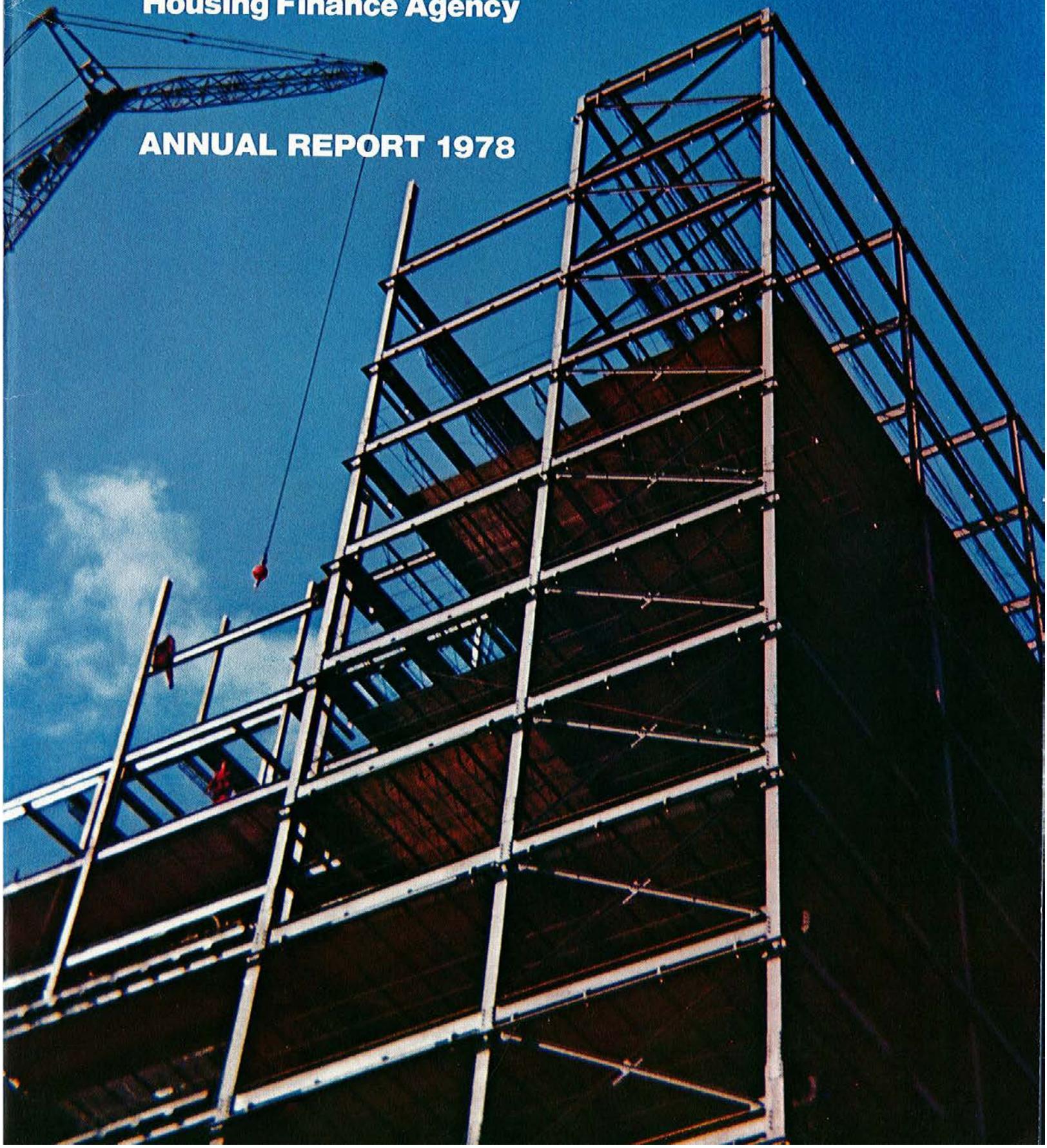


**Pennsylvania
Housing Finance Agency**

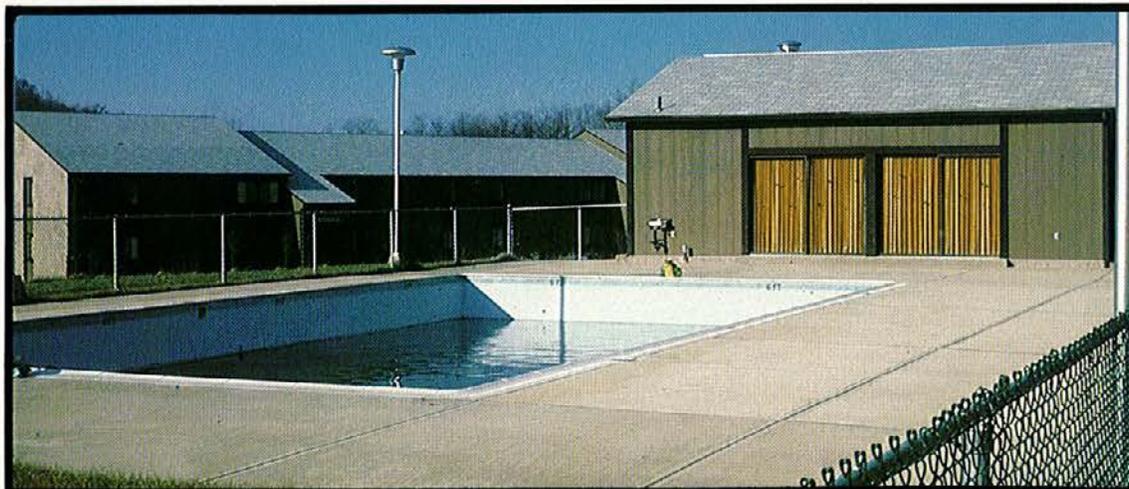
ANNUAL REPORT 1978





Front:
*Susquehanna View
Elderly housing under
construction in East
Pennsboro Township,
Cumberland County*

*Isaac Robb Manor
West Newton,
Westmoreland County*



*Facilities for family
recreation at Squires
Manor, South Park
Township, Allegheny
County.*

Pennsylvania Housing Finance Agency Governor's Message



I have said that any government that attempts to do all things for its people is doomed to do none of them well.

That is why the administration is committed to choosing carefully among the many things state government is implored to do daily. We are determined to see that the most worthy among them are done better than ever before.

It is a legitimate function of government to help people find decent shelter at affordable prices when private enterprise is either unable, or unwilling, to do so.

