

Pennsylvania Housing Finance Agency

**annual
report
october
1974**



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message from the governor

I am pleased to present the Annual Report of the Pennsylvania Housing Finance Agency. The legislative and legal battles we fought to bring this Agency into being are now bearing fruit as new housing is financed by the Agency.

This Agency embodies two of the pledges I made at the start of my term as Governor: A commitment to meeting the housing needs of our State, and a commitment to govern Pennsylvania on a "business-like" basis.

PHFA has been able to finance almost 5,000 housing units over the past year without placing any demands on our tax revenues, and without the need for utilization of the Commonwealth's borrowing capacity.

I am confident that the Agency will provide many more housing units in the forthcoming year, and pledge my continuing support for programs that meet the needs of the citizens of Pennsylvania.

Milton J. Shapp
Governor

statements from the chairman and executive director

As a homebuilder, I am acutely aware of the multitude of problems facing my industry, and I am proud of the Pennsylvania Housing Finance Agency's record of accomplishment in helping to deal with the problems.

The housing which PHFA finances is well designed, and acts in harmony with the environment. It stimulates the economy of the Commonwealth as well. The housing units already under construction as a result of PHFA financing provide hundreds of jobs for carpenters, architects, plumbers, maintenance personnel, and many others. They will pay over \$1.5 million in real estate taxes to municipalities across the Commonwealth, and will provide needed housing for families and elderly people.

The Agency will not rest on its accomplishments of the past year. We currently are working on new programs which will expand the services that the Agency can provide to the people of Pennsylvania.

We do not believe that government has to be bureaucratic and inefficient. I pledge my efforts, and those of my fellow Board members, to maintaining PHFA as an efficient, effective, and cooperative instrument to meet the housing needs of Pennsylvania.

Richard J. Fox
Chairman



Richard J. Fox



John McCoy

Our last Annual Report was full of promises. This year we are able to show housing under construction across the Commonwealth, as we begin to fulfill those promises.

It has not been an easy year. Construction and operating costs have escalated rapidly, forcing rentals higher and higher, while Washington's response has been to reduce the flow of housing subsidies to a trickle. Most troublesome of all, the rate of inflation, trade deficit, and the response of the Federal Reserve to these real problems have resulted in much "tighter money" and higher interest rates.

We are pleased that the quality of our securities has enabled us to obtain funds as required, but our cost of borrowing increased significantly in recent months and this results directly in higher rents for the tenants in the developments we finance. While our interest rates are significantly below those of traditional mortgage lenders, they are, frankly, too high to serve many of those who need our assistance.

We are working actively with the Department of Housing and Urban Development and many concerned groups and individuals to improve the Section 23 leased housing program. While this program has many technical difficulties still unresolved, it is the only program which will provide a significant amount of assistance to low income housing in the near future.

Despite these difficulties which beset our industry, we believe that we have accomplished much in the past year, and look to the future with great expectations.

John McCoy
Executive Director



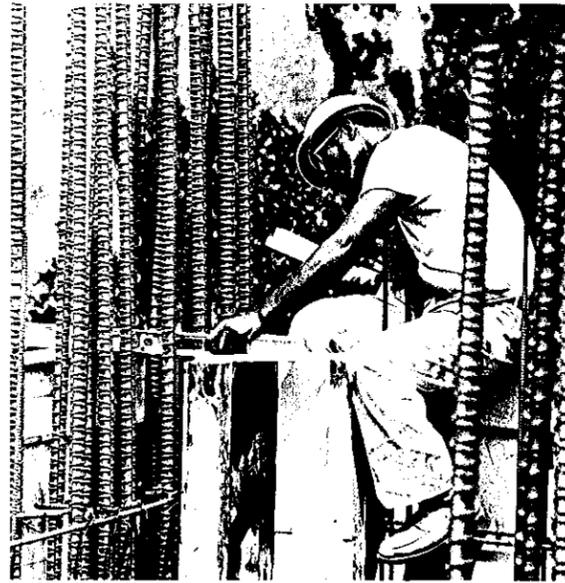
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The Pennsylvania Housing Finance Agency is an independent public body created by the General Assembly to finance the construction of low and moderate income housing in Pennsylvania. The Agency obtains funds through the sale of tax-exempt notes and bonds and lends the funds to qualified borrowers.

The Agency did not become fully operational until September of 1973, when the Pennsylvania Supreme Court ruled favorably in a suit challenging the constitutionality of the Agency's powers. From that point on, the Agency has been actively financing housing at an increasing rate.

