended June 30, 2008 and June 30, 2007. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

Basic Financial Statements

The basic financial statements include three required statements that provide different views of the Agency. They are the Balance Sheet, the Statement of Revenues, Expenses and Change in Net Assets, the Statement of Cash Flows and the accompanying notes to the financial statements.

The Balance Sheet provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to Agency creditors (liabilities) and net assets. Net assets represent the amount of total assets less liabilities. The organization of the statement separates assets and liabilities into current and non-current.

The Statement of Revenues, Expenses and Change in Net Assets accounts for all of the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It is used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business. This statement is organized by separating operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses are defined as those relating to our primary business of funding homes and apartments throughout the Commonwealth of Pennsylvania. Nonoperating revenues and expenses are those that do not contribute directly to our primary business.

The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

These statements are accompanied by a complete set of notes to the financial statements and required supplementary information regarding the funding progress of the Agency's Retirement and Post Employment Healthcare Plans. They present information that is essential in understanding the financial statements, such as the Agency's accounting methods and policies providing information about the content of the financial statements. Additionally, details of contractual obligations, contingencies and developing events that could materially affect the Agency's financial position are disclosed.

Changes in Financial Position Years Ended June 30, 2009 and 2008

The following tables represent the condensed Balance Sheets and Statement of Revenues, Expenses and Changes in Net Assets of the Agency:

Condensed Balance Sheets

(In thousands of dollars)

	June 30, 2009	June 30, 2008	June 30, 2007	% Change 2009/2008	% Change 2008/2007
Assets:					
Current and other assets	$ 5,399,678	$ 5,364,699	$ 5,051,809	0.7%	6.2%
Capital assets, net	34,142	34,838	35,411	-2.0	-1.6
Total assets	5,433,820	5,399,537	5,087,220	0.6	6.1
Liabilities:					
Current liabilities	304,188	293,497	294,438	3.6	-0.3
Long-term liabilities	4,383,159	4,362,207	4,081,045	0.5	6.9
Total liabilities	4,687,347	4,655,704	4,375,483	0.7	6.4
Net assets:					
Invested in capital assets, net of related debt	14,215	14,914	15,456	-4.7	-3.5
Restricted	252,277	84,185	83,060	199.7	1.4
Unrestricted	479,981	644,734	613,221	-25.6	5.1
Total net assets	$ 746,473	$ 743,833	$ 711,737	0.4%	4.5%

Condensed Statement of Revenues, Expenses and Change in Net Assets

(In thousands of dollars)

	June 30, 2009	June 30, 2008	June 30, 2007	% Change 2009/2008	% Change 2008/2007
OPERATING REVENUES:					
Interest on mortgage loans	$ 207,990	$ 201,535	$ 181,445	3.2%	11.1%
Federal program awards	474,847	461,231	311,745	3.0	48.0
Program income and fees	49,825	46,791	41,917	6.5	11.6
Total operating revenue	732,662	709,557	535,107	3.3	32.6
Operating expenses	744,450	718,314	535,177	3.6	34.2
Nonoperating revenues, net	14,428	40,853	44,058	-64.7	-7.3
Change in net assets	$ 2,640	$ 32,096	$ 43,988	-91.8%	-27.0%

Financial Highlights for the Year Ended June 30, 2009

- During the year, the Agency purchased $302,575 of its own tax-exempt bonds reported as qualified tendered bonds on the Balance Sheets. This action was in response to the recent credit market conditions that have disrupted the remarketing of certain auction rate bonds. The IRS provided a special temporary rule which allows governmental issuers to purchase their own tax-exempt auction rate bonds on a temporary basis without resulting in a reissuance or retirement, provided those bonds are not held past December 31, 2009.

- The Agency increased its total net assets by 1% as a result of this year's operations to $746 million for the year ended June 30, 2009 from $744 million for the year ended June 30, 2008. The prior year experienced a 5% increase in total net assets.

- Mortgages loans receivable decreased to $4.2 billion for the year ended June 30, 2009 from $4.3 billion in the prior year. This was primarily due to favorable interest rates resulting in single family borrowers refinancing with other lenders which exceeded newly originated first-time home-buyer loans.

- During the year ended June 30, 2009, the Agency approved the funding of 43 Multifamily Housing developments that will contain 1,786 housing units. The Agency originated 4,064 new Single Family Mortgage loans. The Homeowner's Emergency Mortgage Assistance Program (HEMAP) funded 1,793 emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

- Bonds and notes outstanding remained a constant $4.2 billion for the years ended June 30, 2009 and 2008.

- Total operating revenues increased 4% to $735 million for the year ended June 30, 2009 from $710 million from the prior year. Those increases were primarily from strong interest earnings on mortgage loans which increased 3% over the prior year, despite a decrease in loan portfolio balances.

- The Agency experienced an increase in operating expenses of 4% to $747 million for the current year ended June 30, 2009 from $718 million in the prior year. The increase was mainly driven by the volatile interest rate environment that increased bond interest expense by 8% to $214 million for the year ended June 30, 2009 from $198 million during the prior year.

- Interest earning income decreased sharply due to the historically low interest rate environment. Investment interest earning income, reported as non-operating revenue, fell 51% from the prior year.

Financial Highlights for the Year Ended June 30, 2008

- The Agency's total increase in net assets was $32 million as a result of operations for the year ended June 30, 2008, compared with a $44 million increase in net assets in the year ended June 30, 2007.

- Increases in interest paid for outstanding long-term debt exceeded the increase of interest receipts on mortgage loan repayments.

- The Agency implemented GASB 45 to recognize "Other Post Employment Benefits" (OPEB) in 2007. The Agency recognized an expense of $3.8 million as of June 30, 2008.

- Increased provision for loan loss influenced by the mortgage loan environment during 2008.

- During the year ended June 30, 2008, the Agency's total assets increased by $312 million over the year ended June 30, 2007 due primarily to increases in mortgage loan receivables and investments, which were made possible by the issuance of long-term debt. Total liabilities increased by $280 million due to increases in the related debt to finance mortgage loans.

Loan Portfolio Activity

Purchased and construction mortgage loan portfolios are the Agency's primary performing assets. The loan portfolio decrease was driven by the economy and the related declining demand for housing in the Commonwealth. The following are key highlights of loan related activities:

- The Multifamily Housing Program financed approximately $25 million of loans to provide construction and permanent loans for rental housing developments. However, the loan portfolio decreased by 4% or $20 million to $542 million at June 30, 2009 from $562 million at June 30, 2008 due to re-payments exceeding new construction or rehabilitation financing. During the prior year the Multifamily Housing Program provided financing of approximately $71 million that increased the portfolio to $562 million as of June 30, 2009, from $550 million as of June 30, 2007.

- The Single Family Mortgage Loan Program purchased approximately $365 million of new mortgage loans during the year. However, the portfolio decreased 3% or $111 million to $3.6 billion as of June 30, 2009 from $3.7 billion at June 30, 2008 due to re-payments exceeding loans purchased. During the prior year the Single Family Mortgage Loan Program disbursed approximately $642 million of new mortgage loans increasing the portfolio by $400 million to $3.7 billion as of June 30, 2008, from $3.3 billion as of June 30, 2007.

- During the fiscal year ended June 30, 2009, the Agency sold Single Family Mortgage Loan Program loans with a principal balance of $221,582 to the Federal National Mortgage Association.

- HEMAP disbursed approximately $20 million of emergency mortgage assistance loans during the year. The total portfolio increased $2 million to $50 million as of June 30, 2009, from $48 million as of June 30, 2008, after adjustments for principal payments and loan losses. During the prior year, HEMAP disbursed approximately $20 million of emergency mortgage assistance loans increasing the portfolio to $49 million as of June 30, 2008 from $48 million as of June 30, 2007.

Long-Term Debt Activity of the Multifamily Housing Program

The Multifamily Housing Program finances various developments throughout the Commonwealth relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly with multifamily development bonds proceeds. During the year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance decreased by 16% or $53 million as a result of normal debt payments. The Multifamily Housing did not issue any bonds during the year ended June 30, 2008 and issued $13 million of Multifamily Development bonds during the year ended June 30, 2007.

Long-Term Debt Activity of the Single Family Mortgage Loan Program

The Agency provides residential mortgage financing programs that serve low- to moderate- and middle-income first-time homebuyers and homebuyers purchasing in certain designated urban areas funded by mortgage revenue bond proceeds. During 2009, the Agency issued $350 million of Single Family Housing Revenue Bonds Series 103 and Series 104. The Agency borrowed an additional $1 million of the PNC note purchase agreement to fund the Homeowners' Equity Recovery Opportunity Loan Program. Total debt outstanding of the Single Family Mortgage Loan Program increased by 1% or $37 million as a result of the issuance of the aforementioned debt, note purchase agreement borrowing and the adjustment of normal debt payments. During the year ended June 30, 2008 and 2007, the Agency issued Housing Revenue Bonds totaling $610 million and $917 million, respectively.

Economic Factors and Other Financial Information

The primary business activity of the Agency is providing a secondary market for the purchase of single-family and multifamily mortgage loans. The Agency's mortgage financing activities are sensitive to changes in interest rates, the spread between the rate on the Agency's loans and those available in the conventional mortgage markets and the availability of affordable housing in the Commonwealth. The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Agency to continue its mortgage financing activities.

The Agency's main sources of revenues include mortgage loan interest, investment interest income and externally funded grants and subsidies. Interest rates have an effect on both the mortgage programs and investment income revenues. If interest rates continue at current levels, the Agency expects mortgage and investment income to remain relatively stable. If interest rates rise, mortgage and investment income should increase as new loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new loans are originated and new investments are purchased at the lower rates. Any decrease in interest rates may also cause an increase in prepayments on higher rate mortgages. The Agency uses many of these prepayments to call the corresponding bond series, which lowers the interest expense incurred on the Agency's overall bonds outstanding, or to recycle mortgages to obtain the maximum allowable spread. Large federal deficits or changes in programs or funding levels could have a negative impact on externally funded program revenues.

Balance Sheets

June 30, 2009 *(In thousands of dollars)*

	2009						
ASSETS	**General Fund**	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Current Assets:							
Cash and cash equivalents	$ 36,254	$ 235,675	$ 294,646	$ 25,308	$ 591,883	$ 28	$ 591,911
Investments	6,631	234	—	2,029	8,894	—	8,894
Accrued interest receivable	46	258	1,596	66	1,966	—	1,966
Mortgage loans receivable, net	—	31,719	65,997	—	97,716	6,594	104,310
Qualified tender bonds	—	—	302,575	—	302,575	—	302,575
Deferred financing costs and other assets	3,286	1,654	2,369	—	7,309	2,482	9,791
Operating advances to other funds	35,845	—	—	—	35,845	—	35,845
Restricted cash and investments	—	5,279	203,079	—	208,358	—	208,358
Total current assets	82,062	274,819	870,262	27,403	1,254,546	9,104	1,263,650
Noncurrent assets:							
Investments	37,661	1,739	31,324	9,748	80,472	—	80,472
Mortgage loans receivable, net	—	510,078	3,492,858	—	4,002,936	43,553	4,046,489
Capital assets, net	34,129	—	—	—	34,129	13	34,142
Deferred financing costs and other assets	2,028	2,480	4,553	—	9,061	6	9,067
Total noncurrent assets	73,818	514,297	3,528,735	9,748	4,126,598	43,572	4,170,170
Total assets	$ 155,880	$ 789,116	$ 4,398,997	$ 37,151	$ 5,381,144	$ 52,676	$ 5,433,820
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ —	$ 40,133	$ 112,015	$ —	$ 152,148	$ —	$ 152,148
Accrued interest payable	390	5,167	44,878	—	50,435	—	50,435
Accounts payable and accrued expenses	2,304	131	1,188	—	3,623	922	4,545
Escrow deposits and other liabilities	511	17,283	43,120	301	61,215	—	61,215
Operating advances from other funds	—	394	31,099	—	31,493	4,352	35,845
Total current liabilities	3,205	63,108	232,300	301	298,914	5,274	304,188
Noncurrent liabilities:							
Bonds and notes payable, net	19,927	230,262	3,822,450	—	4,072,639	—	4,072,639
Escrow deposits and other liabilities	9,715	264,381	31,509	1,445	307,050	3,470	310,520
Total noncurrent liabilities	29,642	494,643	3,853,959	1,445	4,379,689	3,470	4,383,159
Total liabilities	32,847	557,751	4,086,259	1,746	4,678,603	8,744	4,687,347
NET ASSETS							
Invested in capital assets, net of related debt	14,202	—	—	—	14,202	13	14,215
Restricted by bond resolutions or legislation	—	5,279	203,079	—	208,358	43,919	252,277
Unrestricted	108,831	226,086	109,659	35,405	479,981	—	479,981
Total net assets	123,033	231,365	312,738	35,405	702,541	43,932	746,473
Total liabilities and net assets	$ 155,880	$ 789,116	$ 4,398,997	$ 37,151	$ 5,381,144	$ 52,676	$ 5,433,820

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

Balance Sheets

June 30, 2008 *(In thousands of dollars)*

	2008						
ASSETS	**General Fund**	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Current Assets:							
Cash and cash equivalents	$ 39,279	$ 199,021	$ 374,682	$ 25,778	$ 638,760	$ 205	$ 638,965
Investments	4,086	4,135	1,999	—	10,220	—	10,220
Accrued interest receivable	263	973	1,527	218	2,981	—	2,981
Mortgage loans receivable, net	—	28,496	64,270	—	92,766	6,404	99,170
Qualified tender bonds	—	—	—	—	—	—	—
Deferred financing costs and other assets	1,637	3,065	2,797	—	7,499	—	7,499
Operating advances to other funds	14,512	—	—	—	14,512	—	14,512
Restricted cash and investments	—	3,838	80,347	—	84,185	—	84,185
Total current assets	59,777	239,528	525,622	25,996	850,923	6,609	857,532
Noncurrent assets:							
Investments	39,112	65,480	185,773	23,640	314,005	—	314,005
Mortgage loans receivable, net	—	533,797	3,605,821	—	4,139,618	42,290	4,181,908
Capital assets, net	34,815	—	—	—	34,815	23	34,838
Deferred financing costs and other assets	2,456	4,597	4,196	—	11,249	5	11,254
Total noncurrent assets	76,383	603,874	3,795,790	23,640	4,499,687	42,318	4,542,005
Total assets	$ 136,160	$ 843,402	$ 4,321,412	$ 49,636	$ 5,350,610	$ 48,927	$ 5,399,537
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ —	$ 27,850	$ 88,390	$ —	$ 116,240	$ —	$ 116,240
Accrued interest payable	387	5,936	41,550	—	47,873	—	47,873
Accounts payable and accrued expenses	3,321	79	1,014	—	4,414	501	4,915
Escrow deposits and other liabilities	1,260	56,205	52,191	301	109,957	—	109,957
Operating advances from other funds	—	206	11,500	—	11,706	2,806	14,512
Total current liabilities	4,968	90,276	194,645	301	290,190	3,307	293,497
Noncurrent liabilities:							
Bonds and notes payable, net	19,924	295,703	3,809,363	—	4,124,990	—	4,124,990
Escrow deposits and other liabilities	2,903	215,635	14,575	1,037	234,150	3,067	237,217
Total noncurrent liabilities	22,827	511,338	3,823,938	1,037	4,359,140	3,067	4,362,207
Total liabilities	27,795	601,614	4,018,583	1,338	4,649,330	6,374	4,655,704
NET ASSETS							
Invested in capital assets, net of related debt	14,891	—	—	—	14,891	23	14,914
Restricted by bond resolutions or legislation	—	3,838	80,347	—	84,185	42,530	126,715
Unrestricted	93,474	237,950	222,482	48,298	602,204	—	602,204
Total net assets	108,365	241,788	302,829	48,298	701,280	42,553	743,833
Total liabilities and net assets	$ 136,160	$ 843,402	$ 4,321,412	$ 49,636	$ 5,350,610	$ 48,927	$ 5,399,537

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

Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Operating revenues:							
Interest on mortgage loans	$ —	$ 31,026	$ 176,104	$ —	$ 207,130	$ 860	$ 207,990
Program income and fees	30,564	1,389	3,541	411	35,905	13,920	49,825
Federal program awards	—	454,784	20,063	—	474,847	—	474,847
Total operating revenues	30,564	487,199	199,708	411	717,882	14,780	732,662
Operating expenses:							
Interest on bonds	822	13,887	199,081	—	213,790	—	213,790
Salaries and related benefits	19,876	—	—	—	19,876	2,488	22,364
OPEB liability expense	2,559	—	—	—	2,559	349	2,908
General and administrative	4,700	3,473	6,044	600	14,817	1,579	16,396
Provision for loan loss	—	3,000	2,100	—	5,100	9,045	14,145
Federal program expense	—	454,784	20,063	—	474,847	—	474,847
Total operating expenses	27,957	475,144	227,288	600	730,989	13,461	744,450
Operating income (loss)	2,607	12,055	(27,580)	(189)	(13,107)	1,319	(11,788)
Nonoperating revenues (expenses):							
Investment income	1,790	1,123	13,432	1,520	17,865	60	17,925
Net increase (decrease) in fair value of investments	5,509	(3,117)	(1,453)	(4,224)	(3,285)	—	(3,285)
Loss on early extinguishment of debt	—	(9)	(203)	—	(212)	—	(212)
Total nonoperating revenue (expense), net	7,299	(2,003)	11,776	(2,704)	14,368	60	14,428
Income (loss) before transfers	9,906	10,052	(15,804)	(2,893)	1,261	1,379	2,640
Transfers	4,762	(20,475)	25,713	(10,000)	—	—	—
Change in net assets	14,668	(10,423)	9,909	(12,893)	1,261	1,379	2,640
Total net assets, beginning of year	108,365	241,788	302,829	48,298	701,280	42,553	743,833
Total net assets, end of year	$ 123,033	$ 231,365	$ 312,738	$ 35,405	$ 702,541	$ 43,932	$ 746,473

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

Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008 *(In thousands of dollars)*

	2008						
	General Fund	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Operating revenues:							
Interest on mortgage loans	$ —	$ 33,445	$ 167,213	$ —	$ 200,658	$ 877	$ 201,535
Program income and fees	30,103	1,473	3,436	313	35,325	11,466	46,791
Federal program awards	—	459,687	1,544	—	461,231	—	461,231
Total operating revenues	30,103	494,605	172,193	313	697,214	12,343	709,557
Operating expenses:							
Interest on bonds	788	17,079	180,595	—	198,462	—	198,462
Salaries and related benefits	19,478	—	—	—	19,478	2,507	21,985
OPEB liability expense	2,677	—	—	—	2,677	364	3,041
General and administrative	5,288	2,359	5,076	600	13,323	2,065	15,388
Provision for loan loss	—	8,042	1,400	—	9,442	8,765	18,207
Federal program expense	—	459,687	1,544	—	461,231	—	461,231
Total operating expenses	28,231	487,167	188,615	600	704,613	13,701	718,314
Operating income (loss)	1,872	7,438	(16,422)	(287)	(7,399)	(1,358)	(8,757)
Nonoperating revenues (expenses):							
Investment income	1,343	6,471	26,827	1,989	36,630	151	36,781
Net increase (decrease) in fair value of investments	3,271	(2,177)	1,620	1,587	4,301	—	4,301
Loss on early extinguishment of debt	—	(31)	(198)	—	(229)	—	(229)
Total nonoperating revenue (expense), net	4,614	4,263	28,249	3,576	40,702	151	40,853
Income (loss) before transfers	6,486	11,701	11,827	3,289	33,303	(1,207)	32,096
Transfers	(22,267)	(33,343)	55,610	—	—	—	—
Change in net assets	(15,781)	(21,642)	67,437	3,289	33,303	(1,207)	32,096
Total net assets, beginning of year	124,146	263,430	235,392	45,009	667,977	43,760	711,737
Total net assets, end of year	$ 108,365	$ 241,788	$ 302,829	$ 48,298	$ 701,280	$ 42,553	$ 743,833

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

Statements of Cash Flows

Years Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ —	$ 45,344	$ 476,682	$ —	$ 522,026	$ 8,048	$ 530,074
Receipts from fees and other income	30,564	1,389	3,541	411	35,905	13,920	49,825
Receipts from interest on mortgages	$ —	31,741	176,035	—	207,776	860	208,636
Receipt of escrow deposits and other receipts	6,063	9,824	7,863	—	23,750	403	24,153
Payment for qualified tender bonds	—	—	(302,575)	—	(302,575)	—	(302,575)
Payments for mortgages purchased	—	(24,848)	(365,446)	—	(390,294)	(18,546)	(408,840)
Payments to employees and suppliers	(27,829)	(2,893)	(7,899)	(40)	(38,661)	(6,468)	(45,129)
Net cash provided by (used in) operating activities	8,798	60,557	(11,799)	371	57,927	(1,783)	56,144
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds and notes	—	—	351,340	—	351,340	—	351,340
Payments for retirement of bonds and notes	—	(53,167)	(314,831)	—	(367,998)	—	(367,998)
Payments of bond interest	—	(14,656)	(195,753)	—	(210,409)	—	(210,409)
Transfers (to) other funds	(16,571)	(20,287)	45,312	(10,000)	(1,546)	1,546	—
Net cash provided by (used in) noncapital financing activities	(16,571)	(88,110)	(113,932)	(10,000)	(228,613)	1,546	(227,067)
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(641)	—	—	—	(641)	—	(641)
Interest paid on capital debt	(816)	—	—	—	(816)	—	(816)
Net cash used in capital financing activities	(1,457)	—	—	—	(1,457)	—	(1,457)
Cash Flows From Investing Activities							
Proceeds from sales of and maturities of investments	15,433	96,575	663,455	7,639	783,102	—	783,102
Interest and dividends	1,790	1,123	13,432	1,520	17,865	60	17,925
Purchases of investments	(11,018)	(32,050)	(508,460)	—	(551,528)	—	(551,528)
Net cash provided by (used in) investing activities	6,205	65,648	168,427	9,159	249,439	60	249,499
Net increase (decrease) in cash and cash equivalents	(3,025)	38,095	42,696	(470)	77,296	(177)	77,119
Cash and cash equivalents, beginning of year	39,279	202,859	455,029	25,778	722,945	205	723,150
Cash and cash equivalents, end of year	$ 36,254	$ 240,954	$ 497,725	$ 25,308	$ 800,241	$ 28	$ 800,269