The Pennsylvania Housing Finance Agency was established in 1972 to provide quality housing at low cost to elderly and low-income citizens.

The Agency uses its sales of tax-exempt securities to make loans to qualified developers at lower interest rates than those available through conventional financing channels. These lower financing costs make it possible to offer higher quality housing at lower rents.

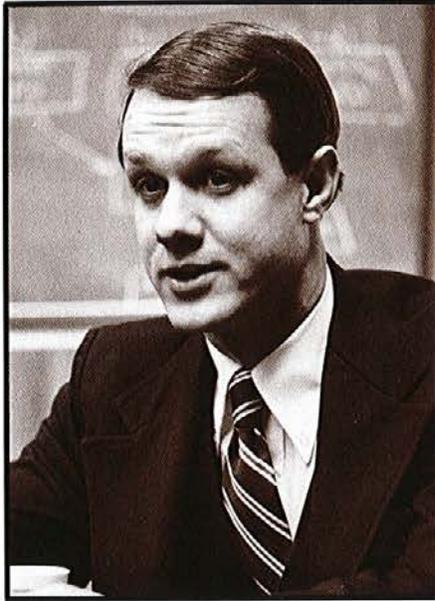
The concept is a good example of how the private and government sectors can work together to fill the basic needs of our citizens.

I look forward to working with the Agency, to building upon its existing foundations, and to moving ever closer to the goal of a clean and decent home environment for all Pennsylvanians.

A handwritten signature in brown ink, reading "Dick Thornburgh". The signature is stylized and cursive.

Dick Thornburgh

Chairman's Message



It is my pleasure to present this Annual Report of the Pennsylvania Housing Finance Agency.