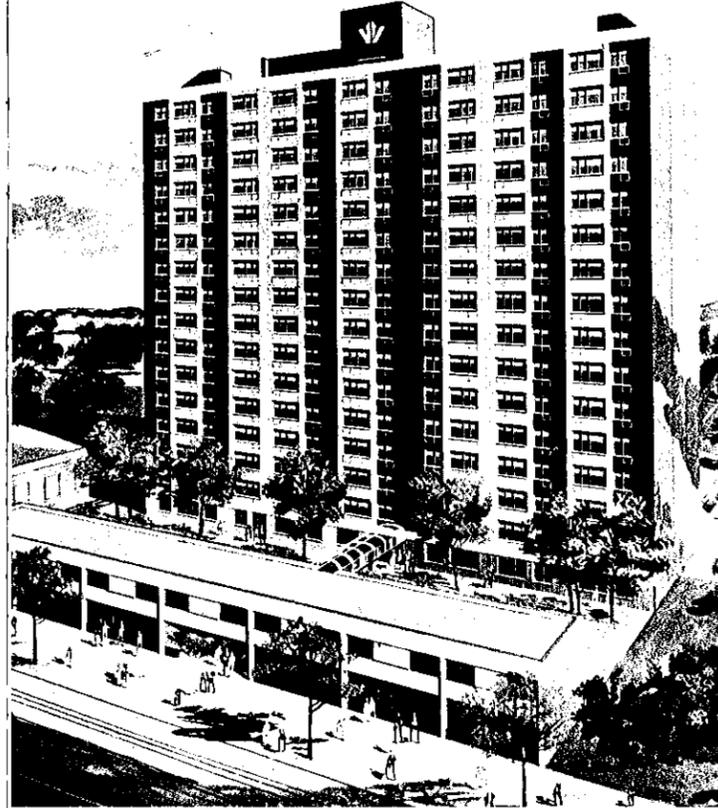
To date, the Agency has committed over \$100 million to build almost 5,000 housing units in 29 locations across the State. Later this fall, the first occupants will be moving into completed units.

The Agency makes construction and long-term mortgage loans to non-profit or limited-profit developers at rates well below conven-



tional financing through the sale of its own tax-exempt securities. Interest on PHFA revenue bonds and notes is exempt from Federal and Pennsylvania income taxes. They can, therefore, be sold to investors at lower interest rates than comparable taxable securities.

Loans are made to developers at approximately the same rates that PHFA pays on the securities it sells. The developers' lower financing costs are then passed on to the consumer in a combination of lower rentals and higher quality housing.



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This lower-interest financing often is coupled with Federal housing assistance through a number of programs. Currently, 2,964 units of PHFA financed housing are receiving subsidy under Sections 23, 101 and 236 of the National Housing Act. As a result of these various programs, families pay from \$30 to \$150 less per month than they would for comparable conventionally financed housing.

Over the past year, the Agency has grown in both size and expertise. In addition to developing the financing techniques necessary to deliver the housing, it has also developed the reputation for prudent business judgment and sound financial management needed to establish our position in the financial world. The response of banks and investment bankers indicates the level of success.

Rental Housing Program

The Rental Housing Program thus far has been the Agency's principal housing delivery system. Under this program, the Agency provides both construction and long-term financing for rental units and cooperatives. The

program is applicable to either non-profit or profit oriented developers, and can finance either new construction or rehabilitation.

Developments financed under this program have provided both family and elderly housing in urban, suburban, and rural locations, serving a wide range of incomes.

Funds for this program are obtained initially through the sale of bond anticipation notes which will be redeemed at a later date through the sale of long-term bonds.

Construction Loan Program

The rising cost of construction funds placed the feasibility of many proposed FHA insured low and moderate income developments in jeopardy. While Section 236 interest reduction assistance and the GNMA-FNMA "tandem plan" shelter these developments from the problems of increasing interest rates on the permanent loan, many of the projects were unable to sustain the high cost of construction financing. Realizing that many of these needed developments would not be built without our assistance, the Agency undertook the role of

FHA insured mortgagee, using its lower interest rate construction financing to restore feasibility. Upon final endorsement by FHA, the construction loans will be assigned to approved GNMA sellers for delivery in accordance with a GNMA commitment.

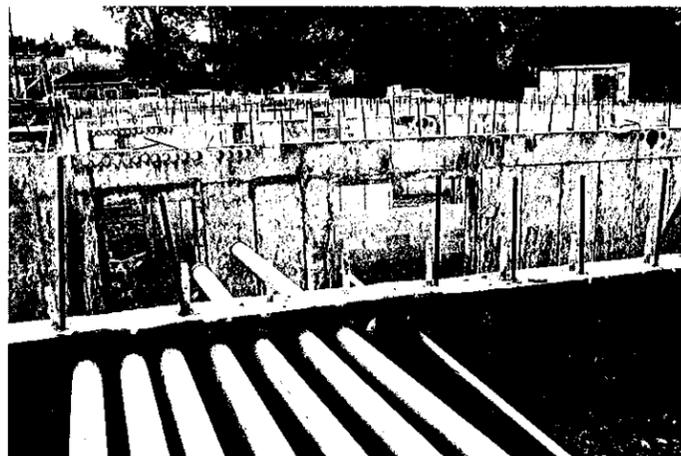
The Agency has financed 2,030 units under this program for a \$42 million volume. Funds for these projects are obtained through the sale of construction loan notes. The Agency's recent construction loan notes were rated "MIG-1" by Moody's Investor Service.