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

Statements of Cash Flows (continued)

Years Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 2,607	$ 12,055	$ (27,580)	$ (189)	$ (13,107)	$ 1,319	$ (11,788)
Interest expense on bonds	822	13,887	199,081	—	213,790	—	213,790
Provision for loan loss	—	3,000	2,100	—	5,100	9,045	14,145
Depreciation	1,327	—	—	—	1,327	10	1,337
Changes in assets and liabilities:							
Mortgage loans receivable, net	—	17,496	109,136	—	126,632	(10,498)	116,134
Accrued interest receivable	217	715	(69)	152	1,015	—	1,015
Deferred and qualified tendered bond assets	(1,221)	3,528	(302,504)	—	(300,197)	(2,483)	(302,680)
Accounts payable and accrued expenses	(1,017)	52	174	408	(383)	421	38
Escrow deposits and other liabilities	6,063	9,824	7,863	—	23,750	403	24,153
Net cash provided by (used in) operating activities	$ 8,798	$ 60,557	$ (11,799)	$ 371	$ 57,927	$ (1,783)	$ 56,144

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

Statements of Cash Flows

Years Ended June 30, 2010 and 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ —	$ 58,870	$ 233,115	$ —	$ 291,985	$ 10,750	$ 302,735
Receipts from fees and other income	30,025	—	3,436	313	33,774	11,466	45,240
Receipts from interest on mortgages	—	33,127	169,043	—	202,170	948	203,118
Receipt of escrow deposits and other receipts	2,450	9,838	9,726	—	22,014	—	22,014
Payment for qualified tendered bonds	—	—	—	—	—	—	—
Payments for mortgages purchased	—	(71,223)	(642,216)	—	(713,439)	(19,907)	(733,346)
Payments to employees and suppliers	(27,600)	(7,904)	(7,888)	(217)	(43,609)	(4,698)	(48,307)
Net cash provided by (used in) operating activities	4,875	22,708	(234,784)	96	(207,105)	(1,441)	(208,546)
Cash Flows From Noncapital Financing Activities							
Proceeds from the sale of bonds and notes	—	180,790	609,625	—	790,415	—	790,415
Payments for retirement of bonds and notes	—	(208,713)	(317,260)	—	(525,973)	—	(525,973)
Payments of bond interest	—	(17,396)	(176,693)	—	(194,089)	—	(194,089)
Transfers (to) other funds	(12,706)	(35,503)	46,712	—	(1,497)	1,497	—
Net cash provided by (used in) noncapital financing activities	(12,706)	(80,822)	162,384	—	68,856	1,497	70,353
Cash Flows From Capital Financing Activities							
Purchases of capital assets	(755)	—	—	—	(755)	(2)	(757)
Interest paid on capital debt	(790)	—	—	—	(790)	—	(790)
Net cash used in capital financing activities	(1,545)	—	—	—	(1,545)	(2)	(1,547)
Cash Flows From Investing Activities							
Proceeds from sales of and maturities of investments	91,412	82,955	996,371	—	1,170,738	—	1,170,738
Interest and dividends	1,343	6,471	26,827	1,990	36,631	151	36,782
Purchases of investments	(59,065)	(104,400)	(1,004,395)	(9,000)	(1,176,860)	—	(1,176,860)
Net cash provided by (used in) investing activities	33,690	(14,974)	18,803	(7,010)	30,509	151	30,660
Net increase (decrease) in cash and cash equivalents	24,314	(73,088)	(53,597)	(6,914)	(109,285)	205	(109,080)
Cash and cash equivalents, beginning of year	14,965	275,947	508,626	32,692	832,230	—	832,230
Cash and cash equivalents, end of year	$ 39,279	$ 202,859	$ 455,029	$ 25,778	$ 722,945	$ 205	$ 723,150

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

Statements of Cash Flows (continued)

Years Ended June 30, 2008 *(In thousands of dollars)*

	2008						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 1,872	$ 7,438	$ (16,422)	$ (287)	$ (7,399)	$ (1,358)	$(8,757)
Interest expense on bonds	788	17,079	180,595	—	198,462	—	198,462
Provision for loan loss	—	8,042	1,400	—	9,442	8,765	18,207
Depreciation	1,317	—	—	—	1,317	13	1,330
Changes in assets and liabilities:							
Mortgage loans receivable, net	—	(20,395)	(410,501)	—	(430,896)	(9,175)	(440,071)
Accrued interest receivable	240	(318)	1,830	(87)	1,665	—	1,665
Deferred and qualified tendered bond assets	(1,813)	2,429	(1,527)	—	(911)	1	(910)
Accounts payable and accrued expenses	99	68	115	43	325	(279)	46
Escrow deposits and other liabilities	2,372	8,365	9,726	427	20,890	592	21,482
Net cash provided by (used in) operating activities	$ 4,875	$ 22,708	$ (234,784)	$ 96	$ (207,105)	$ (1,441)	$(208,546)

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

1. Description of the Agency

The Pennsylvania Housing Finance Agency (Agency) is a corporate and political body created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 (Act), as amended. Pursuant to the Act, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income or the elderly. The Act was amended to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single family residences, and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or any of its political subdivisions.

The Agency is a component unit of the Commonwealth of Pennsylvania as described in GASB Statement No. 14, *"The Financial Reporting Entity,"* as amended by GASB Statement No. 39, *"Determining whether Certain Organizations are Component Units."* The Agency is included in the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report as a discretely presented component unit.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Expenses are charged as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 20, *"Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,"* was issued to give guidance in determining Generally Accepted Accounting Principles for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

Recently Adopted Accounting Standards

GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension."* This statement establishes standards for the measurement, recognition, and display of other post employment benefit expenses and related liabilities, note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Agency adopted GASB Statement No. 45 during the prior year. See note 15.

GASB Statement No. 50, *"Pension Disclosures – an amendment of Government Accounting Standards Board Statements No. 25 and No. 27."* This Statement more closely aligns the financial reporting requirements for pensions with those for other post employment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The Agency adopted GASB Statement No. 50 during the prior year. See note 14.

GASB Statement No. 55, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."* The Statement incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles. During the year, the Agency adopted GASB Statement No. 55 which had no effect on its financial statements.

GASB Statement No. 56, *"Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards."*

This Statement incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The Statement 56 guidance addresses three issues from the AICPA's literature-related party transactions, going concern considerations and subsequent events. During the year, the Agency adopted GASB Statement No. 56 which had no effect on its financial statements.

Accounting Standards Issued but Not Yet Adopted

In June 2009, the GASB issued Statement No. 53, *"Accounting and Financial Reporting for Derivative Instruments."* This statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. Derivatives are often complex financial arrangements used by the Agency to manage specific risks. By entering into these arrangements, the Agency receives or makes payment based on market prices without actually entering into the related financial transactions. Derivatives associated with changing financial prices result in changing cash flows and fair values that can be used as effective risk management tools. Derivatives, however, can also expose the Agency to significant risks and liabilities. The Agency is required to adopt GASB Statement No. 53 for its 2010 financial statements and is currently evaluating the impact of implementing this statement.

Description of Funds

The accounts of the Agency are organized based on separate enterprise funds. Each fund represents a separate accounting entity. Agency resources are allocated to these funds based on legal responsibility, fiscal accountability and management designation, summarized as follows:

GENERAL FUND - The General fund is utilized to record transactions that are not directly related to a specific bond resolution. All Agency expenses are recorded in this fund except for specific program expenses that are charged to the loan-related funds.

MULTIFAMILY HOUSING PROGRAM - Multifamily Housing Program activity relates to the financing of construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

SINGLE FAMILY MORTGAGE LOAN PROGRAM - Single Family Mortgage Loan Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons or families of low and moderate income.

INSURANCE FUND - The Agency provides primary mortgage insurance coverage through the Insurance Fund for single family borrowers that are unable to obtain insurance from other sources.

HOMEOWNER'S EMERGENCY MORTGAGE ASSISTANCE PROGRAM (HEMAP) - HEMAP was created by Act 91 of the General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

Cash and Cash Equivalents

Cash includes cash on hand and cash deposits. Cash equivalents are investments with a maturity of three months or less when purchased and include short-term highly liquid money market funds, which are readily convertible to known amounts of cash.

Investments

Investments are accounted for at fair value in accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and External Investment Pools,"* requires certain investments be reported at fair value in the Statement of Net Assets. The Agency reports all investments at fair value in the Statement of Net Assets.

Mortgage Loans Receivable

Mortgage loans receivable are carried at amounts disbursed or advanced plus accrued interest and fees, less collections, mortgage loan discounts and allowance for loan losses, if any. Current portions of loans receivable represents the contractual amount due within the next fiscal year.

Allowance for Potential Loan Losses

The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions.

Real Estate Owned

During the normal course of business, the Agency acquires single family real estate as a result of non-performing loans. The outstanding mortgage balances attributable to these properties, stated at cost, are included in mortgage loans receivable on the Balance Sheets. In addition to potential recoveries from mortgagors, these non-performing loans include amounts recoverable through both Housing and Urban Development and private mortgage insurance.

Capital Assets

Building, furniture and equipment are capitalized at cost. Depreciation is calculated using the straight-line method over the estimated useful lives, which are thirty years for the building and from three to ten years for furniture and equipment. The capitalization floor is $1 for all categories of capital assets. Maintenance and repairs are charged to operating expense.

Debt Issuance Costs, Bond Discounts and Other Bond Related Costs

The Agency issues bonds to provide capital for its mortgage programs and other uses consistent with its mission. Bonds are recorded at cost plus accreted interest and premiums, less discounts and deferred debt refunding losses. Discounts and premiums are amortized using the effective interest method. Deferred debt refunding losses are amortized over the shorter of the remaining life of the old debt, or the remaining life of the new debt. The Agency capitalizes costs related to bond issuances to deferred assets and amortizes these costs to interest expense over the contractual life of the bonds using the effective interest method.

Derivative Financial Instruments

The Agency enters into various interest rate swap agreements in order to manage risk associated with interest on its bond portfolio. As currently allowed under accounting principals generally accepted in the United States, the Agency does not record the fair value or changes in the fair value of interest rate swaps in its financial statements.

Advances To and From Other Funds and Interfund Transfers

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency makes interfund transfers to the extent that such transfers are not required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures.

Operating and Nonoperating Revenues and Expenses

The Agency was created with the authority to issue bonds to the investing public in order to create a flow of private capital through the Agency into mortgage loans to qualified housing sponsors and to individuals. The Agency's primary purpose is to borrow funds in the bond market and to use those funds to make multifamily and single family mortgages. The Agency's primary operating revenue is derived from the mortgage interest income and fees from mortgage transactions. Additionally, the Agency's passes through federal financial assistance programs for rental subsidies to tenants of various housing developments. The Agency records all revenues from mortgages and rental subsidies as operating revenues. The costs of providing these programs are recorded as operating expenses. The Agency's income on the invested proceeds from the bond issues is not considered part of the Agency's primary purpose. Consequently, income from investment activity, changes in the fair values of investments and early extinguishment of debt are considered nonoperating revenues or expenses.

Interest Income

Interest income is recognized over the remaining time to maturity of investment securities, mortgage loans receivable and construction advances based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan Program loans more than 180 days delinquent in scheduled payments are considered non-performing loans which result in the cessation of recognition of additional interest on such loans.

Pass-Through Grants

The Agency follows GASB Statement No. 24, *"Accounting and Financial Reporting for Certain Grants and Other Financial Assistance."* Statement No. 24

requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The effect of applying these provisions is to increase both operating income and expense when eligible expenses occur.

Pension Plan and Other Post Employment Benefits

GASB Statement No. 25, *"Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans"* and GASB Statement No. 27, *"Accounting for Pensions by State and Local Governmental Employers,"* amended by GASB Statement No. 50, *"Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27,"* requires the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due.

GASB Statement No. 45, *"Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pension,"* requires the Agency to establish standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities (assets) and note disclosures in the financial reports. The Agency does not fund its OPEB liability; rather the Agency maintains health insurance for its retirees on a pay-as-you-go basis.

Compensated Absences

Agency employees are granted vacation and illness pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused compensated absence pay earned and upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. Compensated absence pay is recognized as an expense in the amount earned each year.

Net Assets

Net assets are classified in the following three components:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

RESTRICTED NET ASSETS – Consists of net assets with constraints placed on their use by (1) external groups, such as creditors or (2) law through enabling legislation.

UNRESTRICTED – Consists of net assets that do not meet the definition of invested in capital assets or restricted. This component includes net assets designated for specific purposes by the Members of the Board.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to spend restricted resources to the extent allowed and only spend unrestricted resources when needed.

Reclassifications

Certain reclassifications have been made in the June 30, 2008 financial statements to conform to the June 30, 2009 presentation.

3. Deposits and Investments

Deposits

The Agency has a policy that cash and cash equivalents must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents consist of demand deposits, time deposits, cash held in trust and Money Market Funds.

A summary of the Agency's cash and cash equivalents is shown below:

	June 30, 2009	June 30, 2008
Restricted cash and cash equivalents	$208,358	$84,185
Unrestricted cash and cash equivalents	591,911	638,965
Carrying amount of cash and cash equivalents	$800,269	$723,150
Bank balance of cash and cash equivalents	$804,172	$722,897

Note: Restricted cash and cash equivalents represent cash deposits restricted by bond resolutions.

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its cash and cash equivalents with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's cash and cash equivalents may not be returned. The Agency has not established a formal custodial credit risk policy for its cash and cash equivalents.

At June 30, 2009, the carrying value of the Agency's cash deposits equaled $37,099 and the bank balance equaled $45,557, of which $44,699 was uninsured and collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania, with securities held by the pledging financial institution, its trust department or agent, but not in the Agency's name.

The difference between total cash and cash equivalents and total deposits represents Money Market Funds equaling $763,170, with a bank balance of $758,614 that does not expose the Agency to custodial credit risk.

Investments

The investment policies of the Agency are governed by Commonwealth of Pennsylvania statutes and contractual provisions contained in the bond trust indentures. The primary objectives of the Agency's investment activities are to provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the Agency.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2009, the Agency held the following investments with the listed maturities:

	Investments Maturities (in years)				
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Government Agency Mortgage-Backed Securities	$26,544	$4,058	$20,282	—	$2,204
U.S. Government Agency Securities	30,879	280	936	245	29,418
U.S. Treasury Securities	18,023	—	8,966	9,057	—
Corporate Bonds	13,920	4,555	7,616	1,749	—
	$89,366	$8,893	$37,800	$11,051	$31,622

Investments in Mortgage-Backed Securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages. In addition to the amounts listed above, the Agency held investments in Money Market Funds with a fair value of $763,170, reported as cash equivalents, all with maturities of less than 90 days.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments. As of June 30, 2009, no single issuer exceeded 5% or more of the Agency's total investment portfolio.

Credit Risk

The Agency mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio and pre-qualifying firms with which the Agency administers its investment activities.

As of June 30, 2009, the Agency's exposure to credit risk was as follows (rating provided by Moody's Investors Service):

	Quality Ratings				
Investment Type	**Fair Value**	**Aaa**	**A**	**Ba**	**Unrated***
U.S. Government Agency Mortgage-Backed Securities	$26,544	$24,340	—	—	$2,204
U.S. Government Agency Securities	30,879	—	—	—	30,879
U.S. Treasury Securities	18,023	—	—	—	18,023
Corporate bonds	13,920	—	5,873	7,037	1,010
	$89,366	$24,340	$5,873	$7,037	$52,116

*Unrated investments represent securities that are not rated by a nationally recognized statistical rating organization.

Of the $763,170 fair value in Money Market Funds, reported as cash equivalents, $755,993 is rated Aaa by Moody's Investors Service and $7,177 is not rated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency's $89,366 investment balance at June 30, 2009 is held by bank trust departments, acting as the counterparty, in book entry only form in the Agency's name and accordingly was subject to custodial credit risk. The total investment in Money Market Funds equaling $763,170, reported as cash equivalents, does not expose the Agency to custodial credit risk.

4. Mortgage Loans Receivable

Mortgage loans receivable at June 30, 2009 and 2008 consisted of the following:

	June 30, 2009	June 30, 2008
Multifamily Housing Program	$711,993	$732,889
Single Family Mortgage Loan Program	3,537,612	3,646,407
HEMAP	91,495	89,275
	4,341,100	4,468,571
Add:		
Loan discounts	23,793	25,072
Less:		
Allowance for potential loan losses	214,094	212,565
Mortgage receivable, net	4,150,799	4,281,078
Less current portion	104,310	99,170
Long-term portion	$4,046,489	$4,181,908

Multifamily Housing Program mortgage loans receivable are collateralized by first mortgages on the related properties. The federal government provides insurance to certain developments included in the Multifamily Housing Program, as well as subsidizes certain developments through its Section 8 Program. Construction advances are recorded as mortgage loans receivable. Amortization of the advances commences upon substantial completion and occupancy of the development.

Mortgage loans held by the Single Family Mortgage Loan Program have stated interest rates and are secured by first liens on the related real property. Insurance for the single family mortgage loans is provided by commercial companies and self-insurance through the Agency's Insurance Fund. Primary insurance is required on all single family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. It is the eligible borrowers' responsibility to bear the cost of primary insurance.

The Agency provides primary mortgage insurance coverage for certain Single Family Mortgage Loan Program loans through the Insurance Fund, which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2009 and 2008, the total loans covered under this program were $73,083 and $52,518, respectively.

GASB requires that the basis for estimating the liability for unpaid claims should include the effects of specific incremental claim adjustment expenses and estimated recoveries. Also, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which include estimates of both future payments of losses and related loss adjustment expenses, based on the Agency's past claim experience. Claims are not discounted and are net of any estimated recoveries, if any.

Changes in the Insurance Fund's claim liability amounts were as follows:

	June 30, 2009	June 30, 2008
Beginning balance	$1,338	$868
Current year estimated claims payable	600	600
Claim payments	(192)	(130)
Total claim liability	1,746	1,338
Less current portion	301	301
Long-term portion	$1,445	$1,037

Changes in the allowance for potential loan losses for the Multifamily Housing Program, Single Family Mortgage Loan Program and HEMAP were as follows at June 30, 2009 and 2008:

	Multifamily Housing Program		Single Family Mortgage Loan Program	
	2009	2008	2009	2008
Beginning balance	$167,818	$161,818	$4,166	$4,265
Loss provision	3,000	8,042	2,100	1,400
Net charge-offs	(3,399)	(2,042)	(939)	(1,499)
Balance, June 30	$167,419	$167,818	$5,327	$4,166

	HEMAP		Totals	
	2009	2008	2009	2008
Beginning balance	$40,581	$38,704	$212,565	$204,787
Loss provision	9,045	8,765	14,145	18,207
Net charge-offs	(8,278)	(6,888)	(12,616)	(10,429)
Balance, June 30	$41,348	$40,581	$214,094	$212,565

5. Mortgage Loan Sales

During the fiscal year ended June 30, 2009, the Agency sold Single Family Mortgage Loan Program loans with a principal balance of $221,582 to the Federal National Mortgage Association (FNMA). The Agency also entered into an administration agreement with FNMA, whereby the Agency receives a fee for servicing those loans on behalf of the new owner. The amounts earned are included in program income and fees on the Statement of Revenues, Expenses and Changes in Net Assets.

6. Servicing Portfolio

The Agency receives fee income for servicing mortgage loans for other governmental agencies. The loans are not reported on the Balance Sheets of the Agency, since there is no exposure of loss relating to these loans. The total amount of loans serviced for others under servicing agreements is $309,222 and $121,734 at June 30, 2009 and 2008, respectively.

7. Qualified Tender Bonds

In response to the recent credit market conditions that have disrupted the remarketing of certain auction rate bonds, the IRS issued Notice 2008-41, amended and supplemented by Notice 2008-88 which provides a special temporary rule which allows governmental issuers to purchase their own tax-exempt auction rate bonds on a temporary basis without resulting in a reissuance or retirement, provided those bonds are not held past December 31, 2009. In response to auction failures and liquidity constraints in the auction rate bond sector of the tax-exempt bond markets, the Agency purchased approximately $302,575 of its own tax-exempt bonds during the fiscal year. Those bonds are reported as qualified tendered bonds. The Agency will continue to hold those bonds until the auction rate securities market stabilizes or until the bonds are refunded with fixed rate issues prior to December 31, 2009.