Pennsylvania's most valuable resource is its citizenry. Housing is a vital element in nurturing that resource. In PHFA, the Commonwealth has the instrument to fulfill the greatest potential of its housing needs.

PHFA's fine record of housing production marks, I feel, a dedication to decent, quality, affordable housing for deserving and needy Commonwealth citizens. This record is based upon several critical factors:

- The Agency's excellent financial rating by the national financial rating institutions enables it to sell securities at interest rates that better assure the viability of Section 8 assisted housing developments while reducing the cost to the nation's taxpayers.
- PHFA provides local municipalities in the Commonwealth with vitally needed housing in locations where there is a large market demand. These projects are prudently underwritten and monitored by PHFA.
- PHFA-financed housing applications, on the average, were processed in five to eight months time.
- Additionally, local taxing bodies have strongly supported PHFA-financed developments because these developments pay taxes and support the local tax base and generate much needed employment opportunities for local residents.

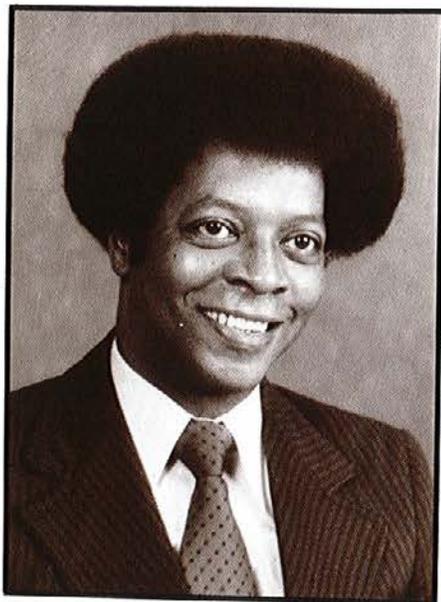
I, as the incoming Chairman, and the other members of the PHFA Board of Directors, take great pride in the fact that the Agency is one of the premiere state housing finance agencies in the United States. The Agency's professional management, staff capability, and active, involved Board of Directors have been the keystone of its excellent record.

I want to particularly commend present members of the Board on their performance during the period which this report covers. As the new Chairman of the PHFA Board of Directors, I pledge to the citizens of Pennsylvania that I will do my best to assure that the Agency effectively and efficiently assists in increasing the amount and quality of housing available to deserving residents throughout the Commonwealth.

William R. Davis

William R. Davis

Executive Director's Message



It is particularly gratifying to report that the Pennsylvania Housing Finance Agency is the only such entity in the country which is rated by the national rating services, equal to or better than the state in which it is situated, relative to the tax-exempt securities it issues to finance rental housing developments. We have been fortunate, thus far, in maintaining an A-1 rating from Moody's Investor Service and A+ by Standard & Poor's, despite the fact the Commonwealth has been downgraded by each of the rating agencies during the past year. The Agency's rating is important to the taxpayers of the

Commonwealth and the balance of the country (since all the Agency financed developments are federally assisted or insured) because each rating classification downgrading usually adds an additional $\frac{1}{4}$ of one percent interest cost to the tax-exempt securities PHFA issues.

Perhaps the most important information I have to report is that as of year-end 1978, PHFA had provided construction or permanent financing for 118 quality rental developments representing more than 16,000 units. During the past year the Agency permanently financed 19 developments containing 2,188 units. This brings the total number of PHFA permanently financed projects to 74 representing 9,822 units. Interim or construction-only financing loans number 44, amounting to 6,654 units. In 1978 the Agency provided construction financing for eight developments containing 1,093 units.

To date, over 16,000 construction related jobs have been generated by Agency financed developments, and almost 3 million dollars are being paid to the local and state taxing bodies as a result of Agency financed rental developments.

PHFA's commitment to racial and economic balance begins with its employment practices. Twenty-five percent of the Agency's 84 employees are minority persons. The Agency is also

encouraging minority developers to participate in its lending programs. This strong commitment will continue to be an important segment of all PHFA policies and programs.

What the Agency has accomplished, at no cost to the Commonwealth taxpayers, could not have been done without a supportive General Assembly, Board of Directors, cooperation from the two Pennsylvania HUD Area Offices and, last but not least, an excellent, dedicated and competent staff.