Single Family Housing

In addition to the two programs which provide rental housing, the Agency's Housing Purchase Program is designed to provide housing for sale to low and moderate income families. While the Agency has developed the financing and processing mechanisms required for program implementation, the program has been temporarily suspended, awaiting improvements in the long-term bond market. The Agency hopes that the Federal Government will take the steps necessary to reduce the rate of inflation, and bring interest rates into a range that will make this program feasible.

Another approach to serving the financing needs of homebuyers is embodied in recently introduced legislation that would enable the Agency to make loans to other lending institutions which would be able to relend the funds to homebuyers at a fixed "mark up." This program, commonly referred to as the "Loan to Lender Program," would be financed through the sale of tax-exempt bonds. Obviously, this program would significantly

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increase the amount of housing money available to the Commonwealth's savings and loan institutions and residents. In times of tight money, such a program would assure that some mortgage money at reasonable rates is available in the Commonwealth. This mechanism for delivering lower interest costs to homebuyers has had excellent results in other states. We hope that we will receive the necessary legislative authorization in the near future to implement this program in Pennsylvania.

Family Housing

The first priority of the Agency is to meet the needs of low and moderate income families. However, the Agency cannot address this explicit goal without the benefit of subsidy funds. With no operative Federal housing assistance available, it has become even more necessary for the Agency to relate to other programs and agencies. Hopefully, some "piggy-backing" of funds or programs will

evolve so that housing can be produced that low income families of the Commonwealth can afford.

Family housing can and does take many forms: townhouses, garden apartments, and elevated buildings; the sites for such housing may range from an urban to a suburban or rural setting. Housing designed for family living should be at a reasonable density, with open space, children's play areas, and recreational facilities. In short, the Agency believes that "design for livability" is important.

The accompanying pictures indicate the variety of accommodations that will be available to families in PHFA financed developments.

Housing for the Elderly

No persons are harmed more by the ravages of inflation than the elderly. Having contributed over their lives to the nation's increasing standard of living, they are too often denied the dignity and economic well being to



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which they are entitled. In recent years, the Commonwealth has begun to serve the special needs of the elderly through a variety of programs such as Regional Councils on Ageing, Property Tax Assistance, the Free Transit Program, and Increased Medical and Nursing Home Assistance.

As part of these comprehensive efforts to meet the needs of senior citizens, PHFA is providing financing, usually in tandem with Federal subsidies, to develop housing specially designed to meet the needs of the elderly at rents which they can afford. To date, six developments, comprising over 1,200 units of housing for the elderly, are under construction, with many more scheduled in the near future.

Rebuilding our Cities

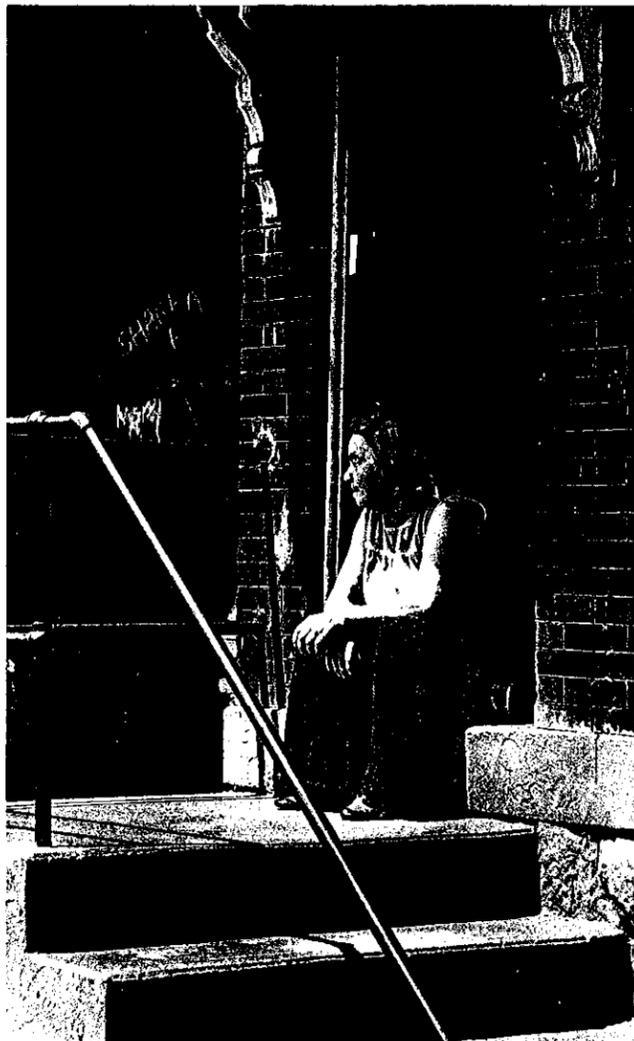
While the majority of our citizens now live in the suburbs, the urban core is the heart of a metropolitan area. In the last two decades, however, our cities have too often been neglected, falling victim to neglect and decay. The cities still have many problems, and urban blight and housing abandonment are still facts of life in many urban neighborhoods, but increasingly we see new growth and revitalization in cities large and small across Pennsylvania.

