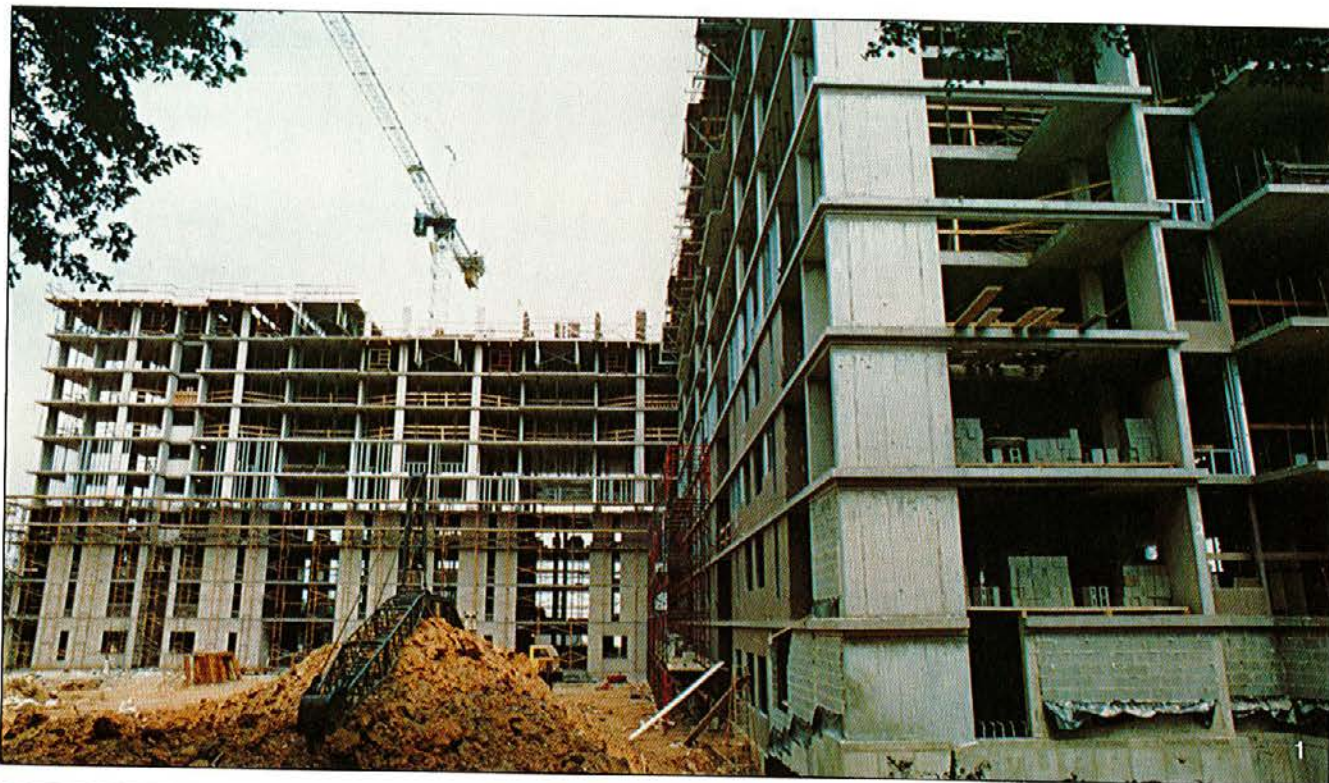


**Pennsylvania
Housing Finance
Agency
Annual Report
1977**



(1) **Hershey Plaza** will make an impressive addition to the central district of Hershey, Dauphin County. This elderly development will consist of 216 apartment units and is assisted by the Section 8 Program.

(2) **Pin Oak Village** is located in rural Cranberry Township, Venango County. PHFA provided construction financing for this 120-unit family development.

Message from the Governor

In the early years of my administration, I was keenly aware of the housing shortage in Pennsylvania. I saw that the Commonwealth needed a source of generating mortgage loans for apartment developments serving Pennsylvanians of low-and-moderate-incomes. In 1972, I signed legislation that created the Pennsylvania Housing Finance Agency as it exists today.

While the Agency was gearing up, the Federal Administration then in power impounded all federal assistance funds for housing, virtually eliminating the U.S. Government as a source of assistance for housing programs. The need for PHFA then became more important than ever.

In 1974, the U.S. Housing and Community Development Act was passed. Part of that legislation created the Section 8 Housing Assistance Payments Program. PHFA makes great use of the Section 8 Program.

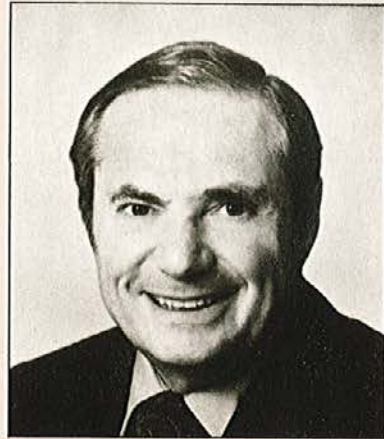
In its five years of activity, the Agency has loaned a total exceeding \$330 million to finance the construction of 94 apartment developments throughout Pennsylvania. They account for more than 13,000 apartment units financed by PHFA activity that are either completed and rented or are under construction.

I am proud of this record, because in a very short time PHFA has shown that it works. The Agency is one of the national leaders in fruitful use of the Section 8 Program. Many elderly Pennsylvanians and family members will tell you how important an impact the Section 8 Program has had on their lives.

In the coming year, PHFA will sell more bonds. More apartment developments will be built. I am pleased that this Agency and its programs will continue to make mortgage loan money available for the construction of high-quality housing.

Aside from the housing it has produced, PHFA-financed buildings generate tax revenue and on-site and construction-related jobs.

I look forward to seeing the day when PHFA is considered the best of its kind in the country.



A handwritten signature in black ink that reads "Milton J. Shapp". The signature is written in a cursive, flowing style.

Milton J. Shapp
Governor

Message from Chairman Hydeman

Since I became Chairman of the Pennsylvania Housing Finance Agency in November of 1977, I have become immersed in its operations. PHFA is a complex organization with the extraordinarily difficult task of alleviating the massive housing shortage in the Commonwealth of Pennsylvania.

The task is awesome and complex because tens of thousands of Pennsylvania families and elderly persons, especially those of low and moderate-income, are in need of decent, affordable housing.

Given the nature of the task, I am proud to be able to say that PHFA is doing its job to the greatest extent possible, while recognizing that there is a very long way to go.

To date, the Agency has more than 13,000 housing units either completed and occupied or under construction. In the spring of 1978, the Agency expects to begin construction on an additional 15 apartment developments throughout the Commonwealth, which will contain many hundreds of additional apartment units.

Besides the actual addition of these badly needed units to the Commonwealth's housing stock, construction of these developments will mean hundreds of construction jobs in the municipalities where these developments will be built. New tax revenues will also accrue to the municipalities.

My years of experience with the Pennsylvania Department of Community Affairs and, in particular, with the Department's Neighborhood Preservation Support System, has provided me with the perspective to know how necessary and welcome PHFA-financed housing is. In particular, rehabilitated housing is a necessary ingredient in our efforts to revitalize neighborhoods.

I believe I can state, without qualification, that the Agency is doing the best job possible under its current legislation to provide housing in the Commonwealth. I hope, however, that the Pennsylvania General Assembly will see fit to pass pending legislation that would enable the Agency to enter into the single-family home market, and thus meet the need and desire of many Pennsylvanians for a home of their own, or the resources to rehabilitate or upgrade their current housing.

Finally, I am proud of what the Agency has accomplished so far through its prudent and professional use of the various Federal housing subsidy programs, its demonstrated ability to meet the test of the Wall Street bond market. Most importantly, it is creating housing for persons who would not otherwise have housing of such high quality.

I expect that 1978 will be a year of further progress for the Agency.



A. L. Hydeman, Jr.



Statement of PHFA Chairman To PHFA BOARD 10/11/77

William Wilcox resigned as Secretary of the Pennsylvania Department of Community Affairs and Chairman of PHFA last Fall, to take a position with the Carter Administration in Washington. At his last meeting as PHFA Board Chairman, he read the following statement to the Agency's Board:

Since this is my final meeting as Chairman of the Pennsylvania Housing Finance Agency, I hope I may be permitted to review some of the events and achievements that have taken place since 1971, when the Shapp Administration inherited what was then called the Pennsylvania Housing Agency (PHA).

In 1971, Pennsylvania was one of the very few major industrial states in America which lacked an operational housing finance agency with the legal authority and staff skill to provide financing for large numbers of multi-family and/or single-family housing. What we found in 1971 was an extremely limited entity created by the General Assembly in the early 1960's, but without even a Board until the last days of Governor Shaffer's administration. By 1971, the PHA had provided mortgage funding for only slightly over 100 single-family housing units in several cities in the Commonwealth. Crippled by outdated legislation, and a lack of imaginative leadership, PHA was incapable of providing any real assistance in meeting the housing shortage in Pennsylvania.

Realizing this, we made an immediate effort to develop and introduce into the General Assembly, sweeping legislative changes to provide the Agency with the powers it needed to make a useful contribution to the very serious housing shortage faced by low and moderate-income families and the elderly in Pennsylvania. After considerable effort, and the support of Governor Shapp, the PHFA Act was signed into law by the Governor in December of 1972. We retained the corporate shell of the old PHA, but the Agency was thoroughly modernized. Even the name was different.

In 1973, John McCoy was hired to be the new agency's first Executive Director, and the Pennsylvania Supreme Court handed down an opinion that PHFA's functions were constitutional. This ruling was required to permit the Agency to sell bonds and notes. The Agency became fully operational in the Fall of 1973, and had its first bond issue of \$23,775,000 in July, 1975. The Nixon Administration moratorium on subsidized housing in 1973 hampered the Agency initially, but progress was made nonetheless.