It is my hope that the General Assembly of the Commonwealth will affirmatively support legislation which would permit the Agency to make mortgage money available to Commonwealth residents at two to three percent below the conventional mortgage interest rates. Such legislation would allow Commonwealth residents who cannot afford to purchase a home at the double digit interest rates to receive assistance from the Agency. Such legislation was not enacted by the General Assembly during 1978. We hope that the General Assembly will note the Agency's achievement and accordingly will enact single family homeownership legislation in Pennsylvania in 1979. The Agency is ready, able and willing to provide these low interest single family homeownership mortgage loans to Commonwealth residents as soon as the necessary legislation is enacted by the General Assembly.

Finally, I would like to take this opportunity to express the sense of loss felt by the Agency by the deaths of Florence Unger and Joy Shand. Loyal and diligent employees, they were courageous in the face of adversity. They will be greatly missed.

Carl Payne



1978: The Year in Review

Introduction

Since its inception in 1972 when it was created by the General Assembly of the Commonwealth of Pennsylvania, the Pennsylvania Housing Finance Agency (PHFA) has attempted to meet the housing needs of low and moderate income families, the elderly and citizens with special housing requirements, such as the handicapped and the blind.

The Agency, which began operation in late 1973, is a public corporation which makes mortgage loans to supply well planned and well constructed apartment buildings across the state. This lending activity, in both construction and permanent financing, is made possible by the Agency's sales of tax-exempt securities. Proceeds from these sales are lent to qualified developers at lower interest rates than those available through conventional construction financing channels. Lower financing costs incurred by the developers make possible lower rents and higher quality housing for deserving tenants.

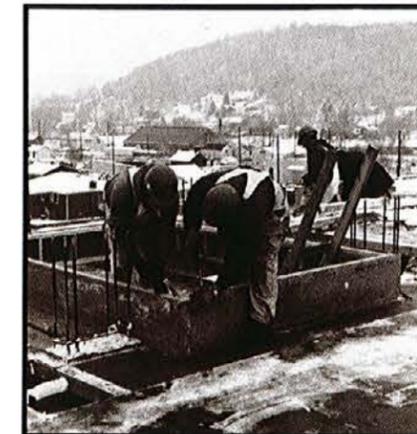
1978 was a year of considerable achievement for PHFA, a year characterized by continuing prosperity and movement toward a leadership position among the nation's housing agencies, both in terms of production and financial management. In 1978, PHFA:

- Started 19 new apartment developments under its Rental Housing Program with subsidies provided under the Section 8 Housing Assistance Payments Program.
- Started eight new apartment developments with construction financing from its Construction Loan Programs.
- Issued \$166,500,000 in Residential Development Bonds to finance its Rental Housing Program, including the Agency's first "pipeline" series

of tax-exempt bonds. These will enable the PHFA to finance developments which are currently in the processing stage.

- Maintained a high productivity record among housing finance agencies in the U.S. which will hopefully enable Pennsylvania to receive supplemental Section 8 housing allocations from HUD in 1979.
- Reduced the average processing time for the Agency's permanently financed Section 8 developments to less than six months in 1978. This achievement compares favorably with other subsidized financing mechanisms, which average from 18 to 40 months. Since lengthy processing and construction time increases costs significantly, the Agency's short processing time is saving the taxpayer considerable sums of money and providing decent housing in a reasonable period of time.
- Continued to enhance its relationship with the financial and investment community. Today, PHFA is the only state housing agency in the country which enjoys both a Moody and Standard & Poor's rating equal to or better than its parent state with respect to the issuance of securities for multi-family rental housing.

As of year-end 1978, PHFA's total financing amounted to nearly half a billion dollars; the number of developments across the state has grown to 75, individual dwelling units totalled 9,910, the number of construction-related jobs made possible by Agency programs topped 16,000, and more



than \$3,000,000 in real estate taxes were being paid to taxing bodies in those localities where Agency-funded developments are situated.

PHFA has done this without taxing the citizens of Pennsylvania. The Agency's performance in 1978, and indeed its overall experience during its initial five years of operation, are examples of the private and government sectors working effectively together to implement vitally needed quality housing for the citizens of Pennsylvania.