Urban renewal, for the most part financed by our Federal and State governments, has played a very positive and distinct role in transforming deteriorating or deteriorated sections of our urban cores into attractive, viable, livable areas to work and live.

The Agency currently has five developments with 1,250 units on urban renewal sites in various cities of our Commonwealth. The diversity of housing provided in the cities is indicated by the accompanying photographs of PHFA urban renewal activities.



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This map shows the locations of PHFA projects.

statement of assets, liabilities and fund balances

June 30, 1974 and 1973



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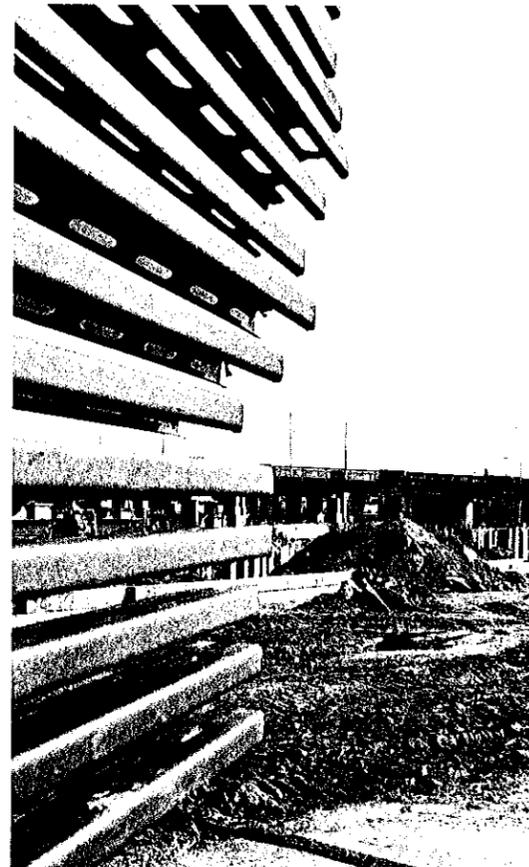
Assets	1974				Combined total	
	General Fund	Capital Reserve Fund	Construction Loan Fund	Rental Housing Program Mortgage Loan Fund	1974	1973
	\$	\$	\$	\$	\$	\$
Cash	118	—	7,243	7,234	14,595	23,614
Temporary investments (note 4)	859,784	626,966	8,291,064	6,098,398	15,876,212	1,263,818
Accrued interest receivable	13,784	22,947	176,774	41,276	254,781	21,251
Mortgage loans receivable held as investments, less unamortized discounts of \$23,463 in 1974 and \$24,813 in 1973 (note 1)	—	1,310,087	—	—	1,310,087	1,364,047
Construction advances (note 2)	—	—	3,751,487	2,013,884	5,765,371	—
Accrued interest receivable on construction advances	—	—	16,317	3,081	19,398	—
Furnishings, fixtures and equipment	39,904	—	—	—	39,904	9,943
Other assets	2,398	—	—	—	2,398	3,124
Due from (to) other funds	149,424	—	(30,049)	(119,375)	—	—
	<u>\$1,065,412</u>	<u>1,960,000</u>	<u>12,212,836</u>	<u>8,044,498</u>	<u>23,282,746</u>	<u>2,685,797</u>
Liabilities and Fund Balances						
Accounts payable and accrued expenses	\$ 15,398	—	1,346,544	—	1,361,942	25,583
Bond anticipation notes, due February 28, 1975, rates 4.50% to 7.00%	—	—	—	7,895,000	7,895,000	—
Construction mortgage loan notes, due November 14, 1974, rates 4.75% to 6.50% (note 3)	—	—	10,104,606	—	10,104,606	—
Accrued interest on notes	—	—	224,431	47,065	271,496	—
Retention on construction advances	—	—	136,712	71,784	208,496	—
Escrowed funds (note 6)	—	—	256,400	—	256,400	—
Total liabilities	<u>15,398</u>	<u>—</u>	<u>12,068,693</u>	<u>8,013,849</u>	<u>20,097,940</u>	<u>25,583</u>
Fund balances:						
Unrestricted	1,010,110	—	144,143	11,578	1,165,831	690,271
Investment in fixed assets	39,904	—	—	—	39,904	9,943
Restricted	—	1,960,000	—	19,071	1,979,071	1,960,000
Total fund balances	<u>1,050,014</u>	<u>1,960,000</u>	<u>144,143</u>	<u>30,649</u>	<u>3,184,806</u>	<u>2,660,214</u>
	<u>\$1,065,412</u>	<u>1,960,000</u>	<u>12,212,836</u>	<u>8,044,498</u>	<u>23,282,746</u>	<u>2,685,797</u>