As most members of this Board will recall, the Agency's most serious time of trial occurred in early 1976, when, faced with the inability to roll over its short-term securities because of the virtual closing of the bond market, PHFA was forced to turn to the Pennsylvania General Assembly to seek a loan from the Commonwealth general fund of \$61,600,000. Of that amount, \$32,048,152 was subsequently used. This was an extraordinarily difficult time for the Agency, but, in the end, with the Governor's support and that of the General Assembly, the Agency was saved and was enabled to continue as a viable entity through 1976 to the present day.

All of the state funds borrowed by the Agency have now been repayed, except for \$2 million. The Agency is still paying 6% interest on that amount. To date, it has paid a total of \$988,977 in interest to the Commonwealth on its loan.

With funding by PHFA 6,506 units of multi-family housing have been built, and 5,994 units are under construction in Pennsylvania. The national bond market has demonstrated its faith in the Agency by requiring moderate interest rates compared to other state housing finance agencies. This is a tribute not only to the Agency, but to the present group of underwriters.

At present, the General Assembly is considering authorizing the Agency to expand its functions to authorize loans for single-family housing.

All this, of course, would not be possible without the work of Carl Payne, his staff and the Agency Board. I very much hope and believe that the Agency's excellent record will continue in future years!

William H. Wilcox



William H. Wilcox

Message from the Executive Director

Our last annual report covered a period in which the Agency succeeded in providing financing for the construction of new and rehabilitated apartment units to Pennsylvanians despite the fact that the Agency's very existence was in doubt at the beginning of that year.

In contrast, this year has been relatively quiet; nevertheless, the Agency's accomplishments and direction are noteworthy.

The Agency remains one of the country's leading producers of Section 8 assisted housing, having financed to date approximately 6,700 elderly and family apartments. This year, the Agency financed 3,866 newly constructed or substantially rehabilitated apartments. 4,617 Section 8 units are now occupied by qualified Pennsylvanians, and the waiting list in each completed Agency-financed Section 8 development is extensive.

Approximately 85% of the Section 8 apartments financed by the Agency have been for elderly residents of the Commonwealth. Though the need for more elderly housing in Pennsylvania is great, the Agency will have to direct its efforts in the coming year to financing Section 8 developments for families because of the shift in national housing policy reflecting an attempt by the Federal Government to substantially increase the production of Section 8 apartment developments that serve families.

The Agency also achieved an important first during the past year. The \$91,925,000 Advance Refunding Issue involving 19 developments, unsubsidized and subsidized, and containing 3,045 multi-family rental apartments was the first such Advance Refunding Issue by a state housing finance agency in the country. More importantly, the debt service savings or reduction achieved as a result of the refunding amounted to approximately \$10 per unit per month for 30 years, commencing in 1985 or 1986, for each of the 19 developments. Because 15 of the 19 developments involved in the Refunding Issue were unsubsidized, the aforementioned debt service reduction tends to assure that these particular developments' rental charges will remain competitive with, or lower than, the rental charges of comparable market rate rental developments conventionally financed.

In the five years since PHFA has been operational, I am proud to report that PHFA has provided financing for more than 13,000 apartment units which resulted in at least that many on-site or construction related jobs. Well over \$2 million in real estate taxes are being paid to taxing bodies in localities where Agency financed developments are situated.

In the Agency's previous Annual Report, we expressed hope that the General Assembly of the Commonwealth would enact legislation which would make it possible for the Agency to provide financing to Commonwealth residents interested in purchasing or owning a single-family home rather than renting. Such legislation is now pending in the Legislature. It would empower the PHFA to obtain mortgage money by selling tax-exempt bonds and making such funds available to lending institutions in the Commonwealth to re-lend to Commonwealth residents seeking to buy, build and renovate or rehabilitate single-family, owner-occupied housing.

The Agency is hopeful that the single-family homeownership legislation is enacted by the General Assembly and signed into law by the Governor so that we can be of assistance to a vital segment of our population—the homeowners. The Agency also hopes that the United States Department of Housing and Urban Development will continue to recognize the Agency's excellent Section 8 performance record and will, accordingly, increase substantially the Section 8 allocations made available to the Agency so that we can continue to provide decent, quality housing for the needy and deserving residents of the Commonwealth of Pennsylvania.

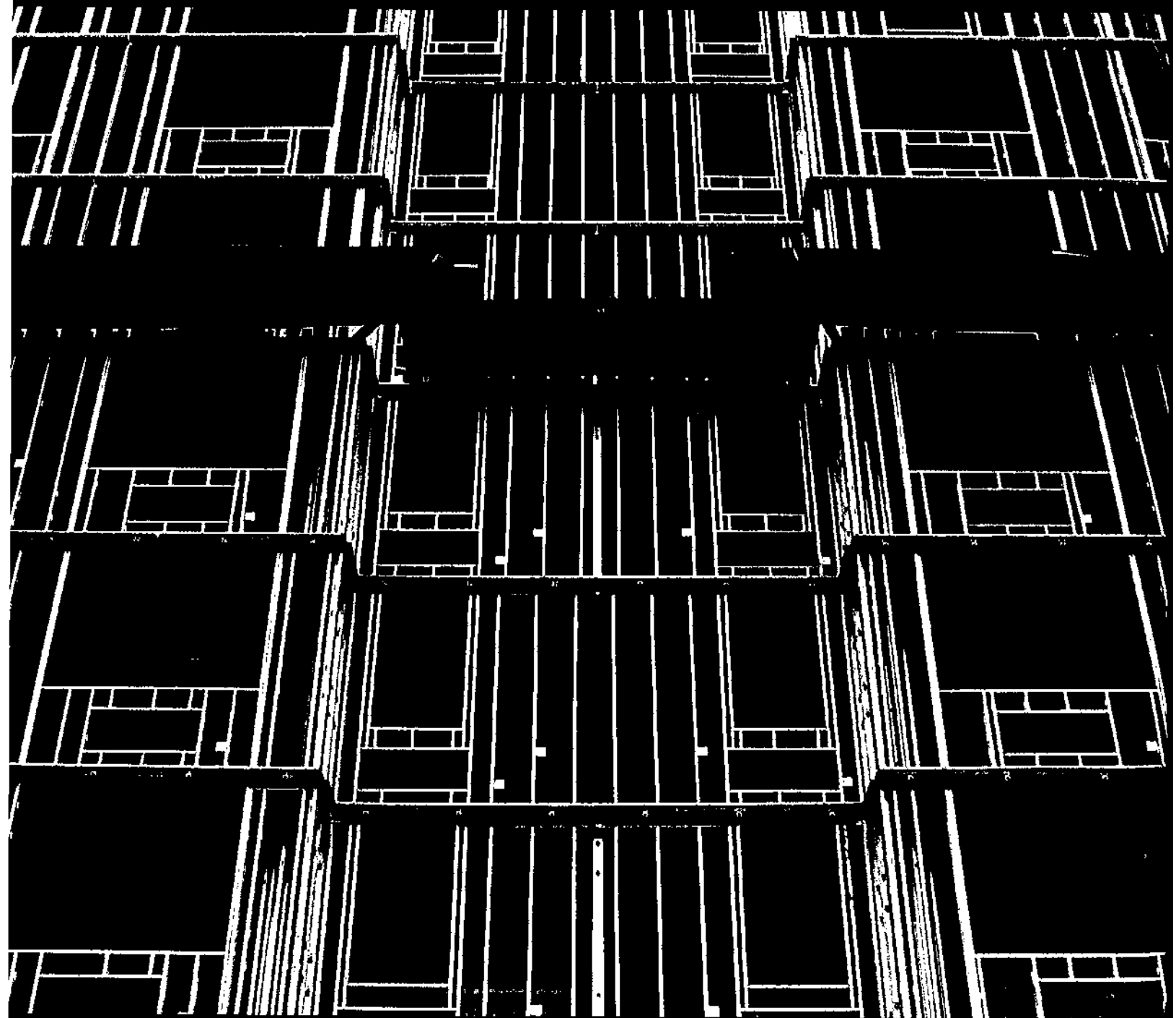
Finally, I would indeed be remiss if I did not indicate that the Agency's accomplishments over the past year would not have been possible without the continued able cooperation of the personnel of the Area Offices of the Department of Housing and Urban Development in Pittsburgh and Philadelphia. To former Chairman Wilcox, the Agency Board and staff and thousands of Commonwealth residents who have benefitted from Agency activity, thank you for a job well done and I wish you well.

Carl Payne

Executive Director



11 Rai Prith House of Reading, a non-profit apartment development, will add 160 apartment units for families to a redevelopment section of Reading, Berks County.



Introduction

The year since the Pennsylvania Housing Finance Agency (PHFA) issued its last Annual Report has been a period of growth and progress. The year before was a year of recovery. And the next year, we hope, will be one of continued growth.

Since it was created late in 1972 by an Act of the Pennsylvania General Assembly, the Agency has performed its stated purpose of making mortgage loans to finance the construction of rental housing for low- and moderate-income Pennsylvanians. The Agency will continue to do so.

In terms of housing production and making fruitful use of Federal housing subsidies to the extent that they are available, PHFA has become one of the leaders in the national community of more than 40 state housing finance agencies. PHFA has both a reputation and a record reflecting progress in making its housing available to the broadest possible spectrum of qualifying Pennsylvanians.

In the past year, PHFA accomplished:

The first Advance Refunding Issue of Revenue Bonds by a state housing finance agency on multi-family housing. The Refunding Issue will defease the bonds of the Agency's first two issues of July 1975 and April 1976.

Fourteen new apartment development starts under the Agency's Rental Housing Program with subsidies under the Section 8 Housing Assistance Payments Program. The Section 8 Program is administered by the U. S. Department of Housing and Urban Development (HUD).