8. Capital Assets

Capital assets activity and summary balances for the year's ended June 30, 2009 and 2008:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Non depreciable capital assets:				
Land	$2,454	—	—	$2,454
Total non depreciable capital assets	2,454	—	—	2,454
Depreciable capital assets:				
Building and improvements	29,741	206	12	29,935
Computers and equipment	6,034	254	749	5,539
Furniture and fixtures	4,349	193	41	4,501
Automobiles	112	—	—	112
Total depreciable capital assets	40,236	653	802	40,087
Less accumulated depreciation:				
Building and improvements	3,135	597	—	3,732
Computers and equipment	3,627	483	749	3,361
Furniture and fixtures	1,044	243	41	1,246
Automobiles	46	14	—	60
Total accumulated depreciation:	7,852	1,337	790	8,399
Total depreciable capital assets, net	32,384	(684)	12	31,688
Capital assets, net	$34,838	$(684)	$ 12	$34,142

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Non depreciable capital assets:				
Land	$2,454	—	—	$2,454
Total non depreciable capital assets	2,454	—	—	2,454
Depreciable capital assets:				
Building and improvements	29,647	100	6	29,741
Computers and equipment	5,452	582	—	6,034
Furniture and fixtures	4,276	79	6	4,349
Automobiles	126	—	14	112
Total depreciable capital assets	39,501	761	26	40,236
Less accumulated depreciation:				
Building and improvements	2,523	612	—	3,135
Computers and equipment	3,174	453	—	3,627
Furniture and fixtures	802	247	5	1,044
Automobiles	45	16	15	46
Total accumulated depreciation:	6,544	1,328	20	7,852
Total depreciable capital assets, net	32,957	(567)	6	32,384
Capital assets, net	$35,411	$(567)	$6	$34,838

Depreciation expense for June 30, 2009 and 2008 totaled $1,337 and $1,328, respectively.

9. Bonds and Notes Payable

Bonds issued to provide capital for mortgage programs have the full faith and credit of the Agency pledged for repayment. The bonds are secured by the revenues, investments, mortgage loans and others assets in the fund and accounts established by the respective security agreements.

Bonds payable for the General Fund are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts June 30, 2009	Outstanding June 30, 2008
Variable rate building development bonds	2034	$20,000	$20,000
Unamortized bond discount		(73)	(76)
Total bonds payable		19,927	19,924
Less current portion		—	—
Long-term portion		$19,927	$19,924

Bonds payable for the Multifamily Housing Program are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts June 30, 2009	Outstanding June 30, 2008
Multifamily Development Bonds			
Issue 1990A, 7.5%	2023	—	$1,595
Subordinate Limited Obligation Bonds			
Issue 1995, 5.50-6.15%	2021	2,225	3,228
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	62,990	73,740
Series 2008C/D, variable rate	2020	95,590	107,050
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	25,970	29,535
Multifamily Development Bonds			
Issue 1989B, 8.25%	2019	345	365
Issue 1993A (refunding), 5.38%	2022	8,640	10,560
Issue 1993F, 6.53%	2019	4,055	5,020
Issue 1997G.7.36%	2027	9,110	9,340
Issue 1998H, 6.3%	2028	14,960	15,345
Issue 2003 (refunding), 3.25-4.80%	2019	12,495	13,875
Issue 2005A, 4.00-5.00%	2026	—	20,615
Issue 2005K, variable rate	2036	25,785	26,350
Issue 2007L, 4.20%	2009	12,600	12,600
		274,765	329,218
Unamortized bond discount		(206)	(226)
Unamortized deferred loss of		(4,164)	(5,439)
Total bonds payable		270,395	323,553
Less current portion		40,133	27,850
Long-term portion		$230,262	$295,703

Bonds and notes payable for the Single Family Mortgage Loan Program are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts June 30, 2009	Outstanding June 30, 2008
Single Family Mortgage Revenue Bonds			
Series 1996 - 47, 4.20-6.75%	2027	$2,820	$4,100
Series 1997 - 54, 5.37-7.22%	2028	—	870
Series 1997 - 58, 4.30-7.81%	2028	390	1,795
Series 1997 - 59, 4.00-5.15%	2029	180	1,360
Series 1997 - 60, 4.00-7.69%	2028	315	1,900
Series 1997 - 61, 4.00-6.80%	2029	37,655	39,540
Series 1998 - 62, 4.25-6.40%	2029	48,370	50,385
Series 1998 - 63, 3.95-5.50%	2030	48,799	50,178
Series 1998 - 64, 3.65-5.25%	2030	49,365	51,767
Series 1999 - 65, 3.25-5.25%	2030	46,320	50,270
Series 1999 - 66, 4.05-6.95%	2031	26,600	29,040
Series 1999 - 67, 4.05-7.51%	2030	30,805	37,380
Series 1999 - 68, 4.30-7.02%	2031	18,230	21,910
Series 2000 - 69, 4.35-6.25%	2031	34,670	36,125
Series 2000 - 70, 4.30-5.90%	2032	33,555	35,165
Series 2001 - 72, 3.25-5.35%	2032	152,225	157,970
Series 2002 - 73, 1.75-5.45%	2033	118,400	127,515
Series 2002 - 74, variable rate	2032	98,120	98,530
Series 2002 - 75, variable rate	2033	88,510	90,555
Series 2003 - 77, variable rate	2033	77,150	82,405
Series 2003 - 78, variable rate	2025	57,390	59,885
Series 2003 - 79, variable rate	2034	77,225	81,765
Series 2004 - 81, variable rate	2034	85,135	87,610
Series 2004 - 82, variable rate	2034	80,175	85,835
Series 2004 - 83, variable rate	2035	82,275	85,540
Series 2004 - 84, variable rate	2034	84,420	88,650
Series 2004 - 85, variable rate	2035	86,975	88,860
Series 2004 - 86, variable rate	2035	94,440	96,185
Series 2005 - 87, variable rate	2035	92,175	93,020
Series 2005 - 88, variable rate	2037	86,875	91,170
Series 2005 - 89, variable rate	2035	115,780	115,780
Series 2005 - 90, variable rate	2036	117,205	120,320
Series 2005 - 91, variable rate	2036	121,025	122,805
Series 2006 - 92, variable rate	2036	122,255	123,635
Series 2006 - 93, variable rate	2037	110,380	117,700
Series 2006 - 94, variable rate	2037	112,435	117,850
Series 2006 - 95, variable rate	2037	175,045	187,570
Series 2006 - 96, 3.60-5.72%	2037	179,400	188,870
Series 2007 - 97, variable rate	2037	154,260	197,510
Series 2007 - 98, variable rate	2037	188,230	196,855
Series 2007 - 99, variable rate	2038	128,360	198,950
Series 2007 - 100, variable rate	2038	140,180	199,975
Series 2007 - 101, variable rate	2038	56,905	59,625
Series 2007 - 102, variable rate	2038	148,885	150,000
Series 2008 - 103, 2.00-5.70%	2038	182,400	—
Series 2008 - 104, variable rate	2038	167,250	—
Note Purchase Agreement - 2.5%	2017	3,500	2,500
		3,963,059	3,927,225
Unamortized bond discount		(11,690)	(11,823)
Unamortized deferred loss of		(16,904)	(17,649)
Total bonds and notes payable		3,934,465	3,897,753
Less current portion		112,015	88,390
Long-term portion		$3,822,450	$3,809,363

Interest paid on variable-rate tax-exempt bonds is closely correlated with the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) rate. Generally, note resets occur quarterly, monthly or weekly.

The approximate principal and interest payments required on outstanding bonds and notes over the next five years and thereafter are as follows:

Fiscal Year	General Fund		Multifamily		Single Family		
Ending	Principal	Interest	Principal	Interest	Principal	Interest	Total
2010	—	$60	$40,133	$4,645	$112,015	$124,152	$281,005
2011	—	60	28,619	4,042	113,920	120,100	266,741
2012	—	60	27,151	3,680	118,470	115,892	265,253
2013	—	60	26,083	3,309	115,255	111,466	256,173
2014	—	60	21,547	2,853	112,980	107,121	244,561
2015-2019	1,910	289	84,267	10,389	654,890	469,230	1,220,975
2020-2024	2,355	258	24,800	5,014	724,220	354,155	1,110,802
2025-2029	2,915	219	13,095	1,531	829,485	238,410	1,085,655
2030-2034	12,820	172	6,905	171	762,049	117,332	899,449
2035-2039	—	—	2,165	12	419,775	24,171	446,123
	$20,000	$1,238	$274,765	$35,646	$3,963,059	$1,782,029	$6,076,737

Early Extinguishment of Debt

During the years ended June 30, 2009 and 2008, because of the prepayment of certain mortgages, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain of its bonds, totaling approximately $22,480 and $51,781, respectively. Net losses of $212 and $229 on early extinguishments have been recorded as a non-operating expense for years ended June 30, 2009 and 2008, respectively. Losses arise because of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

Current Refunding

During the year ended June 30, 2009, because of new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately $1,800. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of $17. The Agency recognized a deferred loss of $1,085. The Agency increased its aggregate debt service payments by $54 over the next 30 years by the current years refunding activity.

During the year ended June 30, 2008, because of new debt proceeds, the Agency refunded the principal amount of certain Single Family Bonds, totaling approximately $160,959. Although the current refunding resulted in the recognition of a deferred loss of $484 for the year ended June 30, 2008, the Agency in effect reduced its aggregate debt service payments by $12,398 over the next 30 years and obtained an economic gain (difference between the present value of the old debt and new debt service payments) of $7,076 for the year ended June 30, 2008.

Advance Refunding

The Agency effected an advanced refunding where the proceeds of issued bonds were used to defease outstanding debt of the Agency. The result is an in-substance defeasance whereby the Agency purchased securities, which were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The Agency defeased Multifamily Residential Development Bonds, Issue H in prior years. The defeased principal outstanding is $2,725 for both years ended June 30, 2008 and 2009.

Conduit Debt Obligations

The Agency issued series 2008M Limited Obligation Multifamily Housing Revenue Bonds, series 2008P Special Limited Obligation Housing Development Bonds and series 2008O Special Limited Obligation Housing Development Bonds to provide for the financial assistance of local public housing authorities. These bonds will allow for new construction or preservation of 906 units of affordable housing stock in the Commonwealth. The bonds are secured solely by the properties and related revenues.

The Agency issued series 2003J Limited Obligation Multifamily Development Bonds and series 2005A Capital Fund Securitization Revenue Bonds to provide for the financial assistance of a local public housing authority. The bonds are secured solely by the properties financed and related revenues or appropriations to be paid by the United States Department of Housing and Urban Development.

These bonds, which are considered conduit debt obligations under GASB rules, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2009 and 2008, conduit debt outstanding aggregated $97,002 and $10,621, respectively.

Bond Covenants

Minimum capital reserves have been established by the Agency to meet the requirements of bond covenants. The capital reserve requirement for certain Multifamily Housing Program bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family Mortgage Loan Program bonds must be equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. Bond covenant requirements regarding restricted cash and net assets were met at the year-end.

10. Interest Rate Swaps

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed, receive-variable interest rate swap agreements at a cost less than what the Agency would have paid to issue conventional fixed-rate debt.

Swap Payments

At June 30, 2009, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments, assuming current interest rates remain constant, are displayed in the following schedule. As interest rates vary, variable-rate bond interest payments and net swap payments will also vary.

Fiscal Year Ending June 30	Variable Rate Bond Principal	Variable Rate Bond Interest	Interest Rate Swap, Net	Total
2010	$31,360	$9,901	$59,358	$100,619
2011	31,190	9,773	54,221	95,184
2012	29,665	9,648	52,088	91,401
2013	24,875	9,532	49,202	83,609
2014	24,005	9,432	54,414	87,851
2015-2019	231,550	44,384	199,319	475,253
2020-2024	282,580	36,895	148,916	468,391
2025-2029	400,500	26,895	103,906	531,301
2030-2034	389,960	13,900	50,492	454,352
2035-2039	179,735	2,410	6,062	188,207
Totals	$1,625,420	$172,770	$777,978	$2,576,168

Significant Terms

The terms, fair value and credit ratings of the Agency's outstanding swaps as of June 30, 2009, are included in the following schedule (Credit ratings supplied by Standard and Poor's/Moody's):

See chart on right-hand page.

*Indicates an embedded option to reduce the notional amount without a payment to the counterparty.

Fair Value

Because interest rates have changed since the agreements became effective, all of the Agency's interest rate swaps have a negative fair value as of June 30, 2009. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Termination Risk

The Agency or the counterparty may terminate any of the swaps if either party fails to perform under the terms of the swap agreements. Furthermore, the Agency maintains the option to terminate swap agreements anytime. If at the time of termination the swap has a negative fair value, the Agency would be liable to the counterparty for a payment equal to the swap's fair value. Lehman Brothers, counterparty to one of the Agency's swaps, filed for bankruptcy, which triggered an interest rate swap termination event on September 16, 2008. As a result, the fair value of the swap agreement of $283 at the time of the termination was paid to the Agency during the year ended June 30, 2009.

Basis and Interest Rate Risks

Basis risk exists to the extent the Agency's variable-rate bond payments do not exactly equal the index of the swap. If any of the swaps are terminated, the associated floating rate bonds would no longer carry synthetic fixed interest rates and, thus, the Agency would be exposed to interest rate risk. This risk is mitigated by the fact that the termination payment could be used to enter into an identical swap at the termination date of the existing swap.

Counter-Party and Ratings	Related Bond Issue	Notional Amount	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received	Fair Values of Contract
JP Morgan — AA-/Aa1	RHR2008C*	$49,935	6/2003	7/2020	3.457%	70% of 1-month LIBOR	$(2,857)
	RHR2008D*	49,935	6/2003	7/2020	3.547	70% of 1-month LIBOR	(2,788)
PNC Bank — A+/A1	VRBD2004	20,000	2/2004	1/2034	3.945	65% of 1-month LIBOR+25bps	(920)
Merrill Lynch — A/A2	2004-82B	42,905	5/2004	10/2030	3.643	61% of 1-month LIBOR+39bps	(2,221)
	2004-82C*	35,220	5/2004	10/2034	4.164	61% of 1-month LIBOR+39bps	(1,767)
	2005-88B	49,575	5/2005	10/2035	3.500	61% of 1-month LIBOR+39bps	(2,422)
	2005-88C*	31,930	5/2005	10/2035	3.975	61% of 1-month LIBOR+39bps	(846)
	2006-93B	37,185	5/2006	4/2037	4.266	61% of 1-month LIBOR+39bps	(3,418)
	2007-98C*	41,955	5/2007	10/2037	4.105	61% of 1-month LIBOR+39bps	(2,442)
RBC Capital — AA-/Aaa	MF2005-K*	30,045	3/2005	1/2036	5.183	1-month LIBOR	(4,642)
UBS AG — A+/Aa2	2000-70B	3,155	4/2001	4/2011	6.927	1-month LIBOR	(163)
	2002-73C	2,505	3/2002	4/2010	5.017	1-month LIBOR	(65)
	2002-75A	30,000	12/2002	10/2032	3.957	70% of 1-month LIBOR	(1,482)
	2003-79B*	75,800	12/2003	10/2033	3.997	65% of 1-month LIBOR+25bps	(6,203)
	2004-83B	23,365	8/2004	10/2019	3.410	65% of 1-month LIBOR+25bps	(1,211)
	2004-83C*	54,185	8/2004	10/2035	4.060	65% of 1-month LIBOR+25bps	(3,934)
	2004-85B	22,990	11/2004	4/2019	3.168	65% of 1-month LIBOR+25bps	(599)
	2004-85C*	58,860	11/2004	10/2035	3.879	65% of 1-month LIBOR+25bps	(3,525)
	2005-87B	36,485	3/2005	10/2023	3.460	65% of 1-month LIBOR+25bps	(1,953)
	2005-87C*	60,425	3/2005	10/2035	3.882	65% of 1-month LIBOR+25bps	(3,545)
	2005-90C*	62,465	9/2005	4/2036	3.692	65% of 1-month LIBOR+25bps	(2,783)
	2006-92B	43,745	3/2006	10/2036	3.996	65% of 1-month LIBOR+25bps	(3,245)
	2006-95C*	46,910	9/2006	4/2026	4.115	65% of 1-month LIBOR+25bps	(3,040)
	2007-97D1	23,185	3/2007	10/2014	4.922	1-month LIBOR	(1,773)
	2007-97D2	10,130	3/2007	4/2012	4.862	1-month LIBOR	(580)
	2007-100C	44,395	12/2007	4/2038	4.136	65% of 1-month LIBOR+25bps	(3,309)
	2007-100D	54,220	12/2007	10/2013	4.471	1-month LIBOR	(3,830)
Goldman Sachs — AAA/Aa1	1999-67B	18,795	8/2002	4/2029	5.950%	1-month LIBOR + 50bps	(3,427)
	2001-72C	16,390	9/2001	10/2023	5.695	1-month LIBOR	(1,953)
	RHR2002A*	63,460	7/2002	1/2021	3.575	67% of 1-week LIBOR	(4,026)
	2002-74A	30,000	8/2002	10/2032	4.285	67% of 1-month LIBOR	(1,972)
	2003-77B*	59,900	9/2003	10/2033	4.060	67% of 1-month LIBOR	(2,824)
	2003-77C	9,280	9/2003	4/2012	2.690	67% of 1-month LIBOR	(269)
	2004-81B	6,285	4/2004	4/2013	2.365	67% of 1-month LIBOR	(159)
	2004-81C*	62,740	4/2004	10/2034	3.557	67% of 1-month LIBOR	(2,355)
	2004-84C	13,230	9/2004	4/2018	3.115	67% of 1-month LIBOR	(604)
	2004-84D*	58,335	9/2004	10/2034	3.879	67% of 1-month LIBOR	(2,938)
	2004-86B*	62,785	11/2004	10/2033	3.417	67% of 1-month LIBOR	(3,501)
	2005-89*	109,870	6/2005	10/2035	3.605	67% of 1-month LIBOR	(4,506)
	2005-91B	70,000	12/2005	10/2036	3.953	67% of 1-month LIBOR	(5,310)
	2006-94B	35,165	7/2006	4/2027	4.152	69% of 1-month LIBOR	(3,996)
	2007-99C	15,000	9/2007	10/2023	3.885	69% of 1-month LIBOR	(1,709)
	2007-99D	62,990	9/2007	4/2015	5.149	1-mth LIBOR rounded up .001%	(5,503)

Credit Risk

All of the Agency's swaps rely upon the performance of the third parties who serve as swap counterparties, and as a result, the Agency is exposed to credit risk – i.e., the risk that a swap counterparty fails to perform according to contractual obligations. The appropriate measurement of the risk at the reporting date is the positive fair values of the outstanding swaps, as shown in the column labeled "Fair value of contract" in the table on page 45. As of June 30, 2009, the Agency was not exposed to credit risk on the outstanding swaps because all swaps had negative fair values.

Rollover Risk

Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt. When the swap terminates, the associated debt will no longer have the benefit of the swap. The Agency is exposed to rollover risk on the following debt:

Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2000-70B	10/2028	04/2011
2001-72C	10/2032	10/2023
2002-73C	04/2032	04/2010
2004-81B*	10/2034	04/2013
2004-82B*	04/2034	10/2030
2004-83B*	04/2035	10/2019
2004-85B*	04/2035	04/2019
2004-86B*	10/2035	10/2033
2005-87B*	04/2035	10/2023
2005-88B*	10/2036	10/2035
2005-88C*	04/2037	10/2035
2007-97D1	10/2037	10/2014
2007-97D2	10/2037	04/2012
2007-99D	04/2023	04/2015
2007-100D	04/2038	10/2013

*While the maturity dates for these tax-exempt bond issues differ from the associated interest rate swap termination dates, the principal amount of these bond issues outstanding equals the notional value of the associated interest rate swaps.

11. Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2009 were as follows:

	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Bonds and notes payable	$4,276,443	$351,340	$369,959	$4,257,824	$152,148
Net bond premium (discount)	(12,125)	(1,279)	(1,435)	(11,969)	—
Deferred refunding loss	(23,088)	(1,085)	(3,105)	(21,068)	—
Bonds and notes payable, net	4,241,230	348,976	365,419	4,224,787	152,148
Net OPEB obligation	3,041	3,316	408	5,949	—
Escrow deposits	168,901	212,397	215,801	165,497	60,520
Other liabilities	175,232	390,199	365,142	200,289	695
Escrow and other liabilities	347,174	605,912	581,351	371,735	61,215
Total net long-term liabilities	$4,588,404	$954,888	$946,770	$4,596,522	$213,363

The changes in long-term liabilities for the year ended June 30, 2008 were as follows:

	July 1, 2007	Additions	Reductions	June 30, 2008	Due Within One Year
Bonds and notes payable	$4,010,676	$1,056,211	$790,444	$4,276,443	$116,240
Net bond premium (discount)	(9,631)	(3,353)	(859)	(12,125)	—
Deferred refunding loss	(24,489)	(2,108)	(3,509)	(23,088)	—
Bonds and notes payable, net	3,976,556	1,050,750	786,076	4,241,230	116,240
Net OPEB obligation	—	3,041	—	3,041	—
Escrow deposits	164,143	205,139	200,381	168,901	61,132
Other liabilities	161,248	349,499	335,515	175,232	48,825
Escrow and other liabilities	325,391	557,679	535,896	347,174	109,957
Total net long-term liabilities	$4,301,947	$1,608,429	$1,321,972	$4,588,404	$226,197

12. Restricted Net Assets

Multifamily Housing Program and Single Family Mortgage Loan Program net assets of $5,279 and $203,079, respectively, are restricted by bond resolutions required under certain bond indentures whose proceeds are used to fund loan programs, including the Self-Insurance Fund, which has been established at not less than 1% of anticipated mortgages to be originated on Series I through Series 2006-96 and held by a trustee.