Commitments and subsequent events (note 10)

See accompanying summary of significant accounting policies and notes to financial statements.

statement of revenues and operating expenses

Years ended June 30, 1974 and 1973



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	1974				Combined total	
	General Fund	Capital Reserve Fund	Construction Loan Fund	Rental Housing Program Mortgage Loan Fund	1974	1973
	Revenues:					
Interest income:						
Investments	\$ 60,680	55,233	353,135	83,242	552,290	67,069
Mortgages, net (note 1)	—	71,394	—	—	71,394	64,704
Construction advances	—	—	27,830	5,265	33,095	—
Total interest income	60,680	126,627	380,965	88,507	656,779	131,773
Fees and charges	530,169	—	—	—	530,169	—
Reimbursement from Federal government for flood loss	—	—	—	—	—	12,097
Total revenues	590,849	126,627	380,965	88,507	1,186,948	143,870
Operating expenses:						
Salaries and related benefits	207,960	—	—	—	207,960	39,908
Legal fees	37,715	—	—	—	37,715	41,981
Professional and contracted services	12,544	—	—	—	12,544	13,900
Interest on notes	—	—	224,431	47,065	271,496	—
Furnishings, fixtures and equipment	31,841	—	—	—	31,841	9,943
General and administrative	130,761	—	—	—	130,761	21,098
Total expenses	420,821	—	224,431	47,065	692,317	126,830
Excess of revenues over operating expenses	\$170,028	126,627	156,534	41,442	494,631	17,040

See accompanying summary of significant accounting policies and notes to financial statements.

statement of changes in fund balances

Years ended June 30, 1974 and 1973

	1974						Combined total	
	General Fund		Total	Capital Reserve Fund	Construction Loan Fund	Rental Housing Program Mortgage Loan Fund	1974	1973
	Unrestricted	Investment in fixed assets					1974	1973
Fund balances at beginning of period	\$ 690,271	9,943	700,214	1,960,000	—	—	\$2,660,214	\$2,622,959
Prior period adjustment (note 9)	—	—	—	—	—	—	—	10,272
Fund balances at beginning of period, as restated	690,271	9,943	700,214	1,960,000	—	—	2,660,214	2,633,231
Excess of revenue over expenses	170,028	—	170,028	126,627	156,534	41,442	494,631	17,040
Purchase of fixed assets, net	—	29,961	29,961	—	—	—	29,961	9,943
Transfer of net investment income	149,811	—	149,811	(126,627)	(12,391)	(10,793)	—	—
Fund balances at end of period	\$1,010,110	39,904	1,050,014	1,960,000	144,143	30,649	\$3,184,806	\$2,660,214

See accompanying summary of significant accounting policies and notes to financial statements.

Schedule 1 Statement of Cash Receipts and Disbursements

Years ended June 30, 1974 and 1973

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	1974				Combined total	
	General Fund	Capital Reserve Fund	Construction Loan Fund	Rental Housing Program Mortgage Loan Fund	1974	1973
	Cash balances at beginning of period	\$ 15,079	8,535	—	—	23,614
Receipts:						
Proceeds from sale of notes	—	—	10,104,806	7,895,000	17,999,606	—
Sale of investments	3,427,809	—	29,521,097	42,855,000	75,803,906	250,250
Interest on mortgages held for investment	70,772	—	—	—	70,772	61,991
Interest on investments	76,621	—	102,364	30,966	209,951	62,002
Fees and charges	357,660	—	—	—	357,660	—
Other	—	—	1,000	—	1,000	—
Reimbursement from Federal government for flood loss	1,640	—	—	—	1,640	9,073
	<u>3,934,502</u>	<u>—</u>	<u>39,729,087</u>	<u>50,780,966</u>	<u>94,444,535</u>	<u>383,316</u>
Disbursements:						
Purchase of mortgages held for investment	—	—	—	—	—	358,353
Purchase of investments	3,562,640	8,535	37,738,165	48,942,398	90,251,738	65,595
Construction advances	—	—	1,949,195	1,819,529	3,768,724	—
Operating expenses	433,092	—	—	—	433,092	112,218
Interfund disbursements (receipts)	(46,269)	—	34,464	11,805	—	—
	<u>3,949,463</u>	<u>8,535</u>	<u>39,721,824</u>	<u>50,773,732</u>	<u>94,453,554</u>	<u>536,166</u>
Cash balances at end of period	\$ 118	—	7,243	7,234	14,595	23,614