Twelve new apartment developments started with construction financing provided by the Agency's Construction Loan Programs (CLP). Funding for an additional 12 CLP projects was extended by use of Renewal Note Issues of tax-exempt, short-term Construction Mortgage Loan Notes.

Three Bond Issues—including the Advance Refunding Issue—whose Net Interest Cost (NIC) dropped with each successive Bond Issue. The success of PHFA Bonds on the market in the past year continues an unbroken trend of progressively lower interest rates for each of the Agency's six Bond Issues. They range from a high of 8.17% in July, 1975, to a low of 6.38% in October, 1977. This is a drop of 179 Basis Points between the Agency's first and most recent bond issues.

Introduction of legislation in the Pennsylvania General Assembly which would enable PHFA to participate in and develop programs to assist qualifying Pennsylvanians in purchasing single-family homes.

A brief description of PHFA's two basic lending programs explains its current operations.

Rental Housing Program

Under the Rental Housing Program, the Agency provides a mortgage loan which covers both construction and permanent financing. Under this program, the Agency has 55 developments either completed or under construction as of December, 1977. These developments account for a total of 7,604 apartment units.

Under the Rental Housing Program, a limited-profit developer (limited to an 8% per annum return on equity) may receive a mortgage loan not to exceed 90% of total replacement cost. A non-profit sponsor, such as a civic or religious group, may receive a 100% mortgage loan.

Since its inception, PHFA has issued \$224,190,000 in tax-exempt revenue bonds. In addition, the Agency issued \$91,925,000 of Advance Refunding Bonds.

Agency estimates indicate that as of December, 1977, PHFA lending activity under this program has created nearly 9,000 on-site or construction-related jobs.

The mortgage loans made through the Rental Housing Program are generated from the sale of tax-exempt, long-term revenue bonds. Under existing legislation, the Agency must make mortgage loans under its Rental Housing Program exclusively for developments which are aided by a housing assistance program of

the U.S. Government. Most such assistance presently comes to the Agency through the Section 8 Housing Assistance Payments Program of the U.S. Housing and Community Development Act of 1974, which is administered by the U.S. Department of Housing and Urban Development (HUD).

Under the Section 8 Program, individuals and families of low income (80% of median) or very low income (50% of median) are served. The median income for a given area is determined by HUD. The qualifying tenants pay a maximum of 15% to 25% of annual adjusted income for rent, with HUD subsidizing the balance between rent actually paid and the fair market rents.

Since issuing its last annual report, the Agency issued \$57,250,000 in two separate revenue bond issues to make mortgage loans on 14 new or substantially rehabilitated apartment developments. They account for a total of 1,759 apartment units.

While 14 new developments are laudible and represent a significant contribution to the housing needs of Pennsylvania, the fact remains that PHFA could have produced significantly more housing in the past year. PHFA receives an annual allocation, a "set aside," of Section 8 units from HUD. There is heavy demand for these scarce subsidy funds, and PHFA must compete for them. Many proposals of high merit have not moved beyond the drawing board because of a shortage of Section 8 units available to PHFA.

It is the hope of the staff and the Agency's Board that its excellent record in using the Section 8 Program results in an increase in the number of Section 8 units allocated to PHFA during 1978.

While the housing shortage in Pennsylvania may never be completely alleviated, allocation of additional Section 8 units to PHFA by HUD will enable the Agency to further increase the amount of quality housing for needy Pennsylvanians.

Construction Loan Program

The other PHFA vehicle for financing apartment construction is the Construction Loan Program (CLP). Under the CLP, the Agency issues short-term, tax-exempt Construction Mortgage Loan Notes to obtain the funds for a construction loan to a qualified sponsor-developer. Under this program, the Agency provides the construction funding only. The permanent financing is assumed by another source, usually an agency of the U.S. Government.

As of December 1977, the Agency has made construction loans totaling \$142,925,453 for the construction of 39 apartment developments. They account for a total of 5,752 units. Agency estimates indicate that construction activity generated by these loans has created approximately 5,280 on-site or construction-related jobs.

Since issuing its last Annual Report, the Agency has made construction loans totaling \$70,875,300 for 12 new apartment developments. They account for a total of 2,168 new apartment units under this program. Agency estimates indicate that approximately 2,840 on-site or construction-related jobs have been created by this PHFA activity in the past year.

PHFA Finance Activity, 1977

In 1977, the Agency continued to enjoy success in both the bond and note markets. The success is due largely to prudent underwriting practices and an improved bond and note market.

PHFA securities sold well, and at favorable rates. The mortgagors and occupants who should be most pleased with the Agency's performance in finance in the past year are those residing in or owning developments financed by bonds that were involved in the \$91,925,000 Advance Refunding Issue. This Advance Refunding Issue is believed to be the first made by a state housing finance agency on multi-family rental housing.

As a result of the Advance refunding, debt service payments of certain developments were reduced by the Agency. This negated the need to raise the rents of the occupants of such developments. Additionally, all of the developments' debt service payments will be reduced, beginning in 1985 or 1986 until the respective mortgages are paid off. Again, the rental charges paid by occupants will accordingly reflect this reduction in debt service as a result of the Advance refunding.

In the past year, the Agency had three bond issues. Two of them accounted for new housing starts. One was the historic Advance Refunding issue.

Following is a list of the 19 apartment developments refinanced by the Advance Refunding Issue.

Following is a list of developments whose bonds were defeased by the Advance Refunding Issue, RESIDENTIAL DEVELOPMENT BONDS, ISSUE 1977

Rental Housing Program Bonds, Series A, 1975, \$23,775,000

Name	Mortgagor	Location	Type	Units	Contractor	Estimated or Actual Completion	Estimated Cost of Development	Mortgage Loan Amount
Daniel J. Flood Tower	First Valley Associates	Wyoming Ave. & Market St., Kingston Luzerne Co.	Elderly	211	Grosek & Sons Plains, Pa.	May, 1976	\$7,222,222	\$6,500,000
Cumberland Court Apts.	Cumberland Court Associates	6th & Capital Harrisburg Dauphin Co.	Family	108	H. B. Alexander & Son, Inc.	October, 1975	\$2,627,778	\$2,365,000
Hilltop Apartments	Hilltop Associates	Commonwealth & Harden Ave. Duquesne Allegheny Co.	Family	152	H&F Construction Co.	December, 1975	\$3,472,221	\$3,125,000
Meadowick Village	Whitpain Associates	Jolly Road Whitpain Twp. Montgomery Co.	Family	273	Andrichyn & Schnabel	December, 1975	\$7,833,334	\$7,050,000
Plaza Apartments	BID Associates	Summit Ave. North Cornwall Twp. Lebanon Co.	Family	128	Ambler Construction Company	January, 1976	\$2,529,850	\$2,250,000



Hillside Apartments adds 200 units of family housing to Edwardsville, Luzerne County. It is one of many PHFA-financed apartment developments in the Wyoming Valley, which was ravaged by flooding in 1972.

Following is a list of developments whose bonds were defeased
by the Advance Refunding Issue, RESIDENTIAL DEVELOPMENT BONDS, ISSUE 1977

Rental Housing Program Bonds, 1976 Series A, \$58,260,00

Name	Mortgagor	Location	Type	Units	Contractor	Estimated or Actual Completion	Estimated Cost of Development	Mortgage Loan Amount
Marlboro Place	Humford Equities, Inc.	S. Washington & E. South Streets Wilkes-Barre Luzerne County	Family	76	Boyd H. Kline Associates, Inc.	July, 1975	\$1,521,316	\$1,345,000
Squires Manor	Squires Manor Associates	Wallace Road South Park Twp. Allegheny Co.	Family	132	Amore Construction Co.	October, 1975	\$2,680,064	\$2,412,058
Williamsburg Estates	Williamsburg Estates Associates	Crums Mill Rd. Lower Paxton Twp. Dauphin County	Family	312	S&A Building Corporation	November, 1975	\$7,805,571	\$7,025,000
One Buttonwood Square	FTK Partnership	21st & Hamilton Sts., Phila. Philadelphia Co.	Family	304	Daniel J. Keating Co.	January, 1976	\$11,355,556	\$10,220,000
Pocono Creek Apts.	Pocono Creek Associates	West Main St. Stroudsburg Monroe Co.	Family	100	Construction Services & Management, Inc.	May, 1977	\$2,589,961	\$2,265,000
Ten East South	Ten East South Street Company	E. South & Main Streets Wilkes-Barre Luzerne Co.	Family/ Elderly	130	Grosek & Sons, Inc. Plains, Pa.	November, 1977	\$4,855,555	\$4,370,000
Wimmerton	Summit Associates	Unity Twp. Latrobe Westmoreland Co.	Family	100	Cranshaw Construction Co.	March, 1976	\$2,032,403	\$1,819,966
777 Court Street	777 Court Street Associates	Court Street Reading Berks Co.	Family	90	NADCO Construction, Inc.	July, 1976	\$2,736,839	\$2,463,152
Queen Village II	Southwark Corporation	Queen St., S. 3rd St., Christian St. Philadelphia Philadelphia Co.	Family	51	Penncrest Construction Company	December, 1976	\$1,311,111	\$1,180,000
Markvue Apartments	Ackerman Associates	Pines Road North Huntingdon Township Westmoreland Co.	Family	35	Richmark Construction Company	April, 1976	\$651,882	\$563,000
Riverview Park Apartments	Riverview Park Associates	Rankin & Center Roads White Oak Allegheny Co.	Family	168	Alpine Construction Co.	December, 1976	\$3,810,801	\$3,250,000
Delaire Landing	Delaire Associates	9300 State Rd. Philadelphia Philadelphia Co.	Family	180	Orleans Corporation	December, 1976	\$4,455,586	\$3,845,000
Fairfax Apartments	Fairfax Associates	4614 5th Avenue Pittsburgh Allegheny Co.	Family	243	NADCO Construction Co., Inc.	March, 1977	\$4,405,555	\$3,965,000
Edwardsville Village	Edwardsville Associates	Roosevelt & Grove Streets Edwardsville Luzerne Co.	Family	252	Archbuild Corporation	January, 1976	\$5,500,000	\$4,950,000

Franklin Arbors rises rapidly as workmen near
completion of the newest apartment
development in this municipality in rural
Venango County. The development will provide
the area with 88 units of elderly apartment housing
and has assistance from the Section 8 Program.