HEMAP's net assets of $43,919 have been restricted in accordance with GASB Statement No. 46, *"Net Assets Restricted by Enabling Legislation."* Net assets have been restricted by the Commonwealth of Pennsylvania, which requires that net assets shall be used in providing assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

13. Designated Net Assets

Unrestricted net assets have been designated by the Members of the Board for the following purposes at June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
General Fund:		
Single Family Insurance to fund special hazard losses by homeowners	$16,500	$16,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Housing Initiatives provide below market rate financing to developments	11,850	11,850
Home Buyer Counseling for education of first-time homebuyers	6,500	6,500
Home Choice Program to fund the development of homes in urban areas	47,150	47,031
Homeless Auxiliary Initiative to provide assistance to homeless shelters	1,593	1,593
Total	$93,593	$93,474
Multifamily Housing Program:		
PennHOMES	$137,000	$137,000
Senior Housing with Supportive Services to fund elderly resident services	4,000	4,000
Supportive Services to fund multifamily resident services	2,300	2,300
Preservation manages physical deterioration, financial or social distress	3,000	3,000
Total	$146,300	$146,300
Single Family Mortgage Loan Program:		
Closing Cost Subsidy Program to assist borrowers with closing costs	$14,750	$14,750
Additional Single Family Insurance to reduce the risk of default on loans	2,455	2,455
Total	$17,205	$17,205
Insurance Fund:		
Risk Retention Program to provide single family mortgage insurance	$35,405	$48,298

14. Pension Plans

Plan Description

As of June 30, 2009, substantially all eligible full-time employees are participants in the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan) or Government Excess Benefit Plan (Excess Plan), which are both noncontributory defined benefit, single employer plans. Pension plan assets and liabilities are not included in the basic financial statements of the Agency. The Plans do not issue stand-alone financial statements.

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of five years of service. Under the provisions of the Plan, participants with prior military service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by Internal Revenue Code (IRC) Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan do not exceed the limitation imposed by IRC Section 415. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

Annual Pension Cost and Net Pension Asset

The Agency's annual pension costs and net pension assets of the Plan are as follows:

	June 30, 2009	June 30, 2008
Annual required contribution (ARC)	$2,348	$2,364
Interest on net pension asset	(67)	—
Adjustment to ARC	102	—
Annual pension cost	2,383	2,364
Contributions made	(2,700)	(2,600)
Increase in net pension asset	(317)	(236)
Net pension asset beginning of year	(1,135)	(899)
Net pension asset end of year	$(1,452)	$(1,135)

Three-Year Trend Information for the Plan:

Calendar Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset)
December 31, 2008	$2,383	113%	$(1,452)
December 31, 2007	2,364	110	(1,135)
December 31, 2006	2,335	103	(899)

Funded Status and Funding Progress

As of January 1, 2009, the most recent actuarial valuation date, the Plan was 67.1% funded. The actuarial accrued liability for benefits was $52,204, and the actuarial value of assets was $35,042, resulting in an unfunded actuarial accrued liability (UAAL) of $17,162. The covered payroll (annual payroll of active employees covered by the Plan) was $13,447 and the ratio of the UAAL to the covered payroll was 127.6%. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2009
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value for 1/1/2007 and 1/1/2008 and Five-Year Smoothed Value for 1/1/2009.

Actuarial assumptions:

Investment rate of return	7.5%
Projected salary increases	4.5%
Includes inflation at:	Moderate rate based on historical averages
Post-retirement benefit increases	none

*Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan.

The schedule of retirement plan funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

15. Post employment Benefits Other Than Pensions

Plan Description

The Agency sponsors a single-employer defined benefit plan (Plan) to provide certain post retirement healthcare benefits (OPEB) to all former employees who are members of the Employee Pension Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of certain hospitalization, major medical insurance, physician services and prescription drug coverage. These benefits are provided through insurance companies. The Agency is under no statutory or contractual obligation to provide these post retirement healthcare benefits. Plan assets and liabilities are included in the basic financial statements of the Agency. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the Plan.

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are partially funded by retirees desiring such coverage via co-pays paid to the Agency in accordance with rates established by the Agency. For the year ended June 30, 2009, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the year ended June 30, 2009, Plan members receiving benefits paid $10, which was used to offset the Agency's total outlays to insurance carriers equaling $408 for current year premiums due. The net outlay from the Agency, which equaled $398, represents the Agency's net cost paid for current year premiums due.

The Agency currently funds post employment healthcare benefits on a pay-as-you-go basis. Although the Agency is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Because 2007 was the transition year for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the OPEB liability balance was zero upon implementation.

Contribution requirements and benefit provisions of the Plan are established and may be amended by the Members of the Board.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The following table illustrates the components of the Agency's annual OPEB costs, the amount actually contributed to the Plan, and changes in the Agency's net OPEB obligation:

	June 30, 2009	June 30, 2008
Annual required contribution (ARC)	$3,363	$3,363
Interest on net OPEB obligation	131	—
Adjustment to ARC	(178)	—
Annual OPEB expense	3,316	3,363
Contributions made	(408)	(322)
Increase in net OPEB obligation	2,908	3,041
Net OPEB obligation beginning of year	3,041	—
Net OPEB obligation end of year	$5,949	$3,041

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation at June 30, 2009 and 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	$3,316	12%	$5,949
June 30, 2008	3,363	10	3,041

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits equaled $28,072, resulting in an unfunded actuarial accrued liability (UAAL) of $28,072. The covered payroll (annual payroll of active employees covered by the Plan) equaled $13,382, and the ratio of the UAAL to the covered payroll equaled 209.8%.

Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The schedule of funding progress for the post employment healthcare plan, presented as required supplementary information (RSI) following the notes to the financial statements presents multiyear trend information, when available, about whether the actuarial value of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purpose are based on the substantive Plan (the Plan as understood by the Agency and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2007, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) used specifically for paying the post retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency. Actuarial assumptions also included annual healthcare cost trend rates of 9%, initially, reduced by decrements to an ultimate rate of 5% for healthcare costs after eight years and later. The UAAL is being amortized as a level dollar amount over thirty years on an open basis.

16. Advances Receivable, Payable and Transfers

Advances to and from other funds is summarized below for the year ended June 30, 2009:

Advance payable fund:	
Multifamily Housing Program	$394
Single Family Mortgage Loan Program	31,099
HEMAP	4,352
Total	$35,845

Advance receivable fund:	
General Fund	$35,845

Interfund	
General Fund	$4,762
Single Family Mortgage Loan Program	25,713
	$30,475
Interfund	
Insurance Fund	$10,000
Multifamily Housing Program	20,475
	$30,475

17. Contingencies and Commitments

Contingent Liabilities

The Agency participates in several federally assisted programs. Those programs are subject to program audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Agency. In management's opinion, disallowance, if any, will be immaterial.

Risk Management

The Agency is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses or decreases in insurance coverage over the last three years.

Litigation

In the normal course of business, there are various claims or suits pending against the Agency. In the opinion of Agency management and counsel, the amount of such losses that might result from these claims or suits, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire Multifamily Housing and Single Family Mortgage loans were approximately $8,540 and $5,655, respectively, at June 30, 2009.

18. Subsequent Events

On September 25, 2009, as a result of auction failures and liquidity constraints in the auction rate bond sector of the tax-exempt bond markets, the Agency purchased $71,987 of its own tax-exempt bonds. As temporarily allowed by the IRS, the bonds purchased will be recorded as an asset on the Agency's Balance Sheets as qualified tendered bonds. The Agency will hold those bonds awaiting remarketing when the auction rate securities market stabilizes or until those bonds are refunded with fixed rate issues prior to December 31, 2009, which is the IRS deadline for holding qualified tendered bonds.

On September 30, 2009, the Agency issued $193,670 of Single Family Mortgage Revenue Bonds, Series 105A through 105C. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2039. The bonds will be primarily secured by program obligations consisting of qualifying single family mortgage loans purchased from bond proceeds.

Required Supplementary Information (Unaudited)

June 30, 2009 *(In thousands of dollars)*

Schedule of Retirement Plan Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)
01/01/2009	$35,042	$52,204	$17,162
01/01/2008	37,040	46,470	9,430
01/01/2007	31,939	41,823	9,884

Actuarial Valuation Date	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
01/01/2009	67.1%	$13,447	127.6%
01/01/2008	79.7	12,652	74.5
01/01/2007	76.4	12,464	79.3

Schedule of Funding Progress for the Post Employment Healthcare Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)
07/01/2007	$35,042	$52,204	$17,162

Actuarial Valuation Date	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
07/01/2007	67.1%	$13,447	127.6%

Because 2007 was the year of transition for GASB Statement No. 45, requirements of GASB Statement No. 45 have been implemented prospectively; therefore, the above schedule does not reflect similar information respective of the two preceding years.

PENNSYLVANIA HOUSING FINANCE AGENCY

2009-2010 Basic Financial Statements

AND REQUIRED SUPPLEMENTARY INFORMATION

Contents

Report of Independent Auditors

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Quality In Everything We Do

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Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the basic financial statements, as listed in the table of contents, of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania. These financial statements are the responsibility of PHFA's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of PHFA's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, in all material respects, the respective financial position of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and HEMAP of PHFA as of June 30, 2010 and 2009, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 7, PHFA adopted Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2010 on our consideration of PHFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, and the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan on pages 5 through 12, 52, and 53, respectively, are not a required part of the basic financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

December 15, 2010

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Members of the Board of Directors
Pennsylvania Housing Finance Agency

We have audited the financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated December 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHFA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PHFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Board of Directors, management, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

December 15, 2010

Introduction

This discussion and analysis of the financial performance of the Pennsylvania Housing Finance Agency (Agency) is required supplementary information. It introduces the financial statements for the year ended June 30, 2010 with selected comparative information for the years ended June 30, 2009 and June 30, 2008. It provides the financial highlights and assessments that, in management's view, significantly affected the Agency's overall financial position. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section.

Basic Financial Statements

The Agency's basic financial statements include the Balance Sheet, the Statement of Revenues, Expenses and Change in Fund Net Assets, the Statement of Cash Flows and the Notes to Financial Statements.

The Balance Sheet provides information about the liquidity and solvency of the Agency by indicating the nature and the amounts of investments in resources (assets), the obligations to creditors (liabilities) and net assets. Net assets represent the amount of total assets, less liabilities. The organization of the statement separates assets and liabilities into current and noncurrent categories.

The Statement of Revenues, Expenses and Change in Fund Net Assets accounts for all of the current year's revenue and expenses in order to measure the success of the Agency's operations over the past year. It is used to determine how the Agency has funded its costs. By presenting the financial performance of the Agency, the change in net assets is similar to net profit or loss for a business. This statement is organized by separating operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses are defined as those relating to the Agency's primary business of funding homes and apartments throughout the Commonwealth of Pennsylvania. Nonoperating revenues and expenses are those that do not contribute directly to the Agency's primary business.

The Statement of Cash Flows is presented using the direct method of reporting. It provides information about the Agency's cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities. Cash receipts and payments are presented in this statement to arrive at the net increase or decrease in cash and cash equivalents for each year.

The financial statements are accompanied by a complete set of notes and required supplementary information. They present information that is essential in understanding the financial statements, such as accounting methods and policies providing information about the content of the financial statements.

Condensed Balance Sheets

The following table presents summarized information about the financial position of the Agency as of June 30, 2010, 2009 and 2008, and the changes in the balances from the prior years (in thousands):

Condensed Balance Sheets

(In thousands of dollars)

	June 30, 2010	June 30, 2009	June 30, 2008	% Change 2010/2009	% Change 2009/2008
Assets:					
Capital assets	$ 33,353	$ 34,142	$ 34,838	(2.3)%	(2.0)%
Other assets	6,232,043	5,399,678	5,364,699	15.4	0.7
Total assets	6,265,396	5,433,820	5,399,537	15.3	0.6
Liabilities:					
Current liabilities	782,236	304,188	293,497	157.2	3.6
Long-term liabilities	4,712,074	4,383,159	4,362,207	7.5	0.5
Total liabilities	5,494,310	4,687,347	4,655,704	17.2	0.7
Net assets:					
Invested in capital assets, net of related debt	13,423	14,215	14,914	(5.6)	(4.7)
Restricted	239,098	252,277	126,715	(5.2)	99.1
Unrestricted	518,565	479,981	602,204	8.0	(20.3)
Total net assets	$ 771,086	$ 746,473	$ 743,833	3.3%	0.4%

Discussion and Analysis of the Significant Changes in the Balance Sheets

1. Assets

Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments equaled 24% of the total assets at June 30, 2010 and equaled 16% and 19% of the total assets at June 30, 2009 and 2008, respectively. The Agency's funding comes from a variety of sources, including the sale of its own securities to private investors, grants from federal and local governments, mortgage program income and earnings on investments. A majority of monies are invested in direct obligations and mortgage-backed securities guaranteed by the U.S. government or its agencies. A portion of Agency expenses are paid by investment income; part of the investment earnings are used to subsidize housing programs.

Cash and cash equivalents increased to $1.2 billion or 54% at June 30, 2010 from $800 million at June 30, 2009. This can be compared to an increase of $77 million or 11% to $800 million at June 30, 2009 from $723 million at June 30, 2008. Investments increased 172% to $242 million at June 30, 2010 from $89 million at June 30, 2009. This can be compared to a decrease of $235 million or 73% to $89 million at June 30, 2009 from $324 million at June 30, 2008.

Mortgage Loans Receivable, Net

Loan portfolios of the Multifamily Housing Program, Single Family Mortgage Loan Program and the Homeowners' Emergency Mortgage Assistance Program (HEMAP) are the Agency's primary performing assets that equaled 72% of the Agency's total assets at June 30, 2010 and 76% at June 30, 2009. Loan portfolios increased $300 million or 7% to $4.5 billion at June 30, 2010 from $4.2 billion at June 30, 2009, which was due primarily to favorable interest rates and closing cost assistance on single-family mortgage loans. This is compared with a decrease of $130 million or 2% to $4.2 billion at June 30, 2009 from $4.3 billion at June 30, 2008, after adjustments for principal payments and loan losses.

Multifamily Housing Program Loan Activity

The Multifamily Housing Program funded approximately $109 million of mortgage loans by providing financing for affordable housing developments compared with $25 million in the prior year. The Multifamily loan portfolio decreased by 8% to $498 million at June 30, 2010 from $542 million at June 30, 2009, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to a decrease of 4% to $542 million at June 30, 2009 from $562 million at June 30, 2008.

Mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 25% of Multifamily receivables at June 30, 2010. This is compared to 22% of the total Multifamily portfolio at June 30, 2009 and 2008. At June 30, 2010, the expense for the provision for loan loss decreased by 23% to $2.3 million from $3 million at June 30, 2009.

Single Family Mortgage Loan Program Activity

The Single Family Mortgage Loan Program purchased approximately $802 million of new single family mortgage loans compared with $365 million in the prior year. The Single Family loan portfolio increased 8% to $3.9 billion at June 30, 2010 from $3.6 billion at June 30, 2009, after adjustments of the provision for loan loss, prepayments and scheduled principal payments. This is compared to a decrease of 3% to $3.6 billion at June 30, 2009 from $3.7 billion at June 30, 2008.

Mortgage loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 1% of the total loan receivables for years ended June 30, 2010, 2009 and 2008. The allowance remains very low since mortgage insurance companies insure a majority of the loan portfolio. At June 30, 2010, the expense for the provision for loan loss decreased by 14% to $1.8 million from $2.1 million at June 30, 2009.

HEMAP Loan Activity

HEMAP disbursed approximately $21 million of emergency mortgage assistance loans compared with $19 million in the prior year. The total portfolio of HEMAP increased 10% to $55 million at June 30, 2010 from $50 million at June 30, 2009, after adjustments for the provision for loan loss, prepayments, and scheduled principal payments.

HEMAP loans are reported net of allowances for potential loan loss. The total allowance for loan loss equaled 45% of the total loan portfolio at June 30, 2010. This can be compared to 45% and 46% of the total loan portfolio at June 30, 2009 and 2008, respectively. Management believes the provision properly represents potential loan losses based on historical trends and the quality of the properties collateralized by the mortgage loan agreements. At June 30, 2010, the expense for the provision for loan loss decreased by 1% to $8.9 million from $9 million at June 30, 2009.

2. Liabilities

Bonds and Notes Payable

Bonds and notes payable equaled 87% of the total liabilities at June 30, 2010; 90% at June 30, 2009; and 91% at June 30, 2008. The Multifamily Housing Program finances various housing developments throughout the Commonwealth of Pennsylvania with multifamily development bonds proceeds relating to the construction or rehabilitation of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly. The Single Family Mortgage Loan Program provides residential mortgage financing programs that serve low to moderate and middle-income qualified homebuyers.

The primary business activity of the Agency is providing a primary market for the purchase of single family and multifamily mortgage loans. The Agency's mortgage financing activities are sensitive to changes in interest rates and, the spread between the rate on the Agency's mortgage loans and those available in the conventional mortgage markets and the availability of affordable housing in the Commonwealth of Pennsylvania.

The availability of long-term tax-exempt financing on favorable terms is a key element in providing the funding necessary for the Agency to continue its mortgage financing activities.

The Agency's main sources of revenues include mortgage loan interest and investment interest income. If interest rates rise, mortgage and investment income should increase as new mortgage loans are originated and new investments are purchased at the higher rates. If interest rates fall, mortgage and investment income will decrease as new mortgage loans are originated and new investments are purchased at the lower rates. Any decrease in general mortgage interest rates may also cause an increase in prepayments on higher rate mortgages. The Agency uses many of these prepayments to call certain bond series, which lowers the interest expense incurred on the Agency's overall bonds outstanding or to recycle mortgages to obtain the maximum allowable spread.

Long-Term Debt Activity of the Multifamily Housing Program

During the 2010 fiscal year, the Multifamily Housing Program did not issue any bonds. As a result, the total outstanding bonds balance at June 30, 2010 decreased by 19% or $51 million because of scheduled debt payments and redemptions. The Multifamily Housing Program did not issue any bonds during the years ended June 30, 2009 and 2008.

Long-term Debt Activity of the Single Family Mortgage Loan Program

During the 2010 fiscal year, the Agency issued approximately $1.2 billion of Single Family Mortgage Revenue Bonds Series 105 through Series 108. The Agency borrowed an additional $2.5 million of PNC Note Purchase agreements credit to fund the Homeowners' Equity Recovery Opportunity Loan Program. Total debt outstanding of the Single Family Mortgage Loan Program increased by 16% to $4.6 billion because of the issuance of the aforementioned debt and note borrowing, adjusted by scheduled debt payments. During the years ended June 30, 2009 and 2008, the Agency issued Mortgage Revenue Bonds totaling $350 million and $610 million, respectively.

During the 2010 fiscal year, the United States Treasury, in partnership with Fannie Mae and Freddie Mac, announced the New Issue Bond Program (NIBP) as part of the Housing and Economic Recovery Act of 2008. This program provided the Agency with $604,000 of available financing for purposes of issuing Single Family Mortgage Revenue Bonds. See Note 6 for further discussion of the New Bond Issue Program.

Net Assets

Net assets are reported as those invested in capital assets, net of related debt; restricted by bond covenants or legislation and unrestricted.

Net assets invested in capital assets, net of related debt decreased $800,000 or 6% to $13.4 million at June 30, 2010 from $14.2 million at June 30, 2009. This is compared to a decrease of $700,000 or 5% to $14.2 million at June 30, 2009 from $14.9 million at June 30, 2008. A majority of this net asset is invested in the

Agency headquarters constructed during 2004. The Agency issued Variable-Rate Building Development Bonds, Series 2004 to fund the construction of its headquarters in Harrisburg. This net asset changes with additions of equipment or improvements to the headquarters, less depreciation expenses and retirement of the related bond issue debt.

Restricted net assets decreased to $239 million or 5% at June 30, 2010 from $252 million at June 30, 2009. This is compared to an increase of $125 million or 98% to $252 million at June 30, 2009 from $127 million at June 30, 2008. Restricted net assets represent assets with constraints placed on their use by external groups, such as creditors and by law through enabling legislation.

Unrestricted net assets increased to $519 million or 8% at June 30, 2010 from $480 million at June 30, 2009. This is compared to a decrease of $122 million or 20% to $480 million at June 30, 2009 from $602 million at June 30, 2008. Unrestricted net assets do not meet the definition of invested in capital assets, net of related debt or restricted net assets. This component includes net assets designated for specific purposes by the Members of the Board.

Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets

The following table presents summarized information about the revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008, and the variances from the prior year:

Condensed Balance Sheets

(In thousands of dollars)

	June 30, 2010	June 30, 2009	June 30, 2008	% Change 2010/2009	% Change 2009/2008
Operating revenues:					
Mortgage loan interest	$ 197,947	$ 207,990	$ 201,535	(4.8)%	3.2%
Federal program awards	630,348	474,847	461,231	32.7	3.0
Program income	53,821	49,825	46,791	8.0	6.5
Total operating revenues	882,116	732,662	709,557	20.4	3.3
Operating expenses	882,024	744,450	718,314	18.5	3.6
Nonoperating revenues, net	24,521	14,428	40,853	70.0	(64.7)
Change in net assets	24,613	2,640	32,096	832.3%	(91.8)%

Discussion and Analysis of the Significant Changes in the Statements of Revenues, Expenses and Changes in Fund Net Assets

Discussion of the Total Change in Net Assets

The Agency's total change in net assets at June 30, 2010 was $24.6 million of income, compared with $2.6 million of income for June 30, 2009 and $32 million of income at June 30, 2008. The most significant items related to these changes are discussed below.

1. Operating Revenues

Interest Income on Mortgage Loans

Total mortgage loan interest revenue decreased 5% to $198 million at June 30, 2010 from $208 million at June 30, 2009. Total mortgage loan interest revenue increased 3% to $208 million at June 30, 2009 from $202 million at June 30, 2008. During the year ended June 30, 2010, the Agency pooled mortgage loans with a principal balance of approximately $163 million into Ginnie Mae Mortgage-Backed Securities. The Agency no longer earns interest on those loans, but earns revenue for servicing those loans, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Additionally, the Agency originated approximately $802 million of new loans during the year at lower interest rates than in previous years.

Federal Program Awards and Related Expenses

Federal awards represented 71% of the total operating revenue as compared to 65% of the total operating revenue in the prior year. The increase is the result of additional money available from the federal government related to The American Recovery and Reinvestment Act of 2009. Federal grant revenues and related expense are passed through the Agency, do not represent actual revenue obtained or useable by the Agency and are reported as required by the Governmental Accounting Standards Board.

The Agency receives federal program awards of federal financial assistance to transfer to various secondary recipients, predominately from the Department of Housing and Urban Development (HUD) and the U.S. Department of Treasury. The most significant pass-through awards are summarized as follows:

- As a designated State Housing Finance Agency for HUD Section 8 Programs, the Agency requisitions and passes through Section 8 Program funds and makes disbursements to eligible multifamily housing developments. For the years ended June 30, 2010, 2009 and 2008, the Agency received and disbursed $377 million, $352 million and $343 million, respectively.

- The Agency is designated as a participating entity under grant agreements with the Department of Community and Economic Development for HUD's HOME Program. The HOME Program provides funding for developing affordable housing for persons of low and very low income. Funding passed through the Agency for the year ended June 30, 2010, 2009 and 2008, was $110 million, $116 million and $113 million, respectively.

- As a State Credit Agency, the Agency received funding that is part of the American Recovery and Reinvestment Act of 2009 that created two programs that relate to low income housing tax credits. The first program is the Tax Credit Assistance Program (TCAP). TCAP provides funding for capital investments in Low Income Housing Tax Credit (LIHTC) projects. The second program is the Section 1602 Program (Exchange Program) which permits the Agency to "exchange" eligible low income housing tax credits for cash to finance construction or acquisition and rehabilitation of a qualified low income housing building. During the year ended June 30, 2010, the Agency passed-through $34 million for TCAP and $99 million for the Section 1602 Program. No TCAP or Section 1602 funds were received during the years ended June 30, 2009 and 2008.

- As a participating entity under a grant agreement with the U.S. Department of Treasury, the Agency passes through NeighborWorks funding for the National Foreclosure Mitigation Counseling Program. The program provides counseling to homeowners who may be in danger of foreclosure. For the year ended June 30, 2010, 2009 and 2008, the Agency passed through $8 million, $5 million and $78,000, respectively.

The Agency earned approximately $13 million for administering federal programs for the year ended June 30, 2010. Of those fees, approximately $7 million was paid to Pennsylvania Multifamily Asset Managers for Section 8 Contract Administration work, which is reported as a general and administrative expense.

2. Operating Expenses

Interest on Bonds and Notes

Interest on bonds and notes payable decreased 11% to $191 million for the year ended June 30, 2010 from $214 million for the year ended June 30, 2009. This is due to the cumulative effect of the Agency refunding long-term debt with lower interest rate long-term debt during prior years and the current year. For the years ended June 30, 2010 and 2009, the Agency refunded approximately $217 million of debt contributing to the reduction of bond interest payments.

Salaries, Related Benefits and Other Postemployment Benefit Liability Expense

Salaries, related benefits and OPEB expense increased 16% to $29 million at June 30, 2010 from $25 million at June 30, 2009. The increase is predominately due to increases in pension and other postemployment benefit expenses. Actuarial analysis calculates the estimated costs of those benefits that vary from year to year based on factors such as investment returns on the pension fund investments portfolios, costs to provide current retirees healthcare, projected costs to provide postemployment healthcare and economic forecasts. The Agency paid or expensed $6.9 million for June 30, 2010, compared to $5.6 million for June 30, 2009 and $5.7 million for June 30, 2008 for pension contributions and other postemployment obligation liabilities based upon actuarial analysis.

3. Nonoperating Revenue and Expenses

Investment Income and Net Increases in the Fair Values of Investments and Swaps

Investment income, netted against the changes in the fair value of investments, increased 67% to $25 million of revenue at June 30, 2010 from $15 million of revenue at June 30, 2009. Positive market conditions over the past year have resulted in an increase of interest earnings combined with the changes in the fair values of the investments held by the Agency over the prior year. The long-term investment holdings, mainly consisting of U.S. Government Agency Mortgage-Backed Securities, experienced significant fair value increases due to federal government intervention and stimulus creating demand for those securities by the investing public. The Agency adopted a new accounting pronouncement that required the Agency to report swap agreements outstanding at the end of the year onto its books. Adoption of that accounting principle decreased investment revenue by $2.2 million for the current year. Swap agreements were previously reported in the footnotes to the financial statements only.

Balance Sheets

June 30, 2010 *(In thousands of dollars)*

	2010						
ASSETS	**General Fund**	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Current Assets:							
Cash and cash equivalents	$ 20,782	$ 74,159	$ 872,373	$ 35,624	$ 1,002,938	$ 457	$ 1,003,395
Investments	7,421	2,254	1,021	—	10,696	—	10,696
Accrued interest receivable on investments	71	211	1,204	38	1,524	—	1,524
Mortgage loans receivable, net	—	32,714	69,592	—	102,306	7,156	109,462
Qualified tender bonds	—	—	—	—	—	—	—
Deferred financing costs and other assets	4,151	255	795	—	5,201	208	5,409
Operating advances to other funds	66,234	39,407	—	—	105,641	—	105,641
Restricted cash	30	135,986	91,608	—	227,624	—	227,624
Restricted investments	2,071	1,153	2,629	—	5,853	—	5,853
Total current assets	100,760	286,139	1,039,222	35,662	1,461,783	7,821	1,469,604
Noncurrent assets:							
Investments	41,947	10,353	65,883	3,531	121,714	—	121,714
Mortgage loans receivable, net	—	465,118	3,868,661	—	4,333,779	47,586	4,381,365
Capital assets, net	33,349	—	—	—	33,349	4	33,353
Deferred financing costs and other assets	1,461	2,896	7,151	—	11,508	6	11,514
Restricted investments	—	—	103,659	—	103,659	—	103,659
Deferred overflow of resources	1,628	16,161	126,398	—	144,187	—	144,187
Total noncurrent assets	78,385	494,528	4,171,752	3,531	4,748,196	47,596	4,795,792
Total assets	$ 179,145	$ 780,667	$ 5,210,974	$ 39,193	$ 6,209,979	$ 55,417	$ 6,265,396
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ —	$ 27,064	$ 494,725	$ —	$ 521,789	$ —	$ 521,789
Accrued interest payable	384	4,301	41,547	—	46,232	—	46,232
Accounts payable and accrued expenses	3,629	109	1,472	3	5,213	715	5,928
Escrow deposits and other liabilities	121	47,407	54,818	300	102,646	—	102,646
Operating advances from other funds	—	—	100,302	—	100,302	5,339	105,641
Total current liabilities	4,134	78,881	692,864	303	776,182	6,054	782,236
Noncurrent liabilities:							
Bonds and notes payable, net	19,930	192,762	4,065,659	—	4,278,351	—	4,278,351
Derivative instrument - interest rate swaps	1,628	17,179	127,613	—	146,420	—	146,420
Escrow deposits and other liabilities	14,193	245,072	22,132	1,829	283,226	4,077	287,303
Total noncurrent liabilities	35,751	455,013	4,215,404	1,829	4,707,997	4,077	4,712,074
Total liabilities	39,885	533,894	4,908,268	2,132	5,484,179	10,131	5,494,310
NET ASSETS							
Invested in capital assets, net of related debt	13,419	—	—	—	13,419	4	13,423
Restricted	—	5,564	188,252	—	193,816	45,282	239,098
Unrestricted	125,841	241,209	114,454	37,061	518,565	—	518,565
Total net assets	139,260	246,773	302,706	37,061	725,800	45,286	771,086
Total liabilities and net assets	$ 179,145	$ 780,667	$ 5,210,974	$ 39,193	$ 6,209,979	$ 55,417	$ 6,265,396

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

Balance Sheets

June 30, 2009 *(In thousands of dollars)*

	2009						
ASSETS	**General Fund**	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Current Assets:							
Cash and cash equivalents	$ 36,254	$ 235,675	$ 294,646	$ 25,308	$ 591,883	$ 28	$ 591,911
Investments	6,631	234	—	2,029	8,894	—	8,894
Accrued interest receivable on investments	46	258	1,596	66	1,966	—	1,966
Mortgage loans receivable, net	—	31,719	65,997	—	97,716	6,594	104,310
Qualified tender bonds	—	—	302,575	—	302,575	—	302,575
Deferred financing costs and other assets	3,286	1,654	2,369	—	7,309	2,482	9,791
Operating advances to other funds	35,845	—	—	—	35,845	—	35,845
Restricted cash	—	5,279	203,079	—	208,358	—	208,358
Restricted investments	—	—	—	—	—	—	—
Total current assets	82,062	274,819	870,262	27,403	1,254,546	9,104	1,263,650
Noncurrent assets:							
Investments	37,661	1,739	31,324	9,748	80,472	—	80,472
Mortgage loans receivable, net	—	510,078	3,492,858	—	4,002,936	43,553	4,046,489
Capital assets, net	34,129	—	—	—	34,129	13	34,142
Deferred financing costs and other assets	2,028	2,480	4,553	—	9,061	6	9,067
Restricted investments	—	—	—	—	—	—	—
Deferred overflow of resources	—	—	—	—	—	—	—
Total noncurrent assets	73,818	514,297	3,528,735	9,748	4,126,598	43,572	4,170,170
Total assets	$ 155,880	$ 789,116	$ 4,398,997	$ 37,151	$ 5,381,144	$ 52,676	$ 5,433,820
LIABILITIES							
Current liabilities:							
Bonds and notes payable, net	$ —	$ 40,133	$ 112,015	$ —	$ 152,148	$ —	$ 152,148
Accrued interest payable	390	5,167	44,878	—	50,435	—	50,435
Accounts payable and accrued expenses	2,304	131	1,188	—	3,623	922	4,545
Escrow deposits and other liabilities	511	17,283	43,120	301	61,215	—	61,215
Operating advances from other funds	—	394	31,099	—	31,493	4,352	35,845
Total current liabilities	3,205	63,108	232,300	301	298,914	5,274	304,188
Noncurrent liabilities:							
Bonds and notes payable, net	19,927	230,262	3,822,450	—	4,072,639	—	4,072,639
Derivative instrument - interest rate swaps	—	—	—	—	—	—	—
Escrow deposits and other liabilities	9,715	264,381	31,509	1,445	307,050	3,470	310,520
Total noncurrent liabilities	29,642	494,643	3,853,959	1,445	4,379,689	3,470	4,383,159
Total liabilities	32,847	557,751	4,086,259	1,746	4,678,603	8,744	4,687,347
NET ASSETS							
Invested in capital assets, net of related debt	14,202	—	—	—	14,202	13	14,215
Restricted	—	5,279	203,079	—	208,358	43,919	252,277
Unrestricted	108,831	226,086	109,659	35,405	479,981	—	479,981
Total net assets	123,033	231,365	312,738	35,405	702,541	43,932	746,473
Total liabilities and net assets	$ 155,880	$ 789,116	$ 4,398,997	$ 37,151	$ 5,381,144	$ 52,676	$ 5,433,820

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

Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 20010 *(In thousands of dollars)*

	2010						
	General Fund	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Operating revenues:							
Interest on mortgage loans	$ —	$ 27,665	$ 169,466	$ —	$ 197,131	$ 816	$ 197,947
Program income and fees	33,213	1,980	4,006	646	39,845	13,976	53,821
Federal program awards	—	608,232	22,116	—	630,348	—	630,348
Total operating revenues	33,213	637,877	195,588	646	867,324	14,792	882,116
Operating expenses:							
Interest on bonds	760	11,180	179,126	—	191,066	—	191,066
Salaries and related benefits	22,656	—	—	—	22,656	2,641	25,297
OPEB liability expense	3,289	—	—	—	3,289	448	3,737
General and administrative	4,459	2,958	9,077	600	17,094	1,396	18,490
Provision for loan loss	—	2,330	1,800	—	4,130	8,956	13,086
Federal program expense	—	608,232	22,116	—	630,348	—	630,348
Total operating expenses	31,164	624,700	212,119	600	868,583	13,441	882,024
Operating income (loss)	2,049	13,177	(16,531)	46	(1,259)	1,351	92
Nonoperating revenues (expenses):							
Investment income	1,855	50	7,027	569	9,501	3	9,504
Net increase (decrease) in fair value of investments	9,137	409	7,490	1,115	18,151	—	18,151
Net decrease in fair value of swaps	—	(1,018)	(1,215)	—	(2,233)	—	(2,233)
Total investment revenue	10,992	(559)	13,302	1,684	25,419	3	25,422
Loss on early extinguishment of debt	—	(36)	(865)	—	(901)	—	(901)
Total nonoperating revenue (expense), net	10,992	(595)	12,437	1,684	24,518	3	24,521
Income (loss) before transfers	13,041	12,582	(4,094)	1,730	23,259	1,354	24,613
Transfers	3,186	2,826	(5,938)	(74)	—	—	—
Change in net assets	16,227	15,408	(10,032)	1,656	23,259	1,354	24,613
Total net assets, beginning of year	123,033	231,365	312,738	35,405	702,541	43,932	746,473
Total net assets, end of year	$ 139,260	$ 246,773	$ 302,706	$ 37,061	$ 725,800	$ 45,286	$ 771,086

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

Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Operating revenues:							
Interest on mortgage loans	$ —	$ 31,026	$ 176,104	$ —	$ 207,130	$ 860	$ 207,990
Program income and fees	30,564	1,389	3,541	411	35,905	13,920	49,825
Federal program awards	—	454,784	20,063	—	474,847	—	474,847
Total operating revenues	30,564	487,199	199,708	411	717,882	14,780	732,662
Operating expenses:							
Interest on bonds	822	13,887	199,081	—	213,790	—	213,790
Salaries and related benefits	19,876	—	—	—	19,876	2,488	22,364
OPEB liability expense	2,559	—	—	—	2,559	349	2,908
General and administrative	4,700	3,473	6,044	600	14,817	1,579	16,396
Provision for loan loss	—	3,000	2,100	—	5,100	9,045	14,145
Federal program expense	—	454,784	20,063	—	474,847	—	474,847
Total operating expenses	27,957	475,144	227,288	600	730,989	13,461	744,450
Operating income (loss)	2,607	12,055	(27,580)	(189)	(13,107)	1,319	(11,788)
Nonoperating revenues (expenses):							
Investment income	1,790	1,123	13,432	1,520	17,865	60	17,925
Net increase (decrease) in fair value of investments	5,509	(3,117)	(1,453)	(4,224)	(3,285)	—	(3,285)
Net decrease in fair value of swaps	—	—	—	—	—	—	—
Total investment revenue	7,299	(1,994)	11,979	(2,704)	14,580	60	14,640
Loss on early extinguishment of debt	—	(9)	(203)	—	(212)	—	(212)
Total nonoperating revenue (expense), net	7,299	(2,003)	11,776	(2,704)	14,368	60	14,428
Income (loss) before transfers	9,906	10,052	(15,804)	(2,893)	1,261	1,379	2,640
Transfers	4,762	(20,475)	25,713	(10,000)	—	—	—
Change in net assets	14,668	(10,423)	9,909	(12,893)	1,261	1,379	2,640
Total net assets, beginning of year	108,365	241,788	302,829	48,298	701,280	42,553	743,833
Total net assets, end of year	$ 123,033	$ 231,365	$ 312,738	$ 35,405	$ 702,541	$ 43,932	$ 746,473

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

Statements of Cash Flows

Years Ended June 30, 2010 *(In thousands of dollars)*

	2010						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows from Operating Activities							
Receipts of mortgage loan payments	$ —	$ 152,583	$ 423,089	$ —	$ 575,672	$ 7,145	$ 582,817
Receipts from fees and other income	33,213	1,980	4,006	646	39,845	13,976	53,821
Receipts from interest on mortgages	—	27,712	169,858	—	197,570	1,423	198,993
Receipt of escrow deposits and other receipts	4,088	10,815	2,321	—	17,224	—	17,224
Qualified tender bonds	—	—	302,575	—	302,575	—	302,575
Payments for mortgages purchased	—	(108,618)	(802,487)	—	(911,105)	(20,696)	(931,801)
Payments to employees and suppliers	(28,096)	(4,327)	(11,617)	(186)	(44,226)	(2,409)	(46,635)
Net cash provided by (used in) operating activities	9,205	80,145	87,745	460	177,555	(561)	176,994
Cash Flows from Noncapital Financing Activities							
Proceeds from the sale of bonds	—	—	1,190,640	—	1,190,640	—	1,190,640
Payments for retirement of bonds and notes	—	(50,605)	(565,586)	—	(616,191)	—	(616,191)
Payments of bond and notes interest	—	(12,046)	(182,457)	—	(194,503)	—	(194,503)
Transfers (to) other funds	(27,203)	(36,975)	63,265	(74)	(987)	987	—
Net cash provided by (used in) noncapital financing activities	(27,203)	(99,626)	505,862	(74)	378,959	987	379,946
Cash Flows from Capital Financing Activities							
Purchases of capital assets	(526)	—	—	—	(526)	—	(526)
Interest paid on capital debt	(763)	—	—	—	(763)	—	(763)
Net cash used in capital financing activities	(1,289)	—	—	—	(1,289)	—	(1,289)
Cash Flows from Investing Activities							
Proceeds from sales of and maturities of investments	6,027	—	172,992	9,361	188,380	—	188,380
Interest and dividends	1,855	50	7,027	569	9,501	3	9,504
Purchases of investments	(4,037)	(11,378)	(307,370)	—	(322,785)	—	(322,785)
Net cash provided by (used in) investing activities	3,845	(11,328)	(127,351)	9,930	(124,904)	3	(124,901)
Net increase (decrease) in cash and cash equivalents	(15,442)	(30,809)	466,256	10,316	430,321	429	430,750
Cash and cash equivalents, beginning of year	36,254	240,954	497,725	25,308	800,241	28	800,269
Cash and cash equivalents, end of year	$ 20,812	$ 210,145	$ 963,981	$ 35,624	$ 1,230,562	$ 457	$ 1,231,019

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

Statements of Cash Flows (continued)

Years Ended June 30, 2010 *(In thousands of dollars)*

	2010						
	General Fund	**Multifamily Housing Program**	**Single Family Mortgage Loan Program**	**Insurance Fund**	**Subtotal**	**HEMAP**	**Total**
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 2,049	$ 13,177	$ (16,531)	$ 46	$ (1,259)	$ 1,351	$ 92
Interest expense on bonds	760	11,180	179,126	—	191,066	—	191,066
Provision for loan loss	—	2,330	1,800	—	4,130	8,956	13,086
Depreciation	1,306	—	—	—	1,306	9	1,315
Changes in assets and liabilities:							
Mortgage loans receivable, net	—	41,635	(381,198)	—	(339,563)	(13,551)	(353,114)
Accrued interest receivable	(25)	47	392	28	442	—	442
Deferred and other assets	(298)	(14,239)	301,551	—	287,014	2,274	289,288
Accounts payable and accrued expenses	1,325	(22)	284	386	1,973	(207)	1,766
Escrow deposits and other liabilities	4,088	26,037	2,321	—	32,446	607	33,053
Net cash provided by (used in) operating activities	$ 9,205	$ 80,145	$ 87,745	$ 460	$ 177,555	$ (561)	$ 176,994