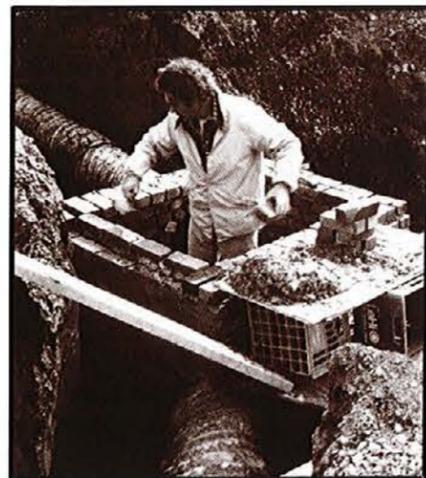
Rental Housing Program

In 1978, PHFA started 19 new apartment developments containing 2,188 units under its Rental Housing Program with subsidies from the Section 8 Housing Assistance Payments Program. The Section 8 program was created by the Housing and Community Development Act of 1974 and became operative the following year.

Under this federal program, which is administered by the U.S. Department of Housing and Urban Development (HUD), qualifying tenants pay a maximum of 25% of their annual adjusted income for rent and HUD subsidizes the balance. "Qualifying tenants," according to HUD guidelines, are those individuals whose family income does not exceed 80% of an area's median income as determined by HUD.

Since beginning its involvement with the Section 8 program in late 1975, PHFA has permanently financed 54 developments—6805 individual units—under the program. The 30 developments which were completed by the end of 1978 boast an occupancy rate averaging 97%. Most of these developments, particularly those for the elderly, have long waiting lists of potential residents. Over 6,000 families and individuals are currently on PHFA's waiting list.

Under the Rental Housing Program, PHFA provides both construction and permanent financing. These loans must be secured by a first mortgage lien on real property or on a leasehold estate. The mortgage loans made by the Agency can not exceed 90% of the cost of development in the case of



limited profit developers and no more than 100% of the cost of development for non-profit developers, such as social service and community organizations.

The loans made through the Rental Housing Program are generated through the sale of tax-exempt, long-term revenue bonds. In 1978, PHFA issued a total of \$166,500,000 in revenue bonds. Residential Development Bond, Issue D, offered in April, raised \$83,000,000 which is being used to finance 19 apartment dwellings.

Portions of issues D, E and F are pre-funding or "pipeline" issues; that is, the proceeds were raised in advance of the closing of the Section 8 developments. PHFA was the first state housing finance agency to use this financing innovation. It permitted the Agency to enter the bond market at a time when the interest rates were 3/4 of 1% lower than the existing rates at the time a portion of the Section 8 developments in Issue E were prepared to close. In addition, this pre-funding mechanism permitted the Agency to close Section 8 developments over a period of time, rather than all at once.

In 1978, PHFA again received a supplemental allocation of approximately 900 Section 8 units from HUD. PHFA was one of 15 state agencies to receive supplemental allocations from HUD during 1978 because of the Agency's excellent Section 8 performance and production record. That record, and the ability to attract the scarce additional Section 8 allocations, means that PHFA can provide more deserving Pennsylvanians with high quality housing which they can afford.

Description of Developments to be Financed by Residential Development Bonds, Issue D, April 1978, \$83,000,000