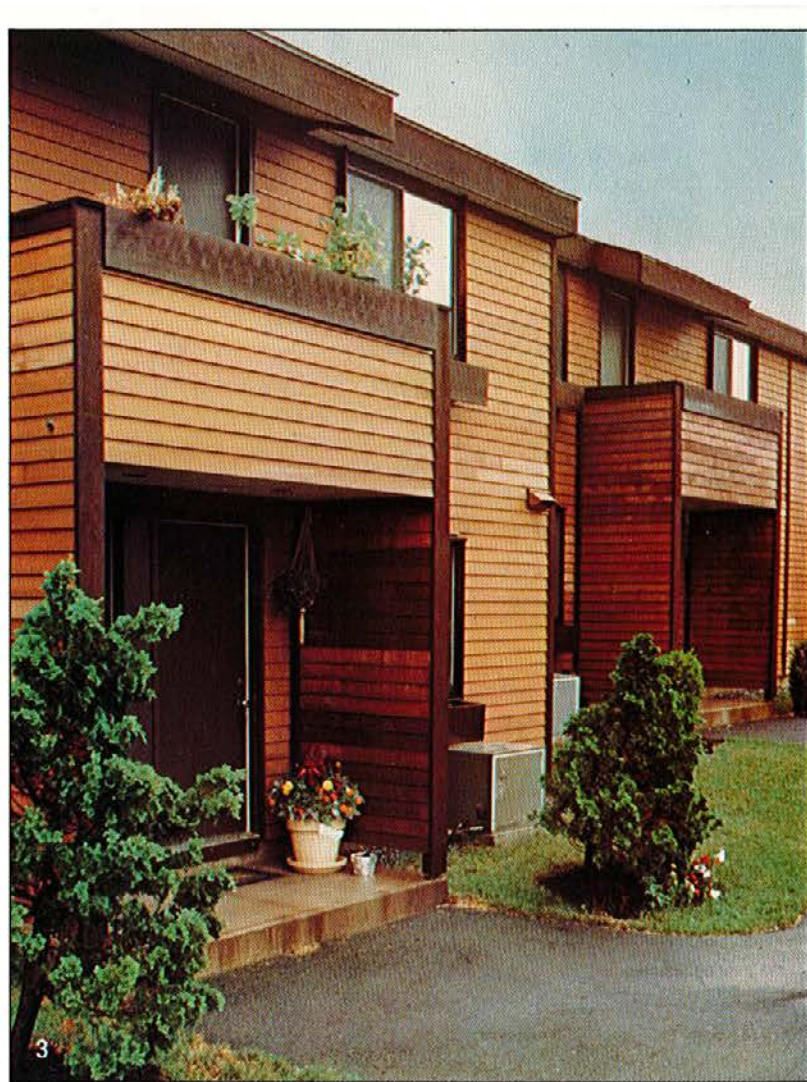
(1) **Ten East South**, situated in central Wilkes-Barre, Luzerne County, adds an attractive new building to the city skyline and 130 new apartment units to its housing stock. This family development is located in a portion of the city that has undergone substantial rehabilitation following the destruction of the 1972 floods.

(2) **Fairfax Apartments**, in Pittsburgh, Allegheny County, was a stately but aging building from another era until PHFA financing allowed substantial rehabilitation of the interior. The building now contains 243 units of family housing. View shown is of the courtyard in the rear of the "new" building.

(3) **Williamsburg Estates** is located in Lower Paxton Township, Dauphin County. This modern, family development contains 312 units.

(4) **Oak Hill Apartments** in Franklin, Venango County, adds 120 units of Family/Elderly housing to this rural county.





A look at the Agency's overall record on the bond market shows that, since its inception, the Agency has been able to obtain a lower Net Interest Cost with each successive bond issue.

The Agency's first bond issue, in July, 1975, resulted in an NIC of 8.17%. In the sixth Agency bond issue of October, 1977, the NIC was 6.38%. The drop of 179 Basis Points from the Agency's first to its latest bond issue is largely the result of good staff coordination with PHFA's managing underwriters, and the sense of prudence, plan-

ning, good sense and good timing which the managing underwriters displayed.

Following is a chart showing all PHFA bond activity since the Agency began issuing bonds in July 1975.

Date	Amount	Purpose	NIC	Units
July, 1975	\$23,775,000	5 Developments	8.17%	872
April, 1976	58,260,000	14 Developments	7.77%	2,173
September, 1976	84,905,000	20 Developments	7.55%	2,647
March, 1977	32,900,000	9 Developments	6.55%	1,008
July, 1977	91,925,000	Advance Refunding	6.47%	—
October, 1977	24,350,000	5 Developments	6.38%	751

Description of Developments to be Financed by Residential Development Bonds, Issue B, March 1977, \$32,900,000

Name	Mortgagor	Location	Type	Units	Contractor
Franklin Arbors	Franklin Arbors Associates	13th & Chestnut Sts., Franklin Venango County	Elderly	88	McAnallen Brothers, Inc.
Kish Apartments	Lewistown Associates	South Main & West Hale Streets Lewistown Mifflin County	Elderly	141	H. B. Alexander & Son, Inc.
Mt. Carmel Elderly	Mt. Carmel Housing Partnership	6th & Hickory Mt. Carmel Northumberland Co.	Elderly	100	Project Construction Co.
Prince St. Towers	Sencit-Lancaster Company	Prince & Walnut Streets Lancaster Lancaster Co.	Elderly	201	H. B. Alexander & Son, Inc.
Robert H. Stinson Towers	Robert H. Stinson Associates	West 15th St. at Arbor Drive Chester Delaware Co.	Elderly	150	Nason & Cullen, Inc.
Thomas Campbell North	Thomas Campbell North, Inc.	850 Beech St. South Strabane Twp. Washington Co.	Elderly	75	Graziano Construction Co., Inc.
Tyrone Family Housing	Blair Associates	15th Street & Pennsylvania Ave. Tyrone Blair County	Family	50	Maurice A. Lawruk Builders, Inc.
Philipsburg Towers	Philipsburg Towers Associates	Front & Spruce Sts. Philipsburg Centre County	Elderly	102	Paul E. Hickes Construction Co., Inc.
Coal Township Elderly Housing	Coal Township Elderly Housing Associates	Arch Street Coal Township Northumberland County	Elderly	101	Coal Township Building Associates

Production, 1977

The Agency made mortgage loans to finance the construction of 14 new or substantially rehabilitated Section 8 apartment developments accounting for a total of 1,759 apartment units.

Listed below are the new developments now under construction as a result of the Agency's bond activity in 1977 under the Rental Housing Program.

Delaire Landing is located in the far northeast section of Philadelphia, Philadelphia County, and consists of 180 units of family housing.



Description of Developments to be Financed by Residential Development Bonds, Issue C, October 1977, \$24,350,000

Name	Mortgagor	Location	Type	Units	Contractor	Estimated or Actual Completion	Estimated Mortgage Loan Amount
Carson Towers	Carson Plaza Associates	Carson and 22nd Streets Pittsburgh Allegheny Co.	Elderly	133	A. C. Schwotzer, Inc.	January, 1979	\$4,210,000
Broadwood Tower	Broadwood Associates	Broad and Wood Streets New Bethlehem Clarion County	Elderly	66	H. B. Alexander & Son, Inc.	October, 1978	\$1,920,000
Park Spring Apartments	Park Spring Associates	Park Road E. Vincent Twp. Chester Co.	Family	151	Park Spring Building Associates	January, 1979	\$4,120,000
Susquehanna View Apts.	Sencit-Pennsboro Company	Senate Avenue E. Pennsboro Twp. Cumberland Co.	Elderly	201	H. B. Alexander & Son, Inc.	July, 1979	\$5,875,000
River Front Apartments	Sencit-Sunbury Company	Front Street Sunbury Northumberland County	Elderly	200	H. B. Alexander & Son, Inc.	March, 1979	\$5,630,000

Wilson Townhouses provide 200 apartment units in Spring Township, Berks County. The family development is located a few miles outside of Reading. It was made possible through construction financing provided by PHFA.



Housing Developments Financed by the Pennsylvania Housing Finance Agency



- ▲ Federally Subsidized Development (Rental Housing Program)
- Non-Subsidized Development (Rental Housing Program)
- Construction Loan Programs

Under its Construction Loan Program, the Agency loaned \$70,875,300 for the construction financing of 12 new apartment developments. They will account for a total of 2,168 new apartment units and, accord-

ing to Agency estimates, approximately 2,840 on-site or construction-related jobs. Following is a list of the 12 new apartment developments for which PHFA made construction financing loans in the past year.