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Report of Independent Certified Public Accountants

**To the Members of the
Pennsylvania Housing Finance Agency:**

We have examined the statement of assets, liabilities and fund balances of Pennsylvania Housing Finance Agency as of June 30, 1974 and 1973, and the related statements of revenues and operating expenses and changes in fund balances for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the assets, liabilities

and fund balances of Pennsylvania Housing Finance Agency at June 30, 1974 and 1973 and the revenues and operating expenses and changes in fund balances for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. The supplementary data included in schedule 1 have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the basic financial statements taken as a whole.

Paul Marwick, Mitchell & Co.

Harrisburg, Pennsylvania
August 6, 1974

summary of significant accounting policies

June 30, 1974 and 1973

Authorizing Legislation

The Pennsylvania Housing Finance Agency is a body corporate and politic created by the Housing Finance Agency Law, December 3, 1959, P.L. 1688, as amended. The Act became effective March 27, 1961 when the Governor declared by proclamation that sufficient funds were available for its administration. The Agency was activated July 11, 1970 upon the signing of a grant contract funded by appropriations of the General Assembly in its 1970 session.

Pursuant to the Act, the Agency is authorized and empowered to finance the construction and rehabilitation of housing units for sale or rent to low and moderate income persons or families or the elderly. Bonds and bond anticipation notes issued under the provisions of the Act shall not be deemed to constitute a debt liability of the Commonwealth of Pennsylvania or any subdivision thereof.

General Fund

The Agency's General Fund was established for the purpose of receiving all monies which may be made available to the Agency from any source, other than the proceeds from the issuance and sale of notes or bonds by the Agency. The fund is used for the payment of all expenses as the Agency shall deem necessary to carry out the provisions of the Housing Finance Agency Law.

Capital Reserve Fund

The Capital Reserve Fund is designated for any monies appropriated and made available by the Commonwealth of Pennsylvania for the purpose of such fund and any proceeds from the sale of notes or bonds to the extent provided in the resolution of the Agency authorizing issuance thereof.

All monies in the Capital Reserve Fund are restricted to the following types of payments applicable to the Agency's bonds and notes:

- a. principal at maturity
- b. interest
- c. redemption premium
- d. repurchase of bonds
- e. sinking fund established for the amortization of term bonds

The Agency has the power to invest any funds not required for immediate disbursement. Any interest or income earned by the Capital Reserve Fund due to investments may be transferred to the General Fund or any other fund of the Agency to the extent it does not reduce the Fund below the maximum principal and

interest maturing and becoming due in any succeeding calendar year on all bonds or other amounts earmarked for the Capital Reserve Fund by grant contracts and provisions of appropriation laws.

Construction Loan Fund

The Construction Loan Fund was established for the purpose of receiving all proceeds from the issuance and sale of notes by the Agency in order to provide construction advances on FHA-insured projects. The Agency has the power to invest funds not required for immediate disbursement.

Rental Housing Program Mortgage Loan Fund

The Rental Housing Program Mortgage Loan Fund was established for the purpose of receiving all proceeds from the issuance and sale of notes or bonds by the Agency in order to provide construction advances and to finance permanent mortgages under the rental housing program which are not FHA-insured. The Agency has the power to invest funds not required for immediate disbursement.

Operations

The Agency follows the accrual basis of accounting except that furnishings, fixtures and equipment are charged to operations when purchased and, accordingly, no depreciation is recorded in the statements of revenues and operating expenses and changes in fund balances. However, these assets are reported in the General Fund assets and fund balance at cost. Development fees in the General Fund are recorded as income at the time each loan is closed. Service fees are recorded as earned.

Operating expenses include administrative expenses of the Agency, costs and expenses in connection with the authorization, issuance and sale of notes, and costs related to investigations, surveys, appraisals and other matters pertaining to advances on construction mortgage loans. Such costs and expenses are charged to operations in the General Fund as incurred.