Development	Mortgagor	Location	Type of Occupancy	Dwelling Units	Contractor	Actual or Estimated Completion Date	Estimated Mortgage Loan Amount	Planned Unit Amenities
Lehigh Coal & Navigation Building	Tyko Associates	One Broadway Jim Thorpe Carbon County	Elderly	27	Joseph Maradeo Builder, Inc. Nesquehoning, PA	11/1/78	\$ 815,000	Air conditioning, garbage disposals, carpet, laundry facilities, community room.
Independence House	Erie Independence House, Inc.	956 W. 2nd St. Erie Erie County	Handicapped	12	H. Platt Co. Erie, PA	12/1/78	400,000	Air conditioning, laundry facilities, solarium, multipurpose room, activity room.
Norristown Housing for the Elderly	Pennsylvania Associates	Main & Walnut Sts. Norristown Montgomery County	Elderly	175	Norristown Bldg. Associates/Abreen Corporation Needham Heights, MA	2/1/80	6,560,000	Air conditioning, garbage disposals, congregate kitchen area, carpet, laundry facilities, shuffleboard, horseshoe pit, outdoor sitting area, community room, garden area, arts and crafts room.
Garden Terrace Apartments	Ridilla-Dale Associates' Limited Partnership	Bloom St. Dale Borough Cambria County	Elderly	101	L-D Building Co. Latrobe, PA	5/1/79	3,110,000	Air conditioning, garbage disposals, laundry facilities, community room, crafts room, outdoor sitting area.
Bridgeville Towers	Bridgeville Towers Associates	Bank Street Extension Bridgeville Allegheny County	Elderly	102	NADCO Construction, Inc. Pittsburgh, PA	8/1/79	3,305,000	Air conditioning, garbage disposals, laundry facilities, community room, crafts room, outdoor sitting area.
Charleroi Housing for the Elderly	Nonprofit Housing of Washington County, Inc., Char House	9th St. & McKean Ave. Charleroi Washington County	Elderly	104	Mellon-Stuart Company Pittsburgh, PA	8/1/79	3,530,000	Air conditioning, garbage disposals, carpet, laundry facilities, lounge, community room, TV/game room, game table and passive recreation area, outdoor benches.
Richford Arms	Richford Arms Associates	515 State St. Erie Erie County	Elderly	100	National Development Corporation Pittsburgh, PA	8/1/79	3,150,000	Air conditioning, garbage disposals, carpet, laundry facilities, outdoor sitting area, community room, TV/crafts room.
Mahanoy Elderly Housing	Mahanoy Associates	South Main & West Centre Sts. Mahanoy City Schuylkill County	Elderly	125	Mahanoy Elderly Building Associates/Abreen Corporation Needham Heights, MA	8/1/79	3,940,000	Air conditioning, garbage disposals, carpet, laundry facilities, community room, recreation area, and arts and crafts room.
Interfaith Apartments	Middletown Interfaith Development Co.	Mill Street Middletown Dauphin County	Elderly	126	Grosek & Sons, Inc. Plains, PA	8/1/79	4,365,000	Air conditioning, garbage disposals, carpet, laundry facilities, covered patio, garden area, community room, shuffleboard.
Montrose Square	Montrose Associates	Church Street Montrose Susquehanna County	Elderly	81	Grosek & Sons, Inc. Plains, PA	8/1/79	2,750,000	Air conditioning, garbage disposals, carpet, laundry facilities, outdoor courtyard, garden area, patio, community room.
Wade D. Mertz Towers	Wade D. Mertz Associates	South Mercer Ave. Sharpsville Mercer County	Elderly	103	Wessex Corporation West Middlesex, PA	8/1/79	3,095,000	Air conditioning, garbage disposals, carpet, laundry facilities, solarium, patio areas, outdoor sitting area, horseshoe pits, game tables.
Marion Terrace	Hannover Associates	Kings Road Hanover Township Luzerne County	Family	200	Ambler Construction Company, Inc. Glenside, PA	8/1/79	5,800,000	Air conditioning, garbage disposals, carpet, laundry facilities, play area w/equipment, picnic area w/equipment.
Allied Terrace	Allied Associates of Scranton	Morgan Highway Scranton Lackawanna County	Elderly	121	S.G. Mastriani Co. Scranton, PA	8/1/79	4,200,000	Air conditioning, garbage disposals, carpet, laundry facilities, lounge, outdoor sitting area, multipurpose room with kitchen and fireplace, TV lounge, recreation room, arts and crafts room.
Valley View Gardens	Valley View Gardens Limited Partnership	20th Street New Brighton Beaver County	Family	120	Searights Construction Company Trenton, N.J.	8/1/79	3,710,000	Air conditioning, garbage disposals, carpet, laundry facilities, basketball court, playground with equipment, clubhouse.
Isaac Robb Manor	Claridge Associates	Water & Robertson Sts. West Newton Westmoreland County	Elderly	127	H.B. Alexander & Son, Inc. Harrisburg, PA	8/1/79	3,800,000	Air conditioning, garbage disposals, carpet, laundry facilities, community room, outdoor sitting area, solarium, shuffleboard.
Pheasant Hill Estates	Pheasant Hill Estate Associates	Linglestown Rd. & North Progress Ave. Susquehanna Township Dauphin County	Elderly	172	S & A Building Corporation Harrisburg, PA	11/1/79	4,900,000	Air conditioning, garbage disposals, carpet, laundry facilities, community building (including billiards room and activity room), shuffleboard, wooded walking area, outdoor sitting area.
K. Leroy Irvis Towers	Bedford-Crawford Associates	Bedford & Crawford Sts. Pittsburgh Allegheny County	Elderly	191	Mellon-Stuart Company Pittsburgh, PA	2/1/80	6,440,000	Range, refrigerator, air conditioning, kitchen exhaust fan, garbage disposals, carpet, rods and liners.
Forest Green Estates	Housing Affiliates, Inc.	Arthur Avenue West Mead Township Crawford County	Family	100	NADCO Pittsburgh, PA	2/1/80	3,405,000	Range, refrigerator, air conditioning, kitchen exhaust fan, garbage disposals, carpet.
Chemung View Apartments	Housing Affiliates	North & Chestnut Sts. Athens, Bradford County	Elderly	101	Grosek & Sons, Plains, PA	1/1/80	3,250,000	Garbage disposals, air conditioning, community room, laundry room, utility room, carpet, drapes.