New Developments Financed Under the Construction Loan Programs

Name	Mortgagor	Location	Builder	Units	Estimated Completion Date	Mortgage Loan Amount
University Plaza Apartments	University Plaza Associates Philadelphia, PA Philadelphia Co.	3901 Market St. Philadelphia, PA Philadelphia Co.	Keating/ICMA Joint Venture Villanova, PA	440	March, 1978	\$15,500,800
Lutheran Elderly Housing	Lutheran Associates Gladwyne, PA	1818-20 Spring Garden St. Philadelphia, PA Philadelphia Co.	Frank H. Wilson Company Ardmore, PA	208	December, 1978	\$6,992,400
The Plaza Phase II	ABE Associates Glenside, PA	W. Crestview Dr. N. Cornwall Twp. Lebanon County	Ambler Construction Co. Glenside, PA	127	September 1978	\$2,521,000
Brookside Apartments	Leon N. Weiner & Associates, Inc. Wilmington, Del.	12th & Guilford Streets, Lebanon Lebanon County	Leon N. Weiner & Associates, Inc. Wilmington, Del.	100	September, 1978	\$2,098,500
2400 Chestnut Street	24th & Chestnut Corporation Bala Cynwyd, PA	2400 Chestnut St. Philadelphia Philadelphia Co.	Arther A. Kober Construction Co. Bala Cynwyd, PA	372	December, 1979	\$15,280,000
Belmondo On The Delaware	Belmondo Associates Glenside, PA	1101 River Road Lower Makefield Bucks County	Ambler Construction Co. Glenside, PA	195	November, 1978	\$5,114,600
City Heights	City Heights Development Co. Wilkes-Barre, PA	Sherman & Market Streets Wilkes-Barre Luzerne County	Grosek & Sons, Inc. Wilkes-Barre, PA	150	September, 1978	\$4,658,000
Lutheran Manor of the Lehigh Valley	Lutheran Manor of the Lehigh Valley, Inc. Bethlehem, PA	Westgate Drive & Bathgate Rd. Bethlehem, PA Lehigh County	Louis Szmodis/ Walker & Eby Construction Allentown, PA	197	May, 1979	\$5,630,500
Courtland Plaza Elderly	East Stroudsburg Elderly Associates Philadelphia, PA	Kistler Street East Stroudsburg, PA Monroe County	East Stroudsburg Building Associates Lansdale, PA	101	April, 1979	\$2,793,300
Squirrel Hill Non-Profit Housing	National Development Corporation Pittsburgh, PA	234 McKee Place Pittsburgh Allegheny Co.	NADCO Construction Co., Inc. Pittsburgh	117	March, 1979	\$3,621,700
Washington Arbors	MD-JW Developers & McAnallen Corp. New York, NY	N. College Ave. Washington, PA Washington Co.	McAnallen Corp. New York, NY	100	November, 1978	\$2,587,200
20th & South Streets	Union Investment Company Upper Darby, PA	20th & South Sts. Philadelphia, PA Philadelphia Co.	Gross Construction Company Upper Darby, PA	61	March, 1979	\$1,542,000

If "progress" is the word that best describes the Agency's 1977 activities, then "recovery" is the word that describes the year preceding it.

The PHFA story for 1976 is something that the Agency staff will never forget. A

brief description of what led to 1977's recovery will place the achievements of this year into clear perspective.

On February 2, 1976, the Agency received a \$61.6 million appropriation, thanks to Governor Milton J. Shapp and the mem-



University Plaza will consist of 440 units of elderly housing and is located within walking distance of central Philadelphia. Shopping and recreational facilities abound in the immediate neighborhood and public transportation is located at the nearest corner to take residents to all parts of the city. The development was made possible with construction financing provided by PHFA.

bers of the Pennsylvania General Assembly. On that date, \$32.5 million in Bond Anticipation Notes were due to be retired by bonds. A bond sale intended for that purpose and scheduled for December, 1975, failed. The failure to issue bonds was due largely to a poor market for tax-exempt revenue bonds. This poor climate was the result of the fiscal problems then being faced by the City of New York and by the default of an agency of New York State.

The Agency rapidly and dramatically recovered from its problems by forcefully and successfully entering the bond market only two months after the appropriation was made. In April, 1976, the Agency issued \$58,260,000 in revenue bonds at an NIC of 7.77% and five months later, in September, 1976, an issue of \$84,905,000 sold at 7.55%.

At the time, the September, 1976 issue was believed to be the largest of its type ever issued by a state housing agency exclusively for Section 8 housing.

The combined total of \$143,165,000 in revenue bonds resulted as of December 31, 1977 in reducing the Agency's debt to the State Treasury to \$2 million. To date, all of the \$61.6 million of the appropriation except \$2 million has been repaid or released to the State Treasurer, and more than \$988,977 in interest on the \$32.5 million actually used has been repaid to the State Treasury.

Overview, 1977

To date, the Agency has made loans totaling \$345,065,453 to finance a total of 94 apartment developments. They account for 13,356 apartment units. And this financial activity has created approximately 13,500 on-site or construction-related jobs over a four-year period that has seen staggering unemployment rates among the building trades, especially in the area of apartment construction.

In the past year alone, the Agency has made loans totaling \$118,540,300 to finance 25 new apartment developments, accounting for 3,866 apartment units. Jobs produced in the past year are estimated to be approximately 7,990.

The Future

The Agency's good performance has solidified into a good reputation. It is the hope of PHFA staff that the Agency's set-aside of Section 8 funds will be increased in the next year. This would make it possible to process more loan applications and provide more housing for Pennsylvanians of low to moderate means.

Because the Agency's Rental Housing Program is directly linked with the Section 8 Program, the Agency is limited to underwriting only as many Section 8 units as it receives from HUD.

Many sound applications are not being processed because of the lack of Section 8 subsidies. The Agency's ability to produce the kind of housing it was established to provide is directly related to the number of Section 8 units it can secure for any given year.

The staff hopes that recognition of the Agency's performance will aid it in securing as many Section 8 units possible in the future.

Additionally, PHFA's staff hopes to see pending legislation—which would authorize single-family home ownership and improvement programs—approved by both chambers of the Pennsylvania Legislature and signed into law by Governor Shapp.

This legislation would enable the Agency to provide to qualifying Pennsylvanians the benefits of a *Loans to Lenders Program*; a *Mortgage Purchase Program*; and a *Home Improvement Loan Program*.

Under the *Loans to Lenders Program*, the Agency would be empowered to sell tax-exempt revenue bonds to generate funds that would in turn be loaned to participating lending institutions, such as banks, Federal Savings and Loan Associations; mortgage bankers; credit unions; insurance companies and other lending institutions with the stipulation that these funds be loaned to qualifying Pennsylvanians to enable them to purchase single-family homes.

Under the *Home Improvements Loan Program*, the Agency would again raise revenue by selling tax-exempt revenue bonds. The money would be loaned to participating lending institutions—such as those listed above—who in turn would make home improvement loans on single-family homes to qualifying Pennsylvanians.

Under the *Mortgage Purchase Program*, the Agency would be empowered to purchase residential home mortgages from lending institutions. The proceeds received by the lender from the sale of the mortgage to PHFA would be used to make loans to qualifying Pennsylvanians to purchase single-family homes.

The net effect of the programs included in this pending legislation would result in an increased cash flow cycle of mortgage funds for Pennsylvanians to purchase or repair single-family homes at interest rates within their means.

The need for quality housing in Pennsylvania is a factor that transcends party lines: 40% of all housing in Pennsylvania is 40-years-old or older. The need for new or substantially rehabilitated housing units in the Commonwealth is virtually limitless.

Legislation that would enable the Agency to broaden its abilities to make quality housing available to persons of moderate means, using new single-family home ownership programs, would be an important factor in the future of the Commonwealth and its most successful housing program in recent history.

After the Pennsylvania General Assembly appropriated its \$61.6 million for emergency retirement of BANs in February, 1976, all promises made to the legislators to repay these funds were kept in record time. It is the hope of the staff that the Agency's ability to deliver what it promises will be taken into consideration when members of the General Assembly vote on the pending single-family home ownership legislation.

Should it become possible for the Agency to produce considerably more housing units in the coming year with the aid of HUD, the Agency staff will be gratified to achieve in greater volume the work cut out for it in PHFA's enabling legislation: To provide decent, safe, sanitary, quality housing for persons of low-and-moderate-income.

PHFA has come a long way forward in four years.

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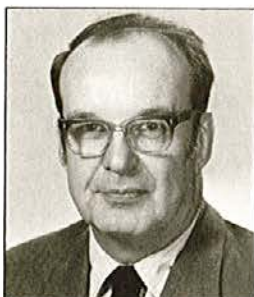
Robert A. Wochley,
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Sandy Klunk,
Administrative Assistant

Louise S. Hoffman,
Secretary

*Daniel Sloan
(Intergovernmental leave
with HUD)

PHFA Board Members



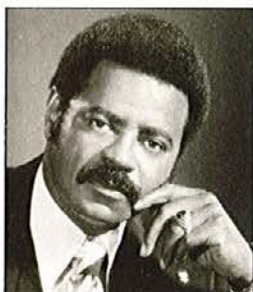
Hon. William H. Wilcox



Walter G. Arader



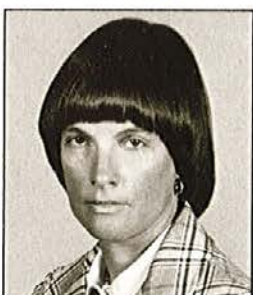
Dr. John Conley



James A. Lineberger



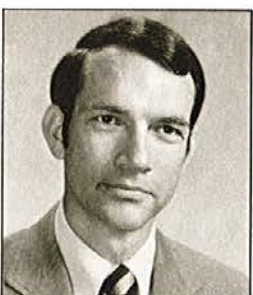
John O'Brien



Nancy Neuman



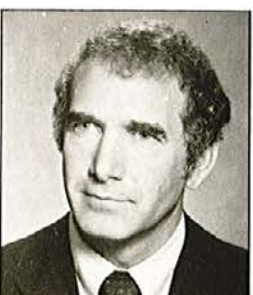
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Hon. William E. Whitesell



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Goldman, Sachs & Co.