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

Statements of Cash Flows

Years Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Cash Flows From Operating Activities							
Receipts of mortgage loan payments	$ —	$ 45,344	$ 476,682	$ —	$ 522,026	$ 8,048	$ 530,074
Receipts from fees and other income	30,564	1,389	3,541	411	35,905	13,920	49,825
Receipts from interest on mortgages	$ —	31,741	176,035	—	207,776	860	208,636
Receipt of escrow deposits and other receipts	6,063	9,824	7,863	—	23,750	403	24,153
Qualified tender bonds	—	—	(302,575)	—	(302,575)	—	(302,575)
Payments for mortgages purchased	—	(24,848)	(365,446)	—	(390,294)	(18,546)	(408,840)
Payments to employees and suppliers	(27,829)	(2,893)	(7,899)	(40)	(38,661)	(6,468)	(45,129)
Net cash provided by (used in) operating activities	8,798	60,557	(11,799)	371	57,927	(1,783)	56,144
Cash Flows from Noncapital Financing Activities							
Proceeds from the sale of bonds	—	—	351,340	—	351,340	—	351,340
Payments for retirement of bonds and notes	—	(53,167)	(314,831)	—	(367,998)	—	(367,998)
Payments of bonds and notes interest	—	(14,656)	(195,753)	—	(210,409)	—	(210,409)
Transfers (to) other funds	(16,571)	(20,287)	45,312	(10,000)	(1,546)	1,546	—
Net cash provided by (used in) noncapital financing activities	(16,571)	(88,110)	(113,932)	(10,000)	(228,613)	1,546	(227,067)
Cash Flows from Capital Financing Activities							
Purchases of capital assets	(641)	—	—	—	(641)	—	(641)
Interest paid on capital debt	(816)	—	—	—	(816)	—	(816)
Net cash used in capital financing activities	(1,457)	—	—	—	(1,457)	—	(1,457)
Cash Flows from Investing Activities							
Proceeds from sales of and maturities of investments	15,433	96,575	663,455	7,639	783,102	—	783,102
Interest and dividends	1,790	1,123	13,432	1,520	17,865	60	17,925
Purchases of investments	(11,018)	(32,050)	(508,460)	—	(551,528)	—	(551,528)
Net cash provided by (used in) investing activities	6,205	65,648	168,427	9,159	249,439	60	249,499
Net increase (decrease) in cash and cash equivalents	(3,025)	38,095	42,696	(470)	77,296	(177)	77,119
Cash and cash equivalents, beginning of year	39,279	202,859	455,029	25,778	722,945	205	723,150
Cash and cash equivalents, end of year	$ 36,254	$ 240,954	$ 497,725	$ 25,308	$ 800,241	$ 28	$ 800,269

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

Statements of Cash Flows (continued)

Years Ended June 30, 2009 *(In thousands of dollars)*

	2009						
	General Fund	Multifamily Housing Program	Single Family Mortgage Loan Program	Insurance Fund	Subtotal	HEMAP	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	$ 2,607	$ 12,055	$ (27,580)	$ (189)	$ (13,107)	$ 1,319	$ (11,788)
Interest expense on bonds	822	13,887	199,081	—	213,790	—	213,790
Provision for loan loss	—	3,000	2,100	—	5,100	9,045	14,145
Depreciation	1,327	—	—	—	1,327	10	1,337
Changes in assets and liabilities:							
Mortgage loans receivable, net	—	17,496	109,136	—	126,632	(10,498)	116,134
Accrued interest receivable	217	715	(69)	152	1,015	—	1,015
Deferred and other assets	(1,221)	3,528	(302,504)	—	(300,197)	(2,483)	(302,680)
Accounts payable and accrued expenses	(1,017)	52	174	408	(383)	421	38
Escrow deposits and other liabilities	6,063	9,824	7,863	—	23,750	403	24,153
Net cash provided by (used in) operating activities	$ 8,798	$ 60,557	$ (11,799)	$ 371	$ 57,927	$ (1,783)	$ 56,144

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

1. Reporting Entity

The Pennsylvania Housing Finance Agency (Agency) is a component unit of the Commonwealth of Pennsylvania as described in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining whether Certain Organizations are Component Units*. The Agency's financial information is included in the Commonwealth's financial statements, but the Agency is not considered part of the Commonwealth's primary government.

The Agency was created by the General Assembly in 1972 to provide affordable housing for older adults, persons and families of modest means and persons with disabilities. Pursuant to the Housing Finance Agency Law Act of December 3, 1959, P.L. 1688 (Act), as amended, the Agency is authorized and empowered, among other things, to finance the construction and rehabilitation of housing units for persons and families of low and moderate income, persons with special needs or the elderly who receive subsidies or assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

The initial legislation and subsequent amendments grant the Agency the power to issue debt to finance its programs and operations. Debt obligations issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

A fourteen member Board governs the Agency. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare and the State Treasurer serve by virtue of their offices. The majority and minority leaders of the State Senate and House of Representatives name four members to the Board. Six private citizen members are appointed by the Governor and confirmed by the State Senate.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Agency are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, regardless of when the cash flow takes place. Expenses are charged as incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated, and amortized over the contractual life of the related mortgage loan or program.

The Agency complies with GASB pronouncements in conformity with GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* which was issued to give guidance in determining generally accepted accounting principles for governmental proprietary funds. It provides that all proprietary funds follow all Financial Accounting Standard Board (FASB) pronouncements issued prior to November 30, 1989, unless they conflict with GASB pronouncements. It also provides that the governmental unit may elect whether to follow FASB pronouncements after that date. The Agency has elected not to follow FASB pronouncements issued after November 30, 1989.

Description of Funds

The accounts of the Agency are organized based on separate enterprise funds. Each fund represents a separate accounting entity. The Agency's resources are allocated to these funds based on legal responsibility, accountability and management designation, summarized as follows:

GENERAL FUND - The General fund consists of a group of accounts used to record the receipt of income not directly pledged to the repayment of specific bonds and notes and the payment of expenses related to the Agency's administrative functions, including salary and related benefits.

MULTIFAMILY HOUSING PROGRAM - Multifamily Housing Program records the activity related to financing of the construction, rehabilitation or operational expenses of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

SINGLE FAMILY MORTGAGE LOAN PROGRAM - Single Family Mortgage Loan Program records the transactions related to providing capital for the purchase and servicing of mortgage loans for owner-occupied single-family residences for persons or families of low and moderate income.

INSURANCE FUND - The Agency provides primary mortgage insurance coverage through this fund for single-family borrowers that are unable to obtain insurance from other sources.

HOMEOWNER'S EMERGENCY MORTGAGE ASSISTANCE PROGRAM (HEMAP) - HEMAP was created by Act 91 of the General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

Adopted Accounting Standards

The Agency adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) during the 2010 fiscal year. This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. In accordance with the provisions of GASB 53, retroactive application has been deemed to be impractical; further, the Agency has evaluated the effects of potential restatements of prior periods, and has determined such effects to be immaterial to the basic financial statements. See note 7 for details of the effects of this Statement.

During the 2010 fiscal year, the Agency also adopted the following GASB statements, which had no effect on the financial statements:

- Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.*
- Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*

Accounting Standards Issued but Not Yet Adopted

During March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement will not affect the Agency's financial statements when adopted for the 2011 fiscal year.

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer postemployment benefit plans. The Agency is required to adopt this Statement for the 2012 fiscal year. Management is currently evaluating the impact of this Statement on the financial statements.

On June 24, 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Agency is required to adopt this Statement for its 2011 fiscal year. Management is currently evaluating the impact of this Statement on the financial statements.

Cash and Cash Equivalents

Cash includes cash on hand, cash deposits and checking account balances. Cash equivalents include short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, which includes money market investments.

Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* investments are reported at fair value on the Balance Sheets. Changes in the fair values are recognized separately in the Statement of Revenues, Expenses and Changes in Fund Net Assets. Fair value is determined by reference to published market prices and quotations where available, at the closing of each reporting period.

Mortgage Loans Receivable, Net of Allowance for Potential Loan Loss

Mortgage loans receivable are carried at amounts disbursed plus accrued interest and fees, less repayments, mortgage loan discounts and allowance for loan losses, if any. The current portion of mortgage loans receivable represents the contractual amount due within the next year. The allowance for loan losses is determined based upon management's evaluation of mortgage loans receivable and construction advances. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower and the economy as a whole. While management uses available information to recognize losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

Real Estate Owned

During the normal course of business, the Agency acquires single-family real estate because of foreclosure, acceptance of a deed in lieu of foreclosure or other defaults of nonperforming mortgage loans. In addition to the potential recovery from the sale of real estate owned, are recoveries from the U.S. Department of Housing and Urban Development, other federal government programs or private mortgage insurance. The outstanding mortgage balances attributable to these properties, stated at cost, are included as mortgage loans receivable on the balance sheets of the Single Family Mortgage Loan Program.

Capital Assets

The Agency capitalizes capital assets with an initial cost of $1 or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which ranges from 5 to 45 years. When capital assets are disposed, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as an operating revenue or expense.

Advances To and From Other Funds and Interfund Transfers

To meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency makes interfund transfers to the extent that such transfers are not required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures.

Restricted Cash, Cash Equivalents and Investments

Cash, cash equivalents and investments reported as restricted on the Balance Sheets are restricted primarily by escrow agreements, bond resolutions and debt service agreements. The Agency holds tax and insurance escrows of various mortgagors, owner's equity on behalf of multifamily developers for construction costs, and mortgage payments collected on behalf of mortgagees for whom the fund acts as a servicer. Assets derived from the Agency's bond programs are subject to the reserve provisions of the bond resolutions and are not available for other purposes

Bonds and Notes Payable, Net of Discounts and Loss on Refunding

The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts and unamortized deferred loss of refunding. The current portion of bonds and notes payable represents the amounts payable within the next year.

Derivative Financial Instruments - Interest Rate Swap Agreements

The Agency enters into interest rate swap agreements with various counter-parties to hedge the interest rate exposure associated with variable-rate debt and reduce overall borrowing costs. The interest rate swap agreements are structured whereby the Agency pays the counter-party a fixed interest rate in exchange for a variable interest rate payment from the counter-party. In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, interest rate swap agreements are stated at fair value on the balance sheets. The change in the fair value of the interest rate swap agreements is recorded as deferred inflows or deferred outflows or as adjustments to nonoperating revenue or expense.

Net Assets

Net assets are classified in the following three components:

INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT – This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

RESTRICTED – Consists of net assets with constraints placed on their use by (1) external groups, such as creditors, grantors and laws or regulations of other governments or (2) law through enabling legislation in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation — an amendment of GASB Statement No. 34.*

UNRESTRICTED – Consists of net assets that do not meet the definition of invested in capital assets or restricted. This component includes net assets designated for specific purposes by the Members of the Board.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to spend restricted resources to the extent allowed and only spend unrestricted resources when needed.

Operating Revenues and Expenses

The Agency separates operating and nonoperating activity on the Statements of Revenues, Expenses and Changes in Fund Net Assets. Operating revenue is defined as the result of issuing bonds to the investing public in order to create a flow of private capital through the Agency into mortgage loans to qualified borrowers and individuals. Primary operating revenue of the Agency is derived from the interest income on mortgage loans. The primary operating expense of the Agency is the interest on bonds issued. Revenue and expenses not meeting the definition of operating are reported as nonoperating.

Federal Program Awards and Expenses

The Agency follows GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. GASB Statement No. 24 requires that all cash passthrough grants received by a governmental entity be reported in its financial statements. The Agency receives program grants and other federal financial assistance to transfer to various secondary recipients in the Commonwealth of Pennsylvania. The effect of applying these provisions is to increase both operating income and expense when eligible funds are disbursed to the subrecipients. The Agency receives administrative fees for the oversight of award distribution, monitoring of subrecipients, reporting to federal agencies and costs for required independent annual audits of the federal awards, which are recorded to program income and fees.

Interest Income and Arbitrage Liabilities

Interest on mortgage loans and net investment income is an important measure of performance under the Agency's primary operation. Interest recorded for mortgage loans receivable and construction advances is based upon the constant yield method. Multifamily Housing and Single Family Mortgage Loan Program mortgage loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which result in the cessation of recognition of additional interest on such mortgage loans. Investment interest income is recognized over the remaining time to maturity of investment securities. Federal income tax rules limit the investment and loan yields that the Agency may retain for its own use from investing the proceeds from certain of its tax-exempt bond issues. Any excess yields are payable to the U.S. Treasury and are recorded as other liabilities on the Balance Sheets.

Pension Plan and Other Postemployment Benefits

GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* amended by GASB Statement No. 50, *Pension Disclosures,* requires the Agency to measure and disclose amounts for annual pension cost and net pension obligations. The funding policy is to pay actuarially determined periodic contributions so that sufficient assets will be available to pay benefits when due. Pension expenses are recorded as salaries and related benefits on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension,* requires the Agency to establish standards for the measurement, recognition and disclosure of other postemployment benefits (OPEB) expenses and related liabilities (assets) and note disclosures in the financial reports. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis. The Agency records OPEB liability expense in accordance with GASB 45 on the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Debt Issuance Costs, Discounts and Other Debt Related Costs

The Agency capitalizes cost related to bond issuance to deferred assets and amortizes those costs to interest expense over the contractual life of the bond using the effective interest method. Bond discounts and premiums are amortized over the lives of the bonds using the effective interest method. Gains and losses on debt refunding are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter. Net swap agreements payments are also recorded as a component to interest on bonds.

Compensated Absences

Employees are granted vacation and illness pay in varying amounts as services are provided. Employees may accumulate, subject to certain limitations, unused compensated absence pay earned and upon retirement, termination or death, may be compensated for certain amounts at their current rate of pay. Compensated absence pay is recognized as an expense in the amount earned each year as required by GASB Statement No. 16, *Accounting for Compensated Absences*.

Reclassifications

Certain reclassifications have been made in the June 30, 2009 financial statements to conform to the June 30, 2010 presentation.

3. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

The Agency has a policy that cash and cash equivalents must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents consist of demand deposit checking accounts, cash held in trust and Money Market Funds. A summary of the Agency's cash and cash equivalents is shown below:

	June 30, 2010	June 30, 2009
Unrestricted cash and cash equivalents	$1,003,395	$591,911
Restricted cash and cash equivalents	227,624	208,358
Carrying amount of cash and cash equivalents	$1,231,019	$800,269
Bank balance of cash and cash equivalents	$1,224,170	$804,172

At June 30, 2010, the carrying value of the Agency's cash deposits equaled $46,867 and the bank balance equaled $42,265, of which $9,108 was uninsured and collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania, with securities held by the pledging financial institution, its trust department or agent, but not in the Agency 's name.

The difference between total cash and cash equivalents and total deposits represents Money Market Funds equaling $1,184,152, with a bank balance of $1,181,905 that does not expose the Agency to custodial credit risk.

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its cash and cash equivalents with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's cash and cash equivalents may not be returned. The Agency has not established a formal custodial credit risk policy for its cash and cash equivalents.

Investments

The investment policies of the Agency are governed by Commonwealth of Pennsylvania statutes and contractual provisions contained in the bond trust indentures. The primary objectives of the Agency's investment activities are to provide suitable returns, preserve principal, meet liquidity needs and to further the purposes of the Agency.

Credit Risk

The Agency mitigates its credit risk by limiting investments to those permitted in the deposit and investment policies, diversifying the investment portfolio and pre-qualifying firms with which the Agency administers its investment activities.

As of June 30, 2010, the Agency's exposure to credit risk was as follows (rating provided by Moody's Investors Service):

	Quality Ratings				
Investment Type	**Fair Value**	**Aaa**	**A**	**Ba**	**Unrated***
U.S. Government Agency Mortgage-Backed Securities	$175,148	$9,091	$ —	$ —	$166,057
U.S. Government Agency Securities	38,439	—	—	—	38,439
U.S. Treasury Securities	18,178	—	—	—	18,178
Corporate bonds	10,157	—	4,437	4,709	1,011
	$241,922	$9,091	$4,437	$4,709	$223,685

*Unrated investments represent securities that are not rated by a nationally recognized statistical rating agency.

Of the $1,184,152 fair value in Money Market Funds, reported as cash equivalents, $1,176,470 is rated Aaa by Moody's Investors Service and $7,682 is not rated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments.

All of the Agency's $241,922 investment balance at June 30, 2010 is held by bank trust departments, acting as the counterparty, in book entry only form in the Agency's name and accordingly was subject to custodial credit risk. The total investment in Money Market Funds equaling $1,184,152, reported as cash equivalents, does not expose the Agency to custodial credit risk.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Agency has elected to use the segmented time distribution method of disclosure for its interest rate risk.

As of June 30, 2010, the Agency held the following investments with the listed maturities:

	Investments Maturities (in years)				
Investment Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Government Agency Mortgage-Backed Securities	$175,148	$1,021	$8,070	$ —	$166,057
U.S. Government Agency Securities	38,439	293	763	179	37,204
U.S. Treasury Securities	18,178	2,009	11,717	4,452	—
Corporate Bonds	10,157	7,375	2,782	—	—
	$241,922	$10,698	$23,332	$4,631	$203,261

Investments in Mortgage-Backed Securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages. In addition to the amounts listed above, the Agency held investments in Money Market Funds with a fair value of $1,184,152, reported as cash equivalents, all with maturities of less than 90 days.

Securitizations

During the year ended June 30, 2010, the Agency pooled mortgage loans with a principal balance of $163,364 into Ginnie Mae Mortgage-Backed Securities. The securities were then purchased by the Agency or private investors. The Agency earns revenue for servicing those loans, which is included as program income and fees on the Statements of Revenues, Expenses and Changes in Fund Net Assets.

4. Mortgage Loans Receivable

Mortgage loans receivable at June 30, 2010 and 2009 consisted of the following:

	June 30, 2010	June 30, 2009
Multifamily Housing Program	$667,582	$711,993
Single Family Mortgage Loan Program	3,911,032	3,537,612
HEMAP	98,844	91,495
	4,677,458	4,341,100
Add:		
Loan discounts	29,747	23,793
Less:		
Allowance for potential loan losses	216,378	214,094
Mortgage loans receivable, net	4,490,827	4,150,799
Less current portion	109,462	104,310
Long-term portion	$4,381,365	$4,046,489

Multifamily Housing Program mortgage loans receivable are collateralized by first mortgages on the related properties. The federal government provides insurance to certain developments included in the Multifamily Housing Program, as well as subsidizes certain developments through its Section 8 Program. Construction advances are recorded as mortgage loans receivable. Amortization of the advances commences upon substantial completion and occupancy of the development.

Mortgage loans held by the Single Family Mortgage Loan Program have stated interest rates and are secured by first liens on the related real property. Private mortgage insurance for the single-family mortgage loans is provided by commercial companies, certain federal programs or self-insurance through the Agency's Insurance Fund. Private mortgage insurance is required on all single-family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. It is the borrowers' responsibility to obtain private mortgage insurance.

Allowance for Potential Loan Loss

Changes in the allowance for potential loan losses for the Multifamily Housing Program, Single Family Mortgage Loan Program and HEMAP were as follows at June 30, 2010 and 2009:

	Multifamily Housing Program		Single Family Mortgage Loan Program	
	2010	2009	2010	2009
Beginning balance	$167,419	$167,818	$5,327	$4,166
Loss provision	2,330	3,000	1,800	2,100
Net charge-offs	(2,776)	(3,399)	(1,823)	(939)
Ending Balance	$166,973	$167,419	$5,304	$5,327

	HEMAP		Totals	
	2010	2009	2010	2009
Beginning balance	$41,348	$40,581	$214,094	$212,565
Loss provision	8,956	9,045	13,086	14,145
Net charge-offs	(6,203)	(8,278)	(10,802)	(12,616)
Ending Balance	$44,101	$41,348	$216,378	$214,094

Insurance Fund

The Agency provides private mortgage insurance coverage for certain Single Family Mortgage Loan Program loans through the Insurance Fund, which ranges from 20% to 35% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 2010 and 2009, the mortgage loans under this program totaled $196,839 and $73,083, respectively.

GASB requires that the basis for estimating the liability for unpaid claims should include the effects of specific incremental claim adjustment expenses and estimated recoveries. In addition, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which include estimates of both future payments of losses and related loss adjustment expenses, based on the Agency's past claim experience. Claims are not discounted and are net of estimated recoveries, if any.

Changes in the Insurance Fund's claim liability amounts were as follows:

	June 30, 2010	June 30, 2009
Beginning balance	$1,746	$1,338
Current year estimated claims payable	600	600
Claim payments	(217)	(192)
Total claim liability	2,129	1,746
Less current portion	300	301
Long-term portion	$1,829	$1,445

Qualified Tender Bonds

In response to the recent credit market conditions that have disrupted the remarketing of certain auction rate bonds, the IRS issued Notice 2008-41, amended and supplemented by Notice 2008-88 which provides a special temporary rule which allows governmental issuers to purchase their own qualified tender bonds on a temporary basis without resulting in a reissuance or retirement, provided those bonds are not held past December 31, 2009. In response to credit and liquidity constraints in the variable rate bond sector of the bond markets, the Agency purchased approximately $302,575 of its own bonds during the prior fiscal year and sold those prior to December 31, 2009 and is not holding any of its own bonds as of June 30, 2010.