Capitalization of Project Costs

Each project is allowed to capitalize certain costs associated with the construction phase. Amounts capitalized include the initial Agency development fee, service fees, and interest on construction advances.

notes to financial statements

Years ended June 30, 1974 and 1973

1. Mortgage Loans Receivable

Held as Investments

These mortgage loans are secured by first mortgage liens on single family homes located within Pennsylvania. All are insured by the Federal Housing Administration (FHA) and mature between November 1990 and November 2002. The mortgages bear a 7% interest rate; however, the Agency has provided an interest reduction rider to reduce rates to as low as 5% per annum. The interest reduction rider provides for graduated interest rate increases when the mortgagor's income exceeds limits as established in the rider.

All such loans were purchased from FHA-approved mortgage companies and these companies service the mortgages. For the years ended June 30, 1974 and 1973, service fees amounted to \$5,741 and \$4,710, respectively, which have been netted against mortgage interest income.

All mortgages were purchased at a discount from face value. These discounts are being amortized over the remaining terms of the mortgage on a straight-line basis.

2. Construction Advances

All advances on construction mortgage loans are collateralized by first mortgages on the properties of the housing sponsors and letters of credit.

Construction Loan Fund—The Agency has advanced FHA-insured funds aggregating \$2,119,099 as of June 30, 1974 under mortgage loan agreements of \$7,457,700. The funds were advanced at an interest rate of 7% of the cumulative advances, of which 0.5% of the face amount of the mortgage is recognized by the Agency as a service fee. On June 28, 1974, the Agency purchased two FHA-insured construction mortgages in the amount of \$1,632,388, which amount represented construction advances made by the seller of the FHA-insured construction mortgages. These mortgages provide for a total commitment in the amount of \$3,044,400.

Rental Housing Program Mortgage Loan Fund—The Agency has advanced funds aggregating \$2,013,884 as of June 30, 1974 under mortgage loan agreements of \$19,970,000 at current interest rates of 4.5% and 7% (such rates being based upon the interest rates paid by the Agency on notes or bonds issued for this program). In addition, the Agency charges a service fee of 0.5% of the principal balance.

3. Construction Mortgage Loan Notes

These notes were issued to provide the Agency with interim financing for FHA-insured mortgage loans. The Agency has received firm com-

mitments from the Federal/Government National Mortgage Association (FNMA/GNMA) to purchase (with the original mortgagee acting as a third party) the construction mortgage loans upon completion and endorsement of the following projects:

Project*	Commitment	Commitment date	Expiration date
Brinton Towers	\$4,129,300	11/8/73	11/9/75
Pin Oak Village	1,721,000	12/4/73	12/5/75
Williamsport UAW	1,607,400	12/5/73	12/6/75
Easton UAW	1,323,300	9/7/72	9/8/74
Nanticoke UAW	1,721,100	10/4/72	10/5/74

*Contract price for each project 100%

4. Temporary Investments

A summary of temporary investments follows:

	1974	1973
Certificates of deposit	\$12,264,681	1,205,538
U. S. Treasury bills	1,584,531	—
Securities held under repurchase agreements	2,027,000	—
Time deposits	—	58,280
	<u>\$15,876,212</u>	<u>1,263,818</u>

The certificates of deposit at June 30, 1974 with banks throughout the Commonwealth of Pennsylvania are stated at cost, bear interest at annual rates ranging from 7.63% to 12.25%, mature periodically through March 1975 and are secured by direct obligations of the U. S. Government.

The U. S. Treasury bills are stated at cost and bear interest at annual rates ranging from 7.12% to 8.65% and mature periodically through June 1975.

The repurchase agreements are stated at cost and bear interest at annual rates ranging from 9.75% to 10.63% and mature in July 1974.

5. Pension and Retirement Plan

Prior to March 31, 1974, the Agency had assumed that its employees were qualified to participate in the State Employees' Retirement System of the Commonwealth of Pennsylvania, and appropriate contributions had been regularly made into the System. The Agency's contributions, based on 8% of gross wages (7% in 1973), amounted to \$5,787 and \$2,791 for the years ended June 30, 1974 and 1973, respectively.

On March 31, 1974, the Agency was advised that the Agency's employees, other than those who transferred to the Agency from partici-

pating departments, boards and agencies of the Commonwealth, were not eligible for membership in the State Employees' Retirement System.

Accordingly, the Agency has discontinued making payments to the State Employees' Retirement System for its ineligible employees, effective April 1, 1974, although payroll withholdings and accruals of the Agency's contributions are continuing to be made. The Agency is in the process of developing its own retirement program to cover its employees who are not eligible to participate in the Commonwealth's program. When such program is adopted by the Agency, the Agency's intent is to make the plan retroactive to April 1, 1974. The Agency has accrued contributions in the amount of \$5,617 to provide for anticipated pension costs from April 1 to June 30, 1974; such amount to be determined when the Agency adopts its own retirement program.