Co-Managing Underwriters
E. F. Hutton & Company, Inc.
L. F. Rothschild, Unterberg, Towbin

Independent Certified Public Accountants
Peat, Marwick, Mitchell & Co.

Bond Counsel
Mudge Rose Guthrie & Alexander
Schnader, Harrison, Segal & Lewis

Outside Counsel
McNees, Wallace & Nurick

Paying Agents
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Continental Illinois National Bank
and Trust Company of Chicago

Depositories
Central Penn National Bank
Continental Bank
Fidelity Bank
First National Bank of Allentown
First National Bank of Eastern Pennsylvania
First Pennsylvania Bank, N.A.
First Valley Bank and Trust Company
Home Unity Savings and Loan Association
Industrial Valley Bank and Trust Company
Lincoln Bank
Mellon Bank, N.A.
National Central Bank
New World National Bank
Philadelphia National Bank
Pittsburgh National Bank
United Penn Bank

Bond Trustees
Industrial Valley Bank and Trust Company
National Central Bank

Secretary
Florence Unger

Treasurer
Eugene R. Eisman

Financial Information

Pennsylvania
Housing Finance
Agency

Accountants' Report

To the Members of the
Pennsylvania Housing Finance Agency:

We have examined the balance sheets of Pennsylvania Housing Finance Agency as of June 30, 1977 and 1976, and the related statements of revenues and operating expenses, changes in fund balances and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of Pennsylvania Housing Finance Agency at June 30, 1977 and 1976, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for debt origination costs as described in note 5 to the financial statements, have been applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Harrisburg, Pennsylvania
September 12, 1977

Balance Sheets

June 30, 1977 and 1976

	1977				1976			
	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only
Assets								
Cash (note 7).....	\$ 70,319	449,944	3,628,980	4,150,243	79,971	1,731,008	4,030,041	5,841,018
Investments.....	5,212,164	77,992,620	92,685,237	175,690,021	1,952,058	19,961,414	38,988,167	60,881,637
Mortgage loans receivable held as investments (note 6).....	180,025	—	998,041	1,176,066	82,563	—	1,183,196	1,265,759
Mortgage loans receivable (notes 8 and 10).....	—	—	46,473,932	46,473,932	—	—	5,159,561	5,159,561
Construction advances, net of allowance for potential loan losses (notes 8 and 10).....	—	38,864,377	66,887,470	103,551,847	—	48,886,818	64,528,726	111,415,544
Furnishings, fixtures and equipment.....	92,190	—	—	92,190	105,579	—	—	105,579
Other assets (note 5).....	37,201	187,582	1,369,850	1,594,633	65,099	113,732	89,470	268,301
Due from other funds.....	1,743,898	—	—	1,743,898	378,884	—	—	378,884
	<u>\$7,335,595</u>	<u>115,494,523</u>	<u>211,842,510</u>	<u>334,672,628</u>	<u>2,664,152</u>	<u>68,892,970</u>	<u>113,959,161</u>	<u>185,316,283</u>
Liabilities and Fund Balances								
Notes payable net of unamortized premium and discount (note 9).....	\$ —	112,482,977	4,958,475	117,451,452	—	64,587,818	28,770,644	91,358,462
Accrued interest.....	—	1,577,541	4,912,348	6,489,889	—	1,970,023	2,296,528	4,266,551
Accounts payable and accrued expenses.....	121,272	—	915,535	1,036,807	64,791	—	1,078,503	1,143,294
Other liabilities.....	—	267,739	2,089,554	2,357,293	—	236,404	454,789	691,173
Bonds payable net of unamortized discount (notes 10 and 12).....	—	—	193,889,299	193,889,299	—	—	79,933,529	79,933,529
Due to other funds.....	—	50,455	1,693,241	1,743,696	—	243,005	135,879	378,884
Total liabilities.....	<u>121,272</u>	<u>114,388,712</u>	<u>208,458,452</u>	<u>322,988,436</u>	<u>64,791</u>	<u>67,037,250</u>	<u>110,689,852</u>	<u>177,771,893</u>
Fund balances:								
Unrestricted (note 12).....	7,214,323	1,045,008	649,975	8,909,306	843,782	1,587,306	1,055,613	3,466,701
Allocated.....	—	—	—	—	1,755,579	—	—	1,755,579
Restricted (note 4).....	—	60,803	2,734,083	2,794,886	—	88,414	2,233,696	2,322,110
Total fund balances.....	<u>7,214,323</u>	<u>1,105,811</u>	<u>3,384,058</u>	<u>11,704,192</u>	<u>2,599,361</u>	<u>1,655,720</u>	<u>3,289,309</u>	<u>7,544,390</u>
	<u>\$7,335,595</u>	<u>115,494,523</u>	<u>211,842,510</u>	<u>334,672,628</u>	<u>2,664,152</u>	<u>68,892,970</u>	<u>113,959,161</u>	<u>185,316,283</u>

See accompanying notes to financial statements.

Certain reclassifications for 1976 have been made to conform to classifications adopted in 1977.

Years ended June 30, 1977 and 1976

Certain reclassifications for 1976 have been made to conform to classifications adopted in 1977.

5

Pennsylvania Housing Finance Agency

Statements of Changes in Fund Balances

Years ended June 30, 1977 and 1976

	1977				1976			
	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only
Unrestricted fund balance at beginning of period.....	\$ 843,782	1,567,306	1,055,613	3,466,701	695,046	755,569	883,508	2,234,123
Excess (deficiency) of revenues over operating expenses.....	2,296,114	1,225,113	165,799	3,687,026	(30,389)	978,687	284,260	1,232,578
Transfer of net investment income.....	2,318,848	(1,747,411)	(571,437)	—	279,105	(166,950)	(112,155)	—
Transfer (appropriation) from allocated fund balance.....	<u>1,755,579</u>	<u>—</u>	<u>—</u>	<u>1,755,579</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Unrestricted fund balance at end of period.....	<u>\$7,214,323</u>	<u>1,045,008</u>	<u>649,975</u>	<u>8,909,306</u>	<u>843,782</u>	<u>1,567,306</u>	<u>1,055,613</u>	<u>3,466,701</u>
Allocated fund balance at beginning of period.....	\$1,755,579	—	—	1,755,579	1,748,333	—	—	1,748,333
Transfer (appropriation) to unrestricted fund balance.....	(1,755,579)	—	—	(1,755,579)	—	—	—	—
Purchase of fixed assets.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,246</u>	<u>—</u>	<u>—</u>	<u>7,246</u>
Allocated fund balance at end of period.....	<u>\$ —</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,755,579</u>	<u>—</u>	<u>—</u>	<u>1,755,579</u>
Restricted fund balance at beginning of period.....	\$ —	88,414	2,233,696	2,322,110	—	36,418	2,314,483	2,350,901
Excess (deficiency) of revenues over operating expenses.....	368,691	6,664	521,797	897,052	139,138	51,996	(101,442)	89,692
Refund of excess investment income (note 4).....	(20,453)	(34,275)	(369,548)	(424,278)	—	—	(118,483)	(118,483)
Service fees (note 3a).....	<u>(348,138)</u>	<u>—</u>	<u>348,138</u>	<u>—</u>	<u>(139,138)</u>	<u>—</u>	<u>139,138</u>	<u>—</u>
Restricted fund balance at end of period.....	<u>\$ —</u>	<u>60,803</u>	<u>2,734,083</u>	<u>2,794,886</u>	<u>—</u>	<u>88,414</u>	<u>2,233,696</u>	<u>2,322,110</u>
Total fund balances.....	<u>\$7,214,323</u>	<u>1,105,811</u>	<u>3,384,058</u>	<u>11,704,192</u>	<u>2,599,381</u>	<u>1,655,720</u>	<u>3,289,309</u>	<u>7,544,390</u>

See accompanying notes to financial statements.

Certain reclassifications for 1976 have been made to conform to classifications adopted in 1977.

Statements of Changes in Financial Position

Years ended June 30, 1977 and 1976

Sources of funds:

From operations:

Excess of revenues over operating expenses before the cumulative effect

of a change in accounting principle.....

Items which do not use (provide) funds:

Depreciation.....

Provision for potential loan losses.....

Amortization of premium and discount, net.....

Funds provided from operations.....

Cumulative effect on years prior to July 1, 1976 of capitalization

of debt origination costs, net of amortization.....

Transfer of investment income.....

Transfer of service fees.....

Bond proceeds.....

Mortgage principal payments.....

Change in:

Cash.....

Investments.....

Mortgage loans receivable held as investments.....

Inter-fund accounts.....

Notes payable.....

Accrued interest payable.....

Accounts payable and accrued expenses.....

Other liabilities.....

Other, net.....

Total.....

Uses of funds:

Transfer of investment income.....

Transfer of service fees.....

Refund of excess investment income.....

Investment in construction advances and mortgage loans receivable

Change in:

Cash.....

Investments.....

Mortgage loans receivable held as investments.....

Inter-fund accounts.....

Notes payable.....

Accrued interest payable.....

Accounts payable and accrued expenses.....

Other liabilities.....

Other, net.....

Total.....