5. Capital Assets

Capital asset activity and balances for the year ended June 30, 2010 are as follows:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Nondepreciable capital assets:				
Land	$2,454	—	—	$2,454
Total nondepreciable capital assets	2,454	—	—	2,454
Depreciable capital assets:				
Building and improvements	29,935	4	12	29,927
Computers and equipment	5,539	524	—	6,063
Furniture and fixtures	4,501	10	33	4,478
Automobiles	112	—	—	112
Total depreciable capital assets	40,087	538	45	40,580
Less accumulated depreciation:				
Building and improvements	3,732	585	—	4,317
Computers and equipment	3,361	456	—	3,817
Furniture and fixtures	1,246	260	33	1,473
Automobiles	60	14	—	74
Total accumulated depreciation	8,399	1,315	33	9,681
Total depreciable capital assets, net	31,688	(777)	12	30,899
Capital assets, net	$34,142	$(777)	$ 12	$33,353

Capital asset activity and balances for the year ended June 30, 2009 are as follows:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Nondepreciable capital assets:				
Land	$2,454	—	—	$2,454
Total nondepreciable capital assets	2,454	—	—	2,454
Depreciable capital assets:				
Building and improvements	29,741	206	12	29,935
Computers and equipment	6,034	254	749	5,539
Furniture and fixtures	4,349	193	41	4,501
Automobiles	112	—	—	112
Total depreciable capital assets	40,236	653	802	40,087
Less accumulated depreciation:				
Building and improvements	3,135	597	—	3,732
Computers and equipment	3,627	483	749	3,361
Furniture and fixtures	1,044	243	41	1,246
Automobiles	46	14	—	60
Total accumulated depreciation	7,852	1,337	790	8,399
Total depreciable capital assets, net	32,384	(684)	12	31,688
Capital assets, net	$34,838	$(684)	$12	$34,142

Depreciation expense for the years ended June 30, 2010 and 2009 totaled $1,315 and $1,337, respectively.

6. Bonds and Notes Payable

The Agency issues bonds to provide capital for mortgage programs. The bonds are secured by revenue, investments, mortgage loans and other assets in the funds and accounts established by the respective security agreements.

Bonds payable for the General Fund are as follows:

Description of bonds as issued	Final Maturity Date	Amounts Outstanding June 30, 2010	Amounts Outstanding June 30, 2009
Variable rate building development bonds	2034	$20,000	$20,000
Unamortized bond discount		(70)	(73)
Total bonds payable		19,930	19,927
Less current portion		—	—
Long-term portion		$19,930	$19,927

Bonds outstanding for the Multifamily Housing Program are as follows:

Description of Bonds as Issued	Final Maturity Date	Amounts Outstanding June 30, 2010	June 30, 2009
Special Limited Obligation Rental Housing Funding Bonds			
Issue 1995, 5.50-6.15%	2021	$ 2,083	$ 2,225
Rental Housing Refunding Bonds			
Series 2008A/B, variable rate	2021	47,675	62,990
Series 2008C/D, variable rate	2020	81,370	95,590
Residential Development Bonds			
Issue 2002 (refunding), 1.80%-5.25%	2024	22,270	25,970
Multifamily Development Bonds			
Issue 1989B, 8.25%	2019	—	345
Issue 1993A (refunding), 5.38%	2022	8,095	8,640
Issue 1993F, 6.53%	2019	3,025	4,055
Issue 1997G, 7.36%	2027	8,865	9,110
Issue 1998H, 6.3%	2028	14,555	14,960
Issue 2003 (refunding), 3.25-4.80%	2019	10,070	12,495
Issue 2005K, variable rate	2036	25,185	25,785
Issue 2007L, 4.20%	2009	—	12,600
		223,193	274,765
Unamortized deferred loss of refundings		(3,195)	(4,164)
Unamortized bond discount		(172)	(206)
Total bonds payable		219,826	270,395
Less current portion		27,064	40,133
Long-term portion		$192,762	$ 230,262

Bonds and notes outstanding for the Single Family Mortgage Loan Program are as follows:

Description of bonds and notes as issued	Final Maturity Date	Amounts Outstanding June 30, 2010	June 30, 2009
Single Family Mortgage Revenue Bonds			
Series 1996 - 47, 4.20-6.75%	2027	$ 1,455	$ 2,820
Series 1997 - 58, 4.30-7.81%	2028	—	390
Series 1997 - 59, 4.00-5.15%	2029	—	180
Series 1997 - 60, 4.00-7.69%	2028	—	315
Series 1997 - 61, 4.00-6.80%	2029	34,940	37,655
Series 1998 - 62, 4.25-6.40%	2029	37,170	48,370
Series 1998 - 63, 3.95-5.50%	2030	38,913	48,799
Series 1998 - 64, 3.65-5.25%	2030	38,905	49,365
Series 1999 - 65, 3.25-5.25%	2030	26,195	46,320
Series 1999 - 66, 4.05-6.95%	2031	15,930	26,600
Series 1999 - 67, 4.05-7.51%	2030	18,115	30,805
Series 1999 - 68, 4.30-7.02%	2031	16,085	18,230
Series 2000 - 69, 4.35-6.25%	2031	33,890	34,670
Series 2000 - 70, 4.30-5.90%	2032	29,435	33,555
Series 2001 - 72, 3.25-5.35%	2032	121,620	152,225
Series 2002 - 73, 1.75-5.45%	2033	81,935	118,400
Series 2002 - 74, variable rate	2032	94,530	98,120
Series 2002 - 75, variable rate	2033	81,490	88,510
Series 2003 - 77, variable rate	2033	68,820	77,150
Series 2003 - 78, variable rate	2025	54,740	57,390
Series 2003 - 79, variable rate	2034	71,885	77,225
Series 2004 - 81, variable rate	2034	82,080	85,135
Series 2004 - 82, variable rate	2034	74,800	80,175
Series 2004 - 83, variable rate	2035	78,605	82,275
Series 2004 - 84, variable rate	2034	80,345	84,420
Series 2004 - 85, variable rate	2035	85,030	86,975
Series 2004 - 86, variable rate	2035	93,075	94,440
Series 2005 - 87, variable rate	2035	90,770	92,175
Series 2005 - 88, variable rate	2037	81,010	86,875
Series 2005 - 89, variable rate	2035	63,485	115,780
Series 2005 - 90, variable rate	2036	105,790	117,205
Series 2005 - 91, variable rate	2036	110,595	121,025

Description of bonds and notes as issued	Final Maturity Date	Amounts Outstanding June 30, 2010	June 30, 2009
Series 2006 - 92, variable rate	2036	$ 119,185	$ 122,255
Series 2006 - 93, variable rate	2037	91,535	110,380
Series 2006 - 94, variable rate	2037	96,550	112,435
Series 2006 - 95, variable rate	2037	154,700	175,045
Series 2006 - 96, 3.60-5.72%	2037	160,180	179,400
Series 2007 - 97, 3.50-5.50%	2037	142,840	154,260
Series 2007 - 98, variable rate	2037	167,185	188,230
Series 2007 - 99, 3.70-5.30%	2038	106,500	128,360
Series 2007 - 100, 3.40-5.35%	2038	113,890	140,180
Series 2007 - 101, variable rate	2038	26,200	56,905
Series 2007 - 102, variable rate	2038	103,040	148,885
Series 2008 - 103, 2.00-5.70%	2038	159,750	182,400
Series 2008 - 104, variable rate	2038	144,620	167,250
Series 2009 - 105, 0.80-5.00%	2039	192,455	—
Series 2009 - 106, 0.50-4.80%	2040	249,455	—
Series 2009 - 107	2011	394,260	—
Series 2009 - 107A, 3.96%	2040	210,000	—
Series 2010 - 108, 0.375-4.75%	2028	140,210	—
2007 Note Purchase Agreement - 2.5%	2017	2,500	2,500
2009 Note Purchase Agreement - 2.5%	2019	1,000	1,000
2009 Note Purchase Agreement - 2.5%	2024	2,500	—
		4,590,193	3,963,059
Unamortized deferred loss of refundings		(16,097)	(16,904)
Unamortized bond discount		(13,712)	(11,690)
Total bonds and notes payable		4,560,384	3,934,465
Less current portion		494,725	112,015
Long-term portion		$4,065,659	$3,822,450

Interest paid on variable-rate tax-exempt bonds is closely correlated with the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) rate. Generally, note resets occur quarterly, monthly or weekly.

Debt Service Requirements

The approximate principal and interest payments required on outstanding bonds and notes over the next five years and thereafter are as follows:

Fiscal Year Ending	General Fund Principal	General Fund Interest	Multifamily Housing Program Principal	Multifamily Housing Program Interest	Single Family Mortgage Loan Program Principal	Single Family Mortgage Loan Program Interest	Total
2011	$ —	$ 58	$ 27,064	$ 3,797	$ 494,725	$ 126,314	$ 651,958
2012	—	58	25,576	3,465	91,930	124,514	245,543
2013	—	58	24,789	3,122	91,115	121,725	240,809
2014	—	58	20,352	2,693	84,935	118,935	226,973
2015	350	58	17,457	2,412	101,665	116,437	238,379
2016-2020	1,995	274	70,429	8,938	698,110	518,894	1,298,640
2021-2025	2,455	242	18,186	4,255	764,611	407,393	1,197,142
2026-2030	3,040	203	11,510	1,035	914,627	284,457	1,214,872
2031-2035	12,160	129	7,275	141	853,585	147,867	1,021,157
2036-2040	—	—	555	2	488,040	37,633	526,230
2041-2045	—	—	—	—	6,850	136	6,986
	$20,000	$1,138	$223,193	$29,860	$4,590,193	$2,004,305	$6,868,689

Early Extinguishment of Debt

During the years ended June 30, 2010 and 2009, using mortgage prepayments, the Agency repurchased or redeemed, prior to their scheduled maturity, the principal amount of certain bonds totaling approximately $89,755 and $22,480, respectively. Net losses of $901 and $212 on early extinguishments have been recorded as a non-operating expense for years ended June 30, 2010 and 2009, respectively. Losses arise because of immediate recognition of deferred bond issuance costs and discounts that would have been amortized over the life of the applicable bond issues had they not been retired.

Current Refunding

During the year ended June 30, 2010, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately $215,420. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of $8,950. The Agency recognized a deferred loss of $1,039. The Agency increased its aggregate debt service payments by $19,473 over the next 30 years by the current year's refunding activity.

During the year ended June 30, 2009, using new debt proceeds, the Agency refunded the principal amount of certain Single Family Mortgage Loan Program bonds, totaling approximately $1,800. The Agency realized an economic loss (difference between the present value of the old debt and new debt service payments) of $17. The Agency recognized a deferred loss of $1,085. The Agency increased its aggregate debt service payments by $54 over the next 30 years by the current year's refunding activity.

Advance Refunding

In previous fiscal years, the Agency effected an advanced refunding by issuing bonds to refund the Agency's Multifamily Residential Development Bonds, Issue H. The result was an in-substance defeasance, whereby the Agency purchased securities that were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. The defeased principal outstanding is $2,725 at June 30, 2010 and 2009.

Hedging Derivative Instument Payments and Hedge Debt

As of June 30, 2010, debt service requirements of the Agency's outstanding variable-rate debt and net swap payments on the associated hedging derivative instruments, assuming current interest rates remain the same, for their terms are displayed in the following schedule. The net swap payment is the difference between the fixed rate interest paid to the counterparty and the variable-rate interest received by the Agency. See Note 7 for information on derivative instruments.

Fiscal Year Ending June 30	Variable Rate Bond Principal	Variable Rate Bond Interest	Net Swap Payments	Total
2011	$ 27,835	$ 4,113	$ 52,345	$ 84,293
2012	26,200	4,033	49,050	79,283
2013	21,610	3,960	46,315	71,885
2014	20,790	3,898	44,000	68,688
2015	28,865	3,834	42,051	74,750
2016-2020	238,605	17,499	180,939	437,043
2021-2025	280,640	13,853	139,882	434,375
2026-2030	375,540	9,044	89,562	474,146
2031-2035	345,010	4,152	38,390	387,552
2036-2040	111,200	455	2,576	114,231
	$1,476,295	$64,841	$685,110	$2,226,246

Conduit Debt Obligations

During the 2010 fiscal year, the Agency issued series 2010Q Special Limited Obligation Multifamily Housing Development Bonds. The Agency issued the special limited obligation tax-exempt bonds in an amount of approximately $10,000 to fund the construction of Mantua–Phase II housing development in Philadelphia. The bonds are secured solely by the property and revenues generated by the property.

In prior years, the Agency issued series 2003J, 2008M, 2008P and 2008O Special Limited Obligation Bonds to provide for the financing of new construction or preservation of affordable housing stock in the Commonwealth of Pennsylvania. The bonds are secured solely by the properties and revenues generated by the property.

Also in prior years, the Agency issued series 2005A Capital Fund Securitization Revenue Bonds to provide for the financial assistance to local public housing authorities. The bonds are secured solely by the properties financed, revenues generated by the property or appropriations to be paid by the United States Department of Housing and Urban Development.

These bonds, which are considered conduit debt obligations under GASB rules, do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2010 and 2009, conduit debt outstanding aggregated $105,943 and $97,002, respectively.

Bond Covenants

Minimum capital reserves have been established by the Agency to meet the requirements of bond covenants. The capital reserve requirement for certain Multifamily Housing Program bonds requires that a one-year debt service minimum balance be maintained at all times. The capital reserve requirement for Single Family Mortgage Loan Program bonds must be equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. Bond covenant requirements regarding restricted cash and net assets were met at year-end.

New Issue Bond Program

During the 2010 fiscal year, the United States Treasury, in partnership with Fannie Mae and Freddie Mac, announced the New Issue Bond Program (NIBP) as part of the Housing and Economic Recovery Act of 2008. In December 2009, the Agency issued $604,000 of Single Family Mortgage Revenue Bonds, Series 2009-107, to Fannie Mae and Freddie Mac under the NIBP. The proceeds of these bonds are to be held in escrow until converted into long-term fixed rate bonds. On March 31, 2010, the Agency converted $210,000 of the NIBP escrow into long-term fixed rate bonds, leaving approximately $394,000 of pre-conversion bonds in escrow at June 30, 2010. The Agency also converted $156,000 of the NIBP escrow into long-term fixed rate bonds on October 14, 2010. The NIBP expires on December 31, 2011, and any escrowed bonds not converted to fixed rate long-term bonds at that time are subject to mandatory redemption on February 1, 2012.

7. Derivatives

Summary

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed, receive-variable interest rate swap agreements. The objective of the interest rate swaps is to hedge against changes in the cash flows on the related variable rate bonds series.

Interest rate swaps are recorded and reported as either a hedging derivative instrument or investment derivative instrument based upon the effectiveness of the interest rate swap to hedge against interest rate exposure associated with variable-rate debt. The regression analysis method is used to determine whether the interest rate swaps are an effective hedge or not. The fair value of hedging derivative instruments is presented in the Balance Sheets as a derivative instrument liability (negative fair values amount). Changes in fair values are recorded as a deferred outflow of a resource (negative fair values change). If an interest rate swap changes from being an effective hedge to an ineffective hedge, it is recorded and reported as an investment derivative instrument. The fair values of investment derivative instruments are presented as derivative instruments liabilities or assets; however, the changes in fair values are no longer deferred, but recognized as investment revenue or expense.

Fair value amounts were obtained from mark to market statements from a third party analyst and represent mid-market valuations that approximate the current economic value using market averages, reference rates and/or mathematical models. The fair value represents the current price to settle interest rate swap assets or liabilities in the marketplace if interest rate swap agreements were to be terminated.

Because interest rates have generally decreased since the interest rate swaps became effective, all of the Agency's interest rate swaps have a negative fair value as of June 30, 2010. Changes in fair values are countered by reductions or increases in total interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2010 basic financial statements are as follows:

Bond Series	Notional Amount	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Value at June 30, 2010 Classification	Fair Value at June 30, 2010 Amount
Cash Flow Hedges:					
1999-67B	$17,800	Deferred outflow	$ (846)	Debt	$(4,273)
2000-70B	1,025	Deferred outflow	138	Debt	(25)
2001-72C	12,855	Deferred outflow	(173)	Debt	(2,126)
2002-74A	30,000	Deferred outflow	(317)	Debt	(2,289)
2002-75A	30,000	Deferred outflow	(519)	Debt	(2,001)
2003-77B	59,900	Deferred outflow	258	Debt	(2,566)
2003-77C	5,760	Deferred outflow	116	Debt	(153)
2003-79B	57,350	Deferred outflow	(2,170)	Debt	(8,373)
2004-81B	4,340	Deferred outflow	40	Debt	(119)
2004-81C	43,465	Deferred outflow	2,163	Debt	(192)
2004-82B	39,580	Deferred outflow	(809)	Debt	(3,030)
2004-82C	35,220	Deferred outflow	(5,070)	Debt	(6,837)
2004-83B	21,750	Deferred outflow	(19)	Debt	(1,230)
2004-83C	42,905	Deferred outflow	(1,207)	Debt	(5,141)
2004-84C	11,265	Deferred outflow	(90)	Debt	(694)
2004-84D	58,335	Deferred outflow	(361)	Debt	(3,299)
2004-85B	19,775	Deferred outflow	(587)	Debt	(1,186)
2004-85C	44,645	Deferred outflow	(5,039)	Debt	(8,564)
2004-86B	57,700	Deferred outflow	(987)	Debt	(4,488)
VRDB2004	20,000	Deferred outflow	(708)	Debt	(1,628)
2005-87B	32,775	Deferred outflow	(469)	Debt	(2,422)
2005-87C	47,300	Deferred outflow	(5,615)	Debt	(9,160)
2005-88B	47,175	Deferred outflow	(1,205)	Debt	(3,627)
2005-88C	31,930	Deferred outflow	(1,163)	Debt	(2,009)
2005-89	63,485	Deferred outflow	502	Debt	(4,004)
2005-90C	60,820	Deferred outflow	(2,180)	Debt	(4,963)
2005-91B	70,000	Deferred outflow	(1,581)	Debt	(6,891)
MF2005-K	25,185	Deferred outflow	(1,134)	Debt	(5,776)
2006-92B	42,870	Deferred outflow	(1,101)	Debt	(4,346)
2006-93B	37,185	Deferred outflow	(790)	Debt	(4,208)
2006-94B	35,165	Deferred outflow	(1,130)	Debt	(5,126)
2006-95C	39,180	Deferred outflow	(1,076)	Debt	(4,116)
2007-98C	41,955	Deferred outflow	(7)	Debt	(2,449)
2007-99C	15,000	Deferred outflow	(612)	Debt	(2,321)
2007-100C	40,000	Deferred outflow	(1,439)	Debt	(4,748)

Bond Series	Notional Amount	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Value at June 30, 2010 Classification	Fair Value at June 30, 2010 Amount
Cash Flow Hedges (cont.):					
RH2008A,B	$47,675	Deferred outflow	$ 397	Debt	$(3,629)
RH2008C	40,685	Deferred outflow	(1,085)	Debt	(3,942)
RH2008D	40,685	Deferred outflow	(26)	Debt	(2,814)
2008-104#1	43,525	Deferred outflow	1,041	Debt	(2,789)
2008-104#2	17,830	Deferred outflow	299	Debt	(1,474)
2008-104#3	6,105	Deferred outflow	311	Debt	(269)
2008-104#4	51,565	Deferred outflow	613	Debt	(4,890)
Investment Derivatives:					
2004-82B	1,030	Expense	(79)	Investment derivative	(79)
2005-89	18,005	Expense	(1,136)	Investment derivative	(1,136)
RH2008A&B	3,530	Expense	(269)	Investment derivative	(269)
RH2008C	4,515	Expense	(437)	Investment derivative	(437)
RH2008D	4,515	Expense	(312)	Investment derivative	(312)
		Total	$(35,870)	Total	$(146,420)

There were no derivative instruments reclassified from hedging derivative instruments to investment derivative instruments during the year ended June 30, 2010 for hedging instrument effectiveness for the purposes of GASB 53. However, five interest rate swaps, illustrated above, have outstanding notional amounts that exceed the related hedged variable rate bond amounts due to redemption and refunding. The portion of each interest rate swap that exceeds the outstanding variable rate debt is no longer considered a hedging derivative instrument on the associated variable rate bond debt; rather, that amount is accounted for as an investment derivative instrument.