These federal subsidies are limited, however, and PHFA must compete for them with other housing producers. It is hoped that during 1979, the Agency's record in the Rental Housing Program will result in an increase in Section 8 allocations from HUD so that it may continue to provide more quality housing for Commonwealth citizens. This process will allow more deserving Pennsylvanians to leave substandard or inadequate housing, often housing they cannot afford, sooner. PHFA's productivity also means that those families need not spend years awaiting the completion of paperwork required to construct subsidized housing through financing sources other than the Agency.

Construction Loan Programs

In 1978, the Agency financed eight new Section-8-subsidized apartment developments, containing 1093 units with construction financing provided by its Construction Loan Programs. To date, PHFA has made construction loans of \$175,537,300 for 44 developments representing 6,569 units. The Agency has three individual programs under the grouping of Construction Loan Programs. These are the Construction Loan Program, the Rural Construction Loan Program and the Turnkey Construction Loan Program. A brief description of each follows:

Construction Loan Program

PHFA makes construction loans insured by the U.S. Federal Housing Administration (FHA) under the National Housing Act of 1937, as

amended, for rental developments pursuant to agreements with an originating mortgagee. PHFA finances the loans by issuing construction mortgage notes. The mortgages are subject to a commitment from the Government National Mortgage Association (GNMA) or the Federal National Mortgage Association (FNMA) to purchase the mortgage upon final endorsement by the FHA. Most of these developments are subsidized or assisted under the Federal Section 8 or Section 236 programs. As of December 31, 1978, the Agency made 44 loans under this program containing 6,806 units and had \$154,660,250 in construction mortgage loan notes outstanding. To date, twelve developments financed under this program have been completed and GNMA has purchased the related construction loans.

Rural Construction Loan Program

These loans are made on rental developments under the Farmers' Home Administration Rural Rental Housing Program, established under Section 515 of Title V of the Housing Act of

1949. These developments are also provided with interest subsidies by the Farmers' Home Administration. PHFA requires 100% payment and performance bonds to assure completion of construction but there is no insurance from the Farmers' Home Administration of construction advances. Upon satisfactory completion of construction, the FHA pays the PHFA 100% of all construction advances pursuant to the commitment. PHFA has financed three projects under this program; all have been completed. There are presently no notes outstanding under this program.

Turnkey Construction Loan Program

PHFA has undertaken a program of providing construction financing for "turnkey" developments through the sale of turnkey construction mortgage loan notes. Through this program, a development is constructed by private developers pursuant to a contract with a local housing authority and HUD. Although there is no insurance on mortgage loan advances under this program, there are 100% payment and

performance bonds to assure completion of construction. Upon satisfactory completion of the development, the local housing authority is obligated to purchase the development for the contract price. The proceeds of the purchase are used in part to repay the Agency's construction mortgage loan. HUD is obligated to provide the local housing authority with funds to purchase the development after its completion. PHFA has financed one development through this program and presently there are no notes outstanding under the program.