6. Escrowed Funds

Escrowed funds represent amounts advanced by contractors to defray any potential construction cost overruns in excess of the existing FHA mortgage commitments. When the projects are completed, these funds, together with any interest earned on their investment and reinvestment by the Agency, will be returned to the contractors, to the extent that they have not been invaded by the Agency to satisfy cost overruns. Any interest earned on invaded amounts, if any, will accrue to the Agency. On July 3, 1974 the Agency invested the escrowed funds in certificates of deposit maturing in September 1974 and bearing interest at 11.5% per annum. The projects to which these funds are applicable are scheduled for completion in October 1974 and December 1974.

7. Lease Agreement

The Agency's office premises are occupied under the terms of a lease agreement which expires on March 31, 1979. At June 30, 1974, minimum rental commitments under this non-cancelable lease expires as follows:

Year ending June 30	Total commitment
1975	\$44,479
1976	44,925
1977	44,925
1978	44,925
1979	33,694

Insurance and maintenance expenses are obligations of the Agency. It is expected that in the normal course of business, the lease that expires will be renewed or replaced by a lease on other property; thus, it is anticipated that future minimum lease commitments will not be less than the amounts shown for 1979.

Rental expense for the years ended June 30,

1974 and 1973 amounted to \$20,148 and \$4,719, respectively.

8. Litigation

A taxpayer's action was filed in the Supreme Court of Pennsylvania on February 7, 1973 to determine the constitutionality of the Housing Finance Agency Law as enacted by the General Assembly of the Commonwealth of Pennsylvania. The result of this legal action was a decision in favor of the Agency by the Supreme Court of Pennsylvania on September 19, 1973.

9. Adjustment of Provision for Mortgage Losses

Under the terms of the mortgage sale and servicing agreements between the Agency and the servicing companies, the Agency purchases as investments only mortgages insured by the Federal Housing Administration. Furthermore, under the servicing agreement, all obligations of the Agency are discharged as mortgagee by the servicing company as set forth in the contract of insurance with the Federal Housing Administrator and, therefore, the Agency is not subject to loss on approved mortgage purchases. Therefore, in the opinion of the Agency, the provision for mortgage loan losses as reported on the prior financial statements is not deemed necessary. Accordingly, the July 1, 1972 Capital Reserve Fund balance has been restated in the amount of \$10,272 to reflect the restoration of the provision, in a previous year, for mortgage losses.

10. Commitments and Subsequent Events

Prior to June 30, 1974, the Agency committed \$250,000 of the General Fund balance for long-term mortgage loans to the Philadelphia Urban Homesteading Corporation. At June 30, 1974 no loans had been made.

Subsequent to June 30, 1974, the members of the Agency authorized the following transactions:

CONSTRUCTION LOAN FUND

Issuance of commitments for three Federally-insured construction mortgage loans in an amount not to exceed \$3,899,594, which are to be funded by proceeds of the Construction Mortgage Notes in the amounts of \$3,900,000, issued on August 1, 1974 at 7.75% and due February 28, 1975.

RENTAL HOUSING

PROGRAM MORTGAGE LOAN FUND

Issuance of commitments to provide seven mortgage loans in an amount not to exceed \$34,237,222, which are to be funded by the issuance and sale of Bond Anticipation Notes in the amount of \$34,240,000. On August 1, 1974, the Agency issued \$17,120,000 of Bond Anticipation Notes at 8.50% (net interest cost 8.42%) and due February 28, 1975 to fund, in part, these commitments.

agency members, counsel and underwriters



William Wilcox



Leon Hickman



Yvonne Perry



Robert Lavelle



James Lineberger



John O'Brien

Senior Managing Underwriter

Salomon Brothers

Co-Managing Underwriters

Paine, Webber, Jackson & Curtis, Inc.

Mellon Bank, N.A.

Philadelphia National Bank

Independent Certified Public Accountants

Peat, Marwick, Mitchell & Co.

Bond Counsels

Mudge Rose Guthrie & Alexander

Schnader, Harrison, Segal & Lewis

General Counsel

McNees, Wallace & Nurick

Depositories and Paying Agents

Industrial Valley Bank

Continental Bank

Lincoln Bank

Girard Bank

First Pennsylvania Bank, N.A.

Philadelphia National Bank

York Bank & Trust

Mellon Bank, N.A.

National Central Bank

Dauphin Deposit Trust Company

Commonwealth National Bank

Fidelity Bank

Cumberland County National Bank

Purchasers of PHFA Notes

Erlich-Bober & Co., Inc.

Industrial Valley Bank

Mellon Bank, N.A.

Merrill Lynch, Pierce, Fenner and Smith, Inc.

Morgan Guaranty Trust Co. of New York

Paine, Webber, Jackson & Curtis, Inc.

Philadelphia National Bank

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