Hedging Derivative Instruments

The objective of the hedging derivative instruments is to hedge against changes in the cash flows on the related variable rate bonds series. The terms of the Agency's hedging derivative instruments for June 30, 2010 are as follows. The interest rate swaps have a total negative fair value of $146,420, which is classified as a noncurrent interest rate swap liability on the Balance Sheets:

Bond Series	Notional Amount	Effective Date	Maturity Date	Terms: Fixed Rate Paid	Terms: Variable Rate Received
1999-67B	$17,800	8/2002	4/2029	5.950%	1M LIBOR+50bps
2000-70B	1,025	4/2001	4/2011	6.927	1M LIBOR
2001-72C	12,855	9/2001	10/2023	5.695	1M LIBOR
2002-74A	30,000	8/2002	10/2032	4.285	67% of 1M LIBOR
2002-75A	30,000	12/2002	10/2032	3.957	70% of 1M LIBOR
2003-77B[1]	59,900	9/2003	10/2033	4.060	67% of 1M LIBOR
2003-77C	5,760	9/2003	4/2012	2.690	67% of 1M LIBOR
2003-79B[1]	57,350	12/2003	10/2033	3.997	65% of 1M LIBOR+25bps
2004-81B	4,340	4/2004	4/2013	2.365	67% of 1M LIBOR
2004-81C[1]	43,465	4/2004	10/2034	3.557	67% of 1M LIBOR
2004-82B	39,580	5/2004	10/2030	3.643	61% of 1M LIBOR+39bps
2004-82C[1]	35,220	5/2004	10/2034	3.933	61% of 1M LIBOR+39bps
2004-83B	21,750	8/2004	10/2019	3.410	65% of 1M LIBOR+25bps
2004-83C[1]	42,905	8/2004	10/2035	4.060	65% of 1M LIBOR+25bps
2004-84C	11,265	9/2004	4/2018	3.115	67% of 1M LIBOR
2004-84D[1]	58,335	9/2004	10/2034	3.746	67% of 1M LIBOR
2004-85B	19,775	11/2004	4/2019	3.168	65% of 1M LIBOR+25bps
2004-85C[1]	44,645	11/2004	10/2035	3.879	65% of 1M LIBOR+25bps
2004-86B[1]	57,700	12/2004	10/2033	3.417	67% of 1M LIBOR
VRDB2004	20,000	2/2004	1/2034	3.945	65% of 1M LIBOR+25bps
2005-87B	32,775	3/2005	10/2023	3.460	65% of 1M LIBOR+25bps
2005-87C[1]	47,300	3/2005	10/2035	3.882	65% of 1M LIBOR+25bps
2005-88B	47,175	5/2005	10/2035	3.500	61% of 1M LIBOR+39bps
2005-88C[1]	31,930	5/2005	10/2035	3.712	61% of 1M LIBOR+39bps
2005-89[1]	63,485	6/2005	10/2035	3.605	67% of 1M LIBOR
2005-90C[1]	60,820	9/2005	4/2036	3.692	65% of 1M LIBOR+25bps
2005-91B	70,000	12/2005	10/2036	3.953	67% of 1M LIBOR
MF2005-K[1]	25,185	3/2005	1/2036	5.183	1M LIBOR
2006-92B	42,870	3/2006	10/2036	3.996	65% of 1M LIBOR+25bps
2006-93B	37,185	5/2006	4/2037	4.266	61% of 1M LIBOR+39bps
2006-94B	35,165	7/2006	4/2027	4.152	67% of 1M LIBOR
2006-95C[1]	39,180	9/2006	4/2026	4.115	65% of 1M LIBOR+25bps
(cont.)					
2007-98C[1]	$41,955	5/2007	10/2037	4.105%	61% of 1M LIBOR+39bps
2007-99C	15,000	9/2007	10/2023	3.885	67% of 1M LIBOR
2007-100C	40,000	12/2007	4/2038	4.136	65% of 1M LIBOR+25bps
RH2008A&B[1]	47,675	7/2002	1/2021	3.575	67% of 1M LIBOR
RH2008C[1]	40,685	6/2003	7/2020	3.457	70% of 1M LIBOR
RH2008D[1]	40,685	6/2003	7/2020	3.547	70% of 1M LIBOR
2008-104#1	43,525	12/2007	10/2013	4.471	1M LIBOR
2008-104#2	17,830	3/2007	10/2014	4.922	1M LIBOR
2008-104#3	6,105	3/2007	4/2012	4.862	1M LIBOR
2008-104#4	51,565	9/2007	4/2015	5.149	1M LIBOR

1 = Indicates an embedded option to reduce the notional amount without a payment to the counterparty.

LIBOR = London Interbank Offered Rate

bps = Basis Points

Credit Risk

At June 30, 2010, the Agency was not exposed to credit risk on the outstanding interest rate swaps since all interest rate swaps have negative fair values. The Agency's entire collection of interest rate swaps rely upon the performance of the third parties who serve as interest rate swap counterparties. If interest rates rise and the fair value of these swaps becomes positive, the Agency may be exposed to credit risk - the risk of the counterparty failing to perform according to contractual obligations.

Basis Risk and Interest Rate Risks

Basis risk exists to the extent the Agency's variable-rate bond payments do not exactly equal the index of the interest rate swap. The Agency is exposed to interest rate risk on all of its interest rate swaps; as the LIBOR index decreases, the Agency's net payment on interest rate swaps increases.

Termination Risk

The Agency or the counterparty may terminate an interest rate swap agreement if either party fails to perform under the terms of the agreement. Furthermore, the Agency maintains the option to terminate interest rate swap agreements anytime. If an interest rate swap has a negative fair value at the time of termination, the Agency would be liable to the counterparty for an amount equal to that negative fair value.

Rollover Risk

Rollover risk is the risk that an interest rate swap associated with a bond issue does not extend to the maturity of that debt, thereby creating unhedged variable-rate debt. The Agency is exposed to rollover risk on the following debt:

Associated Bond Issue	Debt Maturity Dates	Swap Termination Dates
2000-70B	10/2028	04/2011
2001-72C	10/2032	10/2023
2004-81B	10/2034	04/2013
2004-82B	04/2034	10/2030
2004-83B	04/2035	10/2019
2004-85B	04/2035	04/2019
2004-86B	10/2035	10/2033
2005-87B	04/2035	10/2023
2005-88B	10/2036	10/2035
2005-88C	04/2037	10/2035
2008-104#1	10/2037	10/2014
2008-104#2	10/2037	04/2012
2008-104#3	04/2038	04/2015
2008-104#4	04/2038	10/2013

Investment Derivative Instruments

At June 30, 2010, five interest rate swaps had notional amounts that exceeded the associated outstanding variable rate debt. The excess portions of those interest rate swaps had a total negative fair value of $2,233, were no longer considered to be hedging derivative instruments, and are classified as a noncurrent interest rate swap liability on the Balance Sheets.

Credit Risk

At June 30, 2010, the Agency was not exposed to credit risk because the interest rate swap agreements, reported as investment derivative instruments, have a negative fair value.

Interest Rate Risk

The Agency is exposed to interest rate risk on all of its interest rate swap agreements. As the LIBOR index decreases, the Agency's net payment on the swaps increases.

Contingencies

Each of the Agency's interest rate swap agreements require the Agency to post collateral in the event the fair value of the interest rate swaps falls below specific thresholds of negative worth. As of June 30, 2010, the Agency was not required to post collateral for any of its outstanding swaps.

8. Long-Term Liabilities

The changes in long-term liabilities for the year ended June 30, 2010 were as follows:

	July 1, 2009	Additions	Reductions	June 30, 2010	Due Within One Year
Bonds and notes payable	$4,257,824	$1,773,180	$1,197,618	$4,833,386	$521,789
Net bond premium (discount)	(11,969)	(3,612)	(1,627)	(13,954)	—
Deferred refunding loss	(21,068)	(1,038)	(2,814)	(19,292)	—
Bonds and notes payable, net	4,224,787	1,768,530	1,193,177	4,800,140	521,789
Net OPEB obligation	5,949	4,225	488	9,686	—
Escrow deposits	165,497	232,930	228,841	169,586	73,164
Other liabilities	200,289	387,461	377,073	210,677	29,482
Escrow and other liabilities	371,735	624,616	606,402	389,949	102,646
Total net long-term liabilities	$4,596,522	$2,393,146	$1,799,579	$5,190,089	$624,435

The changes in long-term liabilities for the year ended June 30, 2009 were as follows:

	July 1, 2008	Additions	Reductions	June 30, 2009	Due Within One Year
Bonds and notes payable	$4,276,443	$351,340	$369,959	$4,257,824	$152,148
Net bond premium (discount)	(12,125)	(1,279)	(1,435)	(11,969)	—
Deferred refunding loss	(23,088)	(1,085)	(3,105)	(21,068)	—
Bonds and notes payable, net	4,241,230	348,976	365,419	4,224,787	152,148
Net OPEB obligation	3,041	3,316	408	5,949	—
Escrow deposits	168,901	212,397	215,801	165,497	60,520
Other liabilities	175,232	390,199	365,142	200,289	695
Escrow and other liabilities	347,174	605,912	581,351	371,735	61,215
Total net long-term liabilities	$4,588,404	$954,888	$946,770	$4,596,522	$213,363

9. Designated Net Assets

Unrestricted net assets have been designated by the Members of the Board for the following purposes at June 30, 2010 and 2009 :

	June 30, 2010	June 30, 2009
General Fund:		
Home Choice Program to fund the housing opportunity of homes in urban areas	$47,150	$47,150
Housing Initiatives provide below market rate financing	11,850	11,850
Single Family Insurance to fund special hazard losses by homeowners	16,500	16,500
Home Buyer Counseling for education of first-time homebuyers	7,500	6,500
Multifamily Insurance for Agency insured or coinsured developments	10,000	10,000
Homeless Auxiliary Initiative provides assistance to homeless shelters	1,593	1,593
Total	$94,593	$93,593
Multifamily Housing Program:		
PennHOMES Program to lower development costs for apartments	$139,000	$137,000
Preservation manages physical deterioration, financial or social distress	3,000	3,000
Senior Housing Supportive Services to fund elderly resident services	4,000	4,000
Supportive Services to fund multifamily resident services	2,300	2,300
Total	$148,300	$146,300
Single Family Mortgage Loan Program:		
Closing Cost Subsidy Program to assist borrowers with closing costs	$15,750	$14,750
Additional Single Family Insurance to reduce the risk of default on loans	2,455	2,455
Total	$18,205	$17,205
Insurance Fund:		
Risk Retention Program to provide single family mortgage insurance	$35,530	$35,405

10. Restricted Net Assets

Multifamily Housing Program and Single Family Mortgage Loan Program's June 30, 2010 net assets of $5,564 and $188,252, respectively, are restricted by bond resolutions included within certain bond indentures whose proceeds are to be used to fund loan programs.

HEMAP's June 30, 2010 net assets of $45,282 have been restricted in accordance with GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. Net assets are restricted by Commonwealth statute, which requires that net assets shall be used in providing mortgage assistance loans to mortgagors facing foreclosure because of circumstances beyond their control.

11. Interfund Transfers, Advances, Receivables and Payables

Transfers are used to move funds between the General Fund and the other funds of the Agency for financing mortgage-related activities, subsidizing debt service payments, moving revenue to the General Fund from the bond program funds and for reimbursement to the General Fund that pays shared service expenses for the separate enterprise funds. Advances outstanding between funds result mainly from the time lag between the dates that interfund services are provided and reimbursement payments between funds are made.

Transfers and advance balances outstanding to and from the funds are summarized below for the years ended June 30, 2010 and 2009:

	2010	2009
Interfund transfers in:		
General Fund	$ 3,186	$ 4,762
Single Family Mortgage Loan Program	—	25,713
Multifamily Housing Program	2,826	—
Total	$ 6,012	$ 30,475
Interfund transfers out:		
Single Family Mortgage Loan Program	$ 5,938	$ —
Multifamily Housing Program	—	20,475
Insurance Fund	74	10,000
Total	$ 6,012	$ 30,475
Advance receivable fund:		
General Fund	$ 66,234	$ 35,845
Multifamily Housing Program	39,407	—
Total	$105,641	$ 35,845
Advance payable fund:		
Single Family Mortgage Loan Program	$100,302	$ 31,099
Multifamily Housing Program	—	394
HEMAP	5,339	4,352
Total	$105,641	$ 35,845

12. Pension Plans

Plan Description

As of June 30, 2010, substantially all eligible full-time employees are participants in the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan) or Government Excess Benefit Plan (Excess Plan), which are both noncontributory defined benefit, single employer plans. Pension plan assets and liabilities are not included in the basic financial statements of the Agency. The Plan and Excess Plan do not issue stand-alone financial statements.

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of five years of service. Under the provisions of the Plan, participants with prior military service may receive credit for their time of service providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by Internal Revenue Code (IRC) Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan do not exceed the limitation imposed by IRC Section 415. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

The Plan and Excess Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

Annual Pension Cost and Net Pension Asset

The Agency's annual pension costs and net pension assets of the Plan and Excess Plan are as follows:

	June 30, 2010	June 30, 2009
Annual required contribution (ARC)	$3,037	$2,348
Interest on net pension asset	(92)	(67)
Adjustment to ARC	139	102
Annual pension cost	3,084	2,383
Contributions made	(3,200)	(2,700)
Increase in net pension asset	(116)	(317)
Net pension asset, beginning of year	(1,452)	(1,135)
Net pension asset, end of year	$(1,568)	$(1,452)

Three-Year Trend Information for the Plan and Excess Plan:

Calendar Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension (Asset)
December 31, 2009	$3,084	104%	$(1,568)
December 31, 2008	2,383	113	(1,452)
December 31, 2007	2,364	110	(1,135)

Funded Status and Funding Progress

As of January 1, 2010, the most recent actuarial valuation date, the Plan and Excess Plan was 70.8% funded. The actuarial accrued liability for benefits was $57,218, and the actuarial value of assets was $40,521, resulting in an unfunded actuarial accrued liability (UAAL) of $16,697. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) was $14,489 and the ratio of the UAAL to the covered payroll was 115.2%.

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2010
Actuarial cost method	Aggregate
Amortization method	*
Remaining amortization period	*
Amortization period open or closed	*
Asset valuation method	Market Value for 1/1/2008 and 1/1/2009 and Five-Year Smoothed Value for 1/1/2010
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Includes inflation at	Moderate rate based on historical averages
Post-retirement benefit increases	None

*Because the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial accrued liabilities, information about the Plan and Excess Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose. The information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan and Excess Plan.

The Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan and Excess Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

13. Post employment Benefits Other Than Pensions

Plan Description

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan (Plan) to provide certain other postemployment benefits (OPEB) to all former employees who are members of the Employees' Retirement Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of limited hospitalization, major medical insurance, physician services and prescription drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Plan assets and liabilities are included in the basic financial statements of the Agency. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the Plan.

Funding Policy

Premiums under the Plan for post-employment healthcare benefits are partially funded by retirees desiring such coverage via co-pays paid to the Agency in accordance with rates established by the Agency.

For the years ended June 30, 2010 and 2009, contribution rates for Plan members equaled 2.5% of the insurance premium per participant per month. For the years ended June 30, 2010 and 2009, Plan members receiving benefits paid $12 and $10, respectively, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling $488 and $408, respectively. As a result, the Agency's net outlays for premiums due equaled $476 and $398 for the years ended June 30, 2010 and 2009, respectively.

The Agency currently funds postemployment healthcare benefits on a pay-as-you-go basis. Although the Agency is studying the establishment of trusts that would be used to accumulate and invest assets necessary to pay for the accumulated liability, these financial statements assume that pay-as-you-go funding will continue.

Contribution requirements and benefit provisions of the Plan are established and may be amended by the Members of the Board.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The following table presents the components of the Agency's annual OPEB costs, the amount actually contributed to the Plan, and changes in the Agency's net OPEB obligation:

	June 30, 2010	June 30, 2009
Annual required contribution (ARC)	$4,318	$3,363
Interest on net OPEB obligation	255	131
Adjustment to ARC	(348)	(178)
Annual OPEB expense	4,225	3,316
Contributions made	(488)	(408)
Increase in net OPEB obligation	3,737	2,908
Net OPEB obligation beginning of year	5,949	3,041
Net OPEB obligation end of year	$9,686	$5,949

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$4,225	12%	$9,686
June 30, 2009	3,316	12	5,949
June 20, 2008	3,363	10	3,041

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) of $36,652. The covered payroll (annual payroll of active employees covered by the Plan) equaled $15,320, and the ratio of the UAAL to the covered payroll equaled 239.2%. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan, presented as Required Supplementary Information following the notes to the financial statements presents multiyear trend information, when available, about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purpose are based on the substantive plan as understood by the Agency and Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the actuarial valuation dated July 1, 2009, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the Plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency. The annual healthcare cost trend rate is 8% in 2009, decreasing by 0.5% per year to 5.5% in 2015 and thereafter.

14. Significant Contingencies and Commitments

Federally Assisted Programs

The Agency participates in several federally assisted programs. Those programs are subject to compliance audits and adjustments by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of the Agency. In management's opinion, disallowance, if any, will be immaterial.

Risk Management

The Agency is subject to normal risks associated with its operations including property damage, personal injury and employee dishonesty. All risks are managed through the purchase of commercial insurance. There have been no losses or decreases in insurance coverage over the last three years.

Litigation

In the normal course of business, there are various claims or suits pending against the Agency. In the opinion of the Agency's management and counsel, the amount of such losses that might result from these claims or suits, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire Multifamily Housing, Single Family Mortgage and HEMAP Loans were approximately $1,267, $88,466 and $7,542, respectively, at June 30, 2010.

15. Significant Effects of Subsequent Events

On October 14, 2010, the Agency converted $156,000 of Single Family Mortgage Revenue Bonds, Series 107B, which were part of the New Issue Bond Program escrow, into long-term fixed rate bonds. The bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of April 1, 2041. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds. Approximately $238,260 of New Issue Bond Program escrow remains available for conversion.

On October 14, 2010, the Agency issued $104,000 of Single Family Mortgage Revenue Bonds, Series 109. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of April 1, 2028. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

On October 14, 2010, the Agency issued $250,000 of Single Family Mortgage Revenue Bonds, Series 110A through 110B. These bonds are general obligations of the Agency that bear interest at fixed rates payable on each April 1 and October 1, with a final maturity date of October 1, 2039. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

On or about December 22, 2010, the Agency plans to issue $82,750 of Single Family Mortgage Revenue Bonds, Series 111. These bonds will be general obligations of the Agency, secured by all monies, assets and revenues established by the indenture and bear interest at fixed rates, with a final maturity of September 22, 2011. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased with bond proceeds.

Required Supplementary Information (Unaudited)

June 30, 2010 *(In thousands of dollars)*

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)
01/01/2010	$ 40,521	$ 57,218	$ 16,697
01/01/2009	35,042	52,204	17,162
01/01/2008	37,040	46,470	9,430

Actuarial Valuation Date	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
01/01/2010	70.8%	$ 14,489	115.2%
01/01/2009	67.1	13,447	127.6
01/01/2008	79.7	12,652	74.5

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)
07/01/2009	$ —	$ 36,652	$ 36,652
07/01/2007	—	28,072	28,072

Actuarial Valuation Date	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a)/(c)
07/01/2009	0.0%	$ 15,320	239.2%
07/01/2007	0.0	13,382	209.8

Staff of the Pennsylvania Housing Finance Agency

Executive

Brian A. Hudson, Sr., Executive Director and CEO
Carrie M. Barnes, Executive Assistant to Executive Director
Robert F. Bobincheck, Director of Strategic Planning & Policy
Christina Brown, Secretary
Paula J. Brightbill, Public Information Officer II
Andrea R. Cunningham, Program Coordinator
Scott Elliott, Director of Communications
Gena K. Fairfax-Hudson, Programs Coordinator II
William W. Fogarty, Director of Government Affairs
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Samara Gomez, Assistant Counsel
John F. Goryl, Associate Counsel
Jodi L. Hall, Quality Control Officer II
Tracy Horetsky, Legal Administrator
Larry E. Jackson, Manager of Internal Audit
Theodore F. Jackson, Senior Compliance Officer
Casey Lenker, Quality Control Coordinator
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Rebecca L. Peace, Chief Counsel
Terri L. Redmond, Manager of Counseling & Education
Cynthia Rodriguez, Compliance Officer I
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Christine M. Stewart, Senior Auditor
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Lisa Yaffe, Director of Business Development
Melissa Zorbaugh, Policy Associate

Finance and Administration

Accounting and Loan Servicing Division

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Joanne H. Fitzgerald, Servicing Specialist I
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Mary L. Garcia, Servicing Officer II
Naomi P. Garcia, Servicing Officer II
Brian J. Good, Servicing Officer II
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F. Elise Gutshall, Servicing Officer II
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Monique Mason, Servicing Specialist I
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Tina Thompson, Servicing Assistant II
JoAnn Wade, Senior Servicing Officer
Tonya Warren, Servicing Assistant I
LuAnne F. Wiest, Servicing Officer II
Priscilla Williams, Servicing Officer II
Angel Zarecky, Servicing Specialist II

Finance Division

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Ben G. Housman, Jr., Mortgage Servicing Representative II
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Kristy Provost, Utility Allowance Coordinator
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Stanley E. Salwocki, Manager of Architecture & Engineering
Ralph E. Shires, Technical Services Representative II

Single Family Operations

Homeownership Division

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Coral F. Romain, Purchasing Officer II
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Homeowners' Emergency Mortgage Assistance Program Division

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Sonya L. Clemons, Loan Officer II
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Vinh Lam, Loan Counselor II
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Sandra O. Lewis, Loan Officer I
Tracy J. McMurray, Loan Closing Coordinator II
Bonnie L. Nail, Assistant Accountant II
Lin C. Patch, Appeals Officer
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Walter Pudlowski, Loan Counselor II
Kristin L. Rode, Administrative Services Coordinator II
Kathy Rose, Secretary
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Roberta A. Sheaffer, Senior Loan Closing Officer
Ronald L. Smith, Senior Collections Officer
Samantha Stevens, Loan Officer I
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Norristown Office

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Hernando Espinosa, Housing Management Representative I
James E. Galia, Technical Services Representative II
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Mary I. Johnson, Assistant Housing Management Representative
John S. Paczewski, Technical Services Representative II
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Lorraine Weaver-Tawwad, Housing Management Representative II

Pittsburgh Office

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At the Pennsylvania Housing Finance Agency, we care about the environment.
That's why this annual report has been printed using recycled paper and inks.
It also is being posted on our Web site to minimize the number of printed paper copies.

"Life's ups and downs provide
windows of opportunity
to determine your values and goals -

Think of using all obstacles
as stepping stones
to build the life you want."
-Marsha Sinetar

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