1977			
General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only
\$2,503,134	1,231,777	530,545	4,265,456
38,501	—	—	38,501
—	229,000	100,000	329,000
(1,484)	231,447	262,831	492,794
2,540,151	1,692,224	893,376	5,125,751
181,571	—	157,051	318,622
2,318,848	—	—	2,318,848
—	—	348,138	348,138
—	—	113,804,319	113,804,319
—	27,902,258	135,274	28,037,532
9,652	1,281,062	400,061	1,690,775
—	—	—	—
—	—	191,457	191,457
—	—	1,557,362	1,557,362
—	47,683,911	—	47,683,911
—	—	2,615,820	2,615,820
56,481	—	—	56,481
—	31,335	1,634,785	1,666,120
27,898	—	—	27,898
\$5,114,601	78,590,790	121,737,643	205,443,034

1976			
General Fund	Construction Loan Fund	Rental Housing Program Group	Combined Total—Memorandum Only
108,769	1,030,683	182,818	1,322,270
—	—	—	—
10,000	83,000	—	93,000
—	41,506	68,579	110,085
118,769	1,155,189	251,397	1,525,355
—	—	—	—
279,105	—	—	279,105
—	—	139,138	139,138
—	—	79,909,096	79,909,096
—	1,752,700	41,079	1,793,779
—	—	—	—
10,447	14,817,583	4,467,959	19,295,989
—	—	67,513	67,513
—	107,645	—	107,645
—	11,329,493	—	11,329,493
—	—	—	—
—	—	1,078,503	1,078,503
—	—	220,923	220,923
—	—	—	—
408,321	29,182,610	86,175,608	115,746,539

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 1977 and 1976

(1)

Authorizing Legislation

The Pennsylvania Housing Finance Agency is a body corporate and politic created by the Housing Finance Agency Law, Act of 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, among other things, 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 notes issued under the provisions of the Act are not a debt or liability of the Commonwealth of Pennsylvania or any of its subdivisions or a pledge of the faith and credit of the Commonwealth of Pennsylvania or of any of its political subdivisions.

On April 7, 1976, the Pennsylvania General Assembly amended the Act to, among other things, limit the making of mortgage loans under the Rental Housing Program only to those made in conjunction with present and future Federal housing assistance programs, except for those mortgage loans for which the Agency had issued written commitments or written feasibility approvals at January 1, 1976; prohibit the Agency from issuing bond anticipation notes except to renew outstanding bond anticipation notes; subject the issuance of bonds and notes to the written approval of the Governor; and permit the Agency to create additional capital reserve funds.

(2)

Summary of Significant Accounting Policies

The major accounting principles and practices followed by the Agency are presented below to assist the reader in understanding the accompanying financial statements:

(a) FUND ACCOUNTING

The accounts are organized on the basis of funds, each of which is a separate accounting entity. The operations of each major Agency program are accounted for in a separate set of self-balancing accounts which is comprised of its assets, liabilities, fund balances, revenues and expenditures.

(b) INVESTMENTS

Investment, which consist primarily of collateralized certificates of deposit, U. S. Treasury bills and U. S. Government securities held under repurchase agreements, are carried at amortized cost which approximates market value. Mortgage loans receivable held as investments are carried at cost less principal collections and allowance for potential loan losses; discount on these loans is amortized on a straight-line basis over the terms of the mortgages.

(c) ALLOWANCE FOR POTENTIAL LOAN LOSSES

The allowance for potential loan losses is based primarily upon the current conditions of the loan portfolio. Additions to the allowance are made by charges to operating expense.

(d) FURNISHINGS, FIXTURES AND EQUIPMENT

Prior to July 1, 1976, furnishings, fixtures and equipment were charged to operations when purchased and accordingly, no depreciation was recorded in the statements of revenues and operating expenses and changes in fund balances. However, these assets were reported in the General Fund assets and fund balance at cost.

Effective July 1, 1976, such assets have been capitalized and depreciation is being computed on the straight-line basis over the estimated useful life of the related assets, generally ten years. The effect of this change was not significant.

(e) **MORTGAGE ORIGATION COSTS**

Costs related to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and advances are charged to operations in the General Fund as incurred.

(f) **LOAN INTEREST AND FEES**

Loan financing fees, service fees, and interest charges on construction advances during the construction period are capitalized as part of the mortgage loans. The construction loan financing fees and service fees are revenues in the General Fund when earned (generally at initial closing).

(g) **AMORTIZATION OF PREMIUM, DISCOUNT AND DEBT ORIGATION COSTS**

Note premium and discount are amortized on a straight-line basis over the term of the note. Bond discount is amortized over the life of the issue using the interest method. As discussed in note 5, debt origination costs incurred in connection with bonds have been capitalized and are being amortized over the life of the issue using the interest method.

(3) **Description of Funds and Fund Group**

GENERAL FUND

The General Fund records revenues related to the expenses recorded in this fund, the payment of expenses as deemed necessary to carry out the provisions of the Housing Finance Agency Law, and the receipt of funds transferred from time to time from other funds to the extent such transfers are permitted by the applicable resolutions and indentures upon the satisfaction of obligations of such other funds. Service fees initially recorded in this fund which are directly pledged to the repayment of specific bonds are reflected as transfers to the appropriate restricted fund.

CONSTRUCTION LOAN FUND

The Construction Loan Fund is primarily utilized to account for transactions related to the making of construction advances on:

- (i) Projects insured by the Federal Housing Administration (FHA). These projects, except one, are subject to commitments from the Federal or Government National Mortgage Associations (FNMA/GNMA) to approved FNMA or GNMA sellers for the purchase of the mortgages upon final endorsement by the FHA.
- (ii) Uninsured projects as to which commitments have been made by the Farmers Home Administration to purchase the mortgage upon satisfactory completion of construction.
- (iii) Uninsured projects as to which the U. S. Department of Housing and Urban Development (HUD) has committed to provide a local housing authority with funds to purchase the development upon satisfactory completion.

At June 30, 1977 and 1976, type (ii) and (iii) advances were each approximately 4.1% and 4.0%, respectively, of construction advances of the Construction Loan Fund.

At June 30, 1976, the three types of advances described above were reported in the financial statements as the Construction Loan Fund, Rural Construction Program Mortgage Loan Fund and Turnkey Construction Loan Fund, respectively. During 1977 these funds have been combined into one Construction Loan Fund and amounts for 1978 have been reclassified to conform to the new classification.

Notes to Financial Statements (Continued)

RENTAL HOUSING PROGRAM GROUP

The Rental Housing Program Group records all transactions related to construction and permanent financing of rental housing projects which do not fall within the lending parameters of the Construction Loan Fund. The Agency has issued bonds, bond anticipation notes and general obligation notes under this program. Pursuant to the resolutions and indentures under which these bonds and notes were issued, certain funds and accounts, including capital reserve funds, were created for the purpose of restricting the application of the proceeds of these bonds and notes and of the revenues from the financed projects to the purposes of this program and the debt service on such bonds and notes.

(4) **Fund Balances—Restricted Funds**

Pursuant to contracts with certain mortgagors, certain interest income earned during the construction period net of interest expense during such period has been restricted for principal reductions or other project related purposes and as discussed in note 3(c).

(5) **Change in Method of Accounting For Debt Origination Costs**

Effective July 1, 1976, costs incurred in connection with bond issues have been capitalized and are being amortized over the life of the related bond issue using the effective interest method. In prior years such costs were charged to operations as incurred. The new method was adopted to more effectively match revenues and expenses related to debt and has been applied retroactively to debt origination costs incurred in prior years. The effect of the change in the year ended June 30, 1977, was to increase the excess of revenues over operating expenses before cumulative effect of change in accounting principle of the Rental Housing Program Group by \$295,375. The cumulative effects of \$161,571 and \$157,051 in the General Fund and Rental Housing Program Group, respectively, to apply retroactively the new method are included in excess of revenues over operating expenses in the respective funds for the year ended June 30, 1977. The pro-forma excess of revenues over operating expenses assuming the new methods had been in use in prior periods are:

	Years ended June 30,	
	1977	1976
General Fund	\$2,503,134	\$108,769
Rental Housing Program Group	<u>530,545</u>	<u>339,869</u>

(6) **Mortgage Loans Receivable Held as Investments**

The mortgage loans held in the Rental Housing Program Group are secured by first mortgage liens on single-family homes in Pennsylvania. These loans are insured 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 also provides for graduated interest rate increases when the mortgagor's income exceeds limits established in the rider.

The Agency also has single-family mortgage loans of \$190,025 and \$92,563 which are included in the General Fund as of June 30, 1977 and 1976, under the Philadelphia Urban Homestead Program. These loans bear interest at rates ranging from 1% to 8% for terms of 15 to 30 years. These demonstration loans are high risk loans for which the Agency has established an allowance for potential loan losses of \$10,000 at June 30, 1977 and 1976. No bonds or notes were issued to make these single-family loans.

(7)

Investments

Included in cash are unrestricted withdrawal savings accounts as follows:

	June 30,	
	1977	1976
General Fund	\$ 70,319	\$ 79,971
Construction Loan Fund	278,879	599,843
Rental Housing Program Group	<u>3,400,783</u>	<u>3,393,576</u>

(8)

Construction Advances and Mortgage Loans Receivable

Advances on construction mortgage loans and mortgage loans receivable are collateralized by first mortgages on the related properties of the housing sponsors. At June 30, 1977, the Rental Housing Program Group and Construction Loan Fund had made mortgage commitments aggregating approximately \$32,800,000 and \$81,600,000, respectively, in excess of principle amounts currently advanced.

The Agency has conducted an in-depth review on an individual investment basis of substantially all loans in its portfolio to provide for potential loan losses. Activity in the Agency's allowance for potential loan losses on construction advances in the Construction Loan Fund and Rental Housing Program Group are summarized as follows:

	Years ended June 30,			
	1977		1976	
	Construction Loan Fund	Rental Housing Program Group	Construction Loan Fund	Rental Housing Program Group
Beginning balance	\$126,000	57,000	43,000	57,000
Provision for potential loan losses	229,000	100,000	83,000	—
Amounts charged off	—	—	—	—
Ending balance	<u>\$355,000</u>	<u>157,000</u>	<u>126,000</u>	<u>57,000</u>

(9)

Notes Payable

The Agency issues various notes to provide interim financing of mortgage loans to qualified housing sponsors. The notes are collateralized by the full faith and credit of the Agency and by all monies received in repayment of construction advances and principal and interest on mortgage loans.

Average maturities and rates of notes payable in the Construction Loan Fund and Rental Housing Program Group at June 30, 1977 and 1976 were as follows:

	1977		1976	
	Construction Loan Fund	Rental Housing Program Group	Construction Loan Fund	Rental Housing Program Group
Average months to maturity	19	4	15	6
Average rate	<u>3.8%</u>	<u>6.1%</u>	<u>5.4%</u>	<u>5.9%</u>

(Continued)

Pennsylvania Housing Finance Agency

Notes to Financial Statements (Continued)

(10)

Bonds Payable

Bonds have been issued to provide financing of mortgage loans under the Rental Housing Program as follows:

DESCRIPTION	Amount issued and outstanding June 30,	
	1977	1976
Rental Housing Program Bonds 1975 Series A; \$3,285,000 serial bonds, 7.4% to 10%, due 1977 to 1997; \$20,510,000 term bonds, 7.9% and 8%, due 2010 and 2021; original discount \$413,060; issued July 1, 1975; effective interest rate 8.17%. See note 12.....	\$ 23,775,000	23,775,000
Rental Housing Program Bonds 1976 Series A; \$7,020,000 serial bonds, 4.3% to 7.2%, due 1977 to 1990; \$51,240,000 term bonds, 7.5% and 7.75%, due 2002 and 2023; original discount \$1,712,844; issued April 1, 1976; effective interest rate 7.90%. See note 12.....	58,260,000	58,260,000
Residential Development Bonds Issue A; \$13,720,000 serial bonds, 4.5% to 6.9%, due 1978 to 1996; \$65,185,000 term bonds, 7.3% to 7.6%, due 2003 and 2018; \$6,000,000 term bonds, 7%, due 2019; original discount \$2,917,285; issued October 13, 1976; effective interest rate 7.69%.....	84,906,000	—
Residential Development Bonds Issue B; \$6,150,000 serial bonds, 4% to 6.3%, due 1979 to 1997; \$19,820,000 term bonds, 6.5% and 6.8%, due 2007 and 2016; \$6,930,000 term bonds, 6.3% due 2020; original discount \$1,083,397; issued March 28, 1977; effective interest rate 6.55%.....	32,900,000 199,840,000 (5,950,701)	— 82,035,000 (2,101,471)
Unamortized discount.....	\$193,889,299	79,933,529

Bonds maturing ten years and thereafter from the date of issuance are redeemable at the option of the Agency at prescribed redemption prices ranging from 104% to 100% of the principal amount. Provisions of the bonds include annual sinking fund payments to provide for redemption of the term bonds.

The bonds are direct and general obligations of the Agency, and the full faith and credit of the Agency are pledged for the payment of the principal and redemption price of and interest and sinking fund payments on all of the bonds issued. The bonds are secured by:

- (a) The mortgages securing mortgage loans made on the related permanently financed projects;
- (b) Most revenues, mortgage advance amortization payments and recovery payments received, derived or recovered by the Agency from or related to mortgage loans made on permanently financed projects; and
- (c) Certain funds and accounts created or established by, or maintained pursuant to, the bond resolutions and indentures including the investments thereof and the proceeds of such investments, if any; provided, however, that certain of such funds and accounts are pledged solely to the holders of bonds of the series from which the monies credited to such accounts are derived.

Required principal payments related to the above indebtedness, after giving effect to the refunding transaction described in note 12, for the five years commencing July 1, 1977, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>
1978.....	\$ 680,000
1979.....	1,070,000
1980.....	1,215,000
1981.....	1,255,000
1982.....	1,315,000

(11)

Pension Plans

The Agency has its own pension plan to cover all fulltime employees who are not eligible to participate in the State Employees' Retirement System of the Commonwealth of Pennsylvania. The Agency's plan provides for employee contributions in the amount of 2.0% of annual gross wages with the Agency contributing the balance, as determined actuarially, to fund the benefits expected to become payable. The Agency's contribution to the State plan is based upon a percentage of annual gross wages and for the years ended June 30, 1977 and 1976, was 10.6% and 12.8%, respectively.

Pension expense for both plans for the years ended June 30, 1977 and 1976, amounted to \$100,061 and \$80,901, respectively. There were no unfunded liabilities in the Agency's plan as of June 30, 1977 or 1976.

(Continued)

Notes to Financial Statements (Continued)

(12)

Subsequent Events

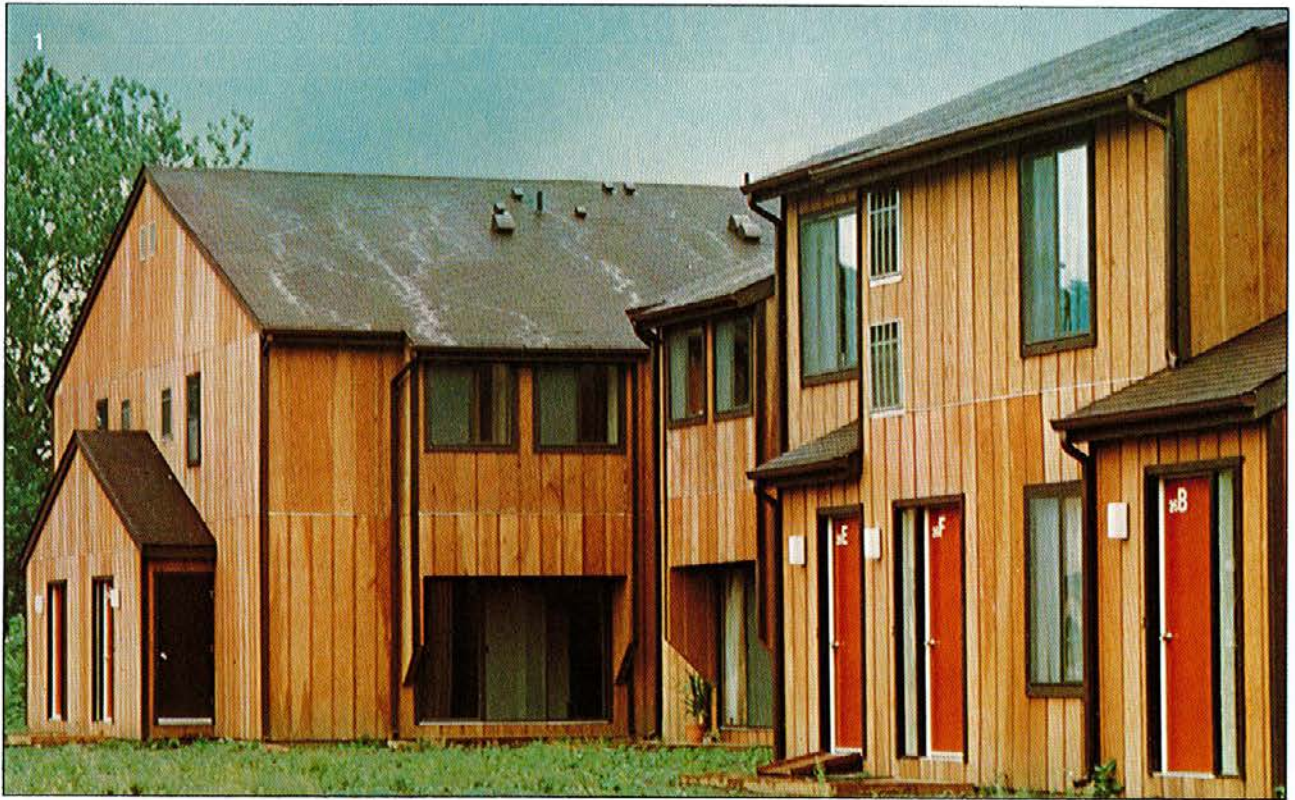
On August 18, 1977, the Agency sold \$91,925,000 Residential Development Bonds, Issue 1977. These bonds were issued to defease the \$23,775,000 Rental Housing Program Bonds 1975 Series A, and \$58,260,000 Rental Housing Program Bonds 1976 Series A. The proceeds of the new issue, along with other available funds of the Agency, were principally used to purchase U. S. Treasury obligations, the principal of and interest on which will be sufficient to pay the principal and interest, when due, on the defeased bonds. The U. S. Treasury obligations were deposited with the trustee of the defeased bonds.

The Agency accounted for this transaction by removing the U. S. Treasury obligations and liabilities for the defeased bonds from its records as of August 18, 1977; the difference between the principal amount of the new and the previously outstanding bonds (approximately \$10,000,000) will be amortized over the term of the new issue using the effective interest method. Economic benefits arising from the reduced debt servicing requirements of the new bonds are to be passed through to mortgagors whose loans secure the new bonds.

Terms of the refunding require the establishment of a "Development Reserve Account" in the Rental Housing Program Group. The Account has been established by the transfer of approximately \$1,400,000 from the General Fund assets and fund balance to the Rental Housing Program Group. The assets of this Account would be held by the Agency in a segregated manner and be pledged to the projects securing the new bonds for as long as the projects' mortgage loans are outstanding.

The Agency is preparing a bond offering of approximately \$24,000,000. It is expected that the bonds will be available for delivery on or about October 20, 1977.

Subsequent to June 30, 1977, the Agency issued approximately \$16,000,000 of Construction Mortgage Loan Notes, of which approximately \$1,500,000 refunded notes outstanding at June 30, 1977.



(1) **Pocono Creek Apartments** will serve the rural community of Stroudsburg, in Monroe County, with 100 units of attractive family housing.

(2) **Riverview Park Apartments**, composed of 168 units of family housing, is located in White Oak Borough, Allegheny County, about 30 minutes from central Pittsburgh.

Pennsylvania Housing Finance Agency

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Harrisburg, Pennsylvania 17110
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Scranton Townhouses sit high enough for carpenter to see city skyline from this 160-unit family development in Scranton, Lackawanna County.