Through its Rental Housing and Construction Loan Programs, PHFA has made mortgage loans aggregating approximately \$443,997,300 to provide financing for 118 developments totalling 16,391 individual dwelling units.

PHFA Credit Rating Reflects Fiscal Soundness

At year-end 1978, PHFA bonds were rated A+ by Standard & Poor's and A-1 by Moody's Investors Service, Inc., with respect to Section 8 multi-family

rental mortgage loans financed by the Agency. This is an unusual distinction among state agencies, which are usually assigned lower ratings than their parent states. PHFA is the only housing finance agency in the U.S. with a rating equal to or better than its parent state. The Agency's construction mortgage-loan notes are rated MIG-1, the highest rating awarded by Moody's.

On December 28, 1978, the Agency's Board of Directors approved the sale

of \$2.4 million of bonds. The proceeds of this sale completed the repayment of the Commonwealth's loan. The Agency also paid \$1.1 million interest on that loan. The Agency's current credit rating is indicative that the faith shown by the State Government which supported PHFA in its time of need was appropriate and deserved.

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

Date	Amount	Developments Financed	Approximate Effective Interest Rate	Units
July, 1975	\$23,775,000	5 Developments	8.17%	872
April, 1976	58,260,000	14 Developments	7.90%	2,173
September, 1976	84,905,000	20 Developments	7.69%	2,647
March, 1977	32,900,000	9 Developments	6.69%	1,008
July, 1977	91,925,000	Advance Refunding	6.55%	—
October, 1977	24,350,000	5 Developments	6.43%	751
January 1, 1978	1,575,000	1 Development	5.88%	87
April, 1978	83,000,000	19 Developments	6.73%	2,188
July, 1978	23,000,000	Advance Funding	7.39%	—
December, 1978	60,500,000	Advance Funding	7.53%	—

New Developments Financed Under the Construction Loan Programs - 1978

Name	Mortgagor	Location	Builder	Units	Estimated Completion	Mortgage Loan Amount
Mount Vernon Apartments	Mt. Vernon Manor Associates Philadelphia, PA	33rd & Mt. Vernon Sts. Philadelphia, PA Philadelphia County	Berel Company Glenside, PA	124	February 1981	\$ 2,448,000
Carmichael Arbors	Carmichael Arbors Associates New York, NY	Liberty Street & Cranberry Alley, Carmichael, PA Greene County	McAnallen Corp. Washington, PA	75	April 1979	2,114,500
Cumberland Elderly Housing	Cumberland Elderly Housing Associates Harrisburg, PA	Lisburn Road Lower Allen Township, PA Cumberland County	H.B. Alexander and Son, Inc. Harrisburg, PA	101	November 1979	3,009,800
American Postal Workers House	American Postal Workers House Philadelphia, PA	8th & Locust Streets Philadelphia, PA Philadelphia County	Bedwell and Sons West Chester, PA	300	August 1980	10,465,500
Wister Townhouse Apartments	Wister Associates Upper Darby, PA	Collum & Wakefield Sts. Philadelphia, PA Philadelphia County	Wister Building Associates Upper Darby, PA	200	May 1980	7,317,400
West Poplar Apartments	West Poplar Associates Upper Darby, PA	12th & Wallace Streets Philadelphia, PA Philadelphia County	West Poplar Building Associates Upper Darby, PA	140	July 1980	4,939,850
Downingtown Senior Citizen Housing	St. James Place Associates Wilmington, DE	Pennsylvania Avenue & St. James Circle Downingtown, PA Chester County	Leon N. Weiner & Associates, Inc. Wilmington, DE	40	November 1979	1,180,200
Stenton Arms Apartments	Stenton Arms Associates Philadelphia, PA	Belfield & Sprague Sts. Philadelphia, PA Philadelphia County	Schnabel Associates Harleysville, PA	113	October 1979	980,000

Staffing: A Commitment to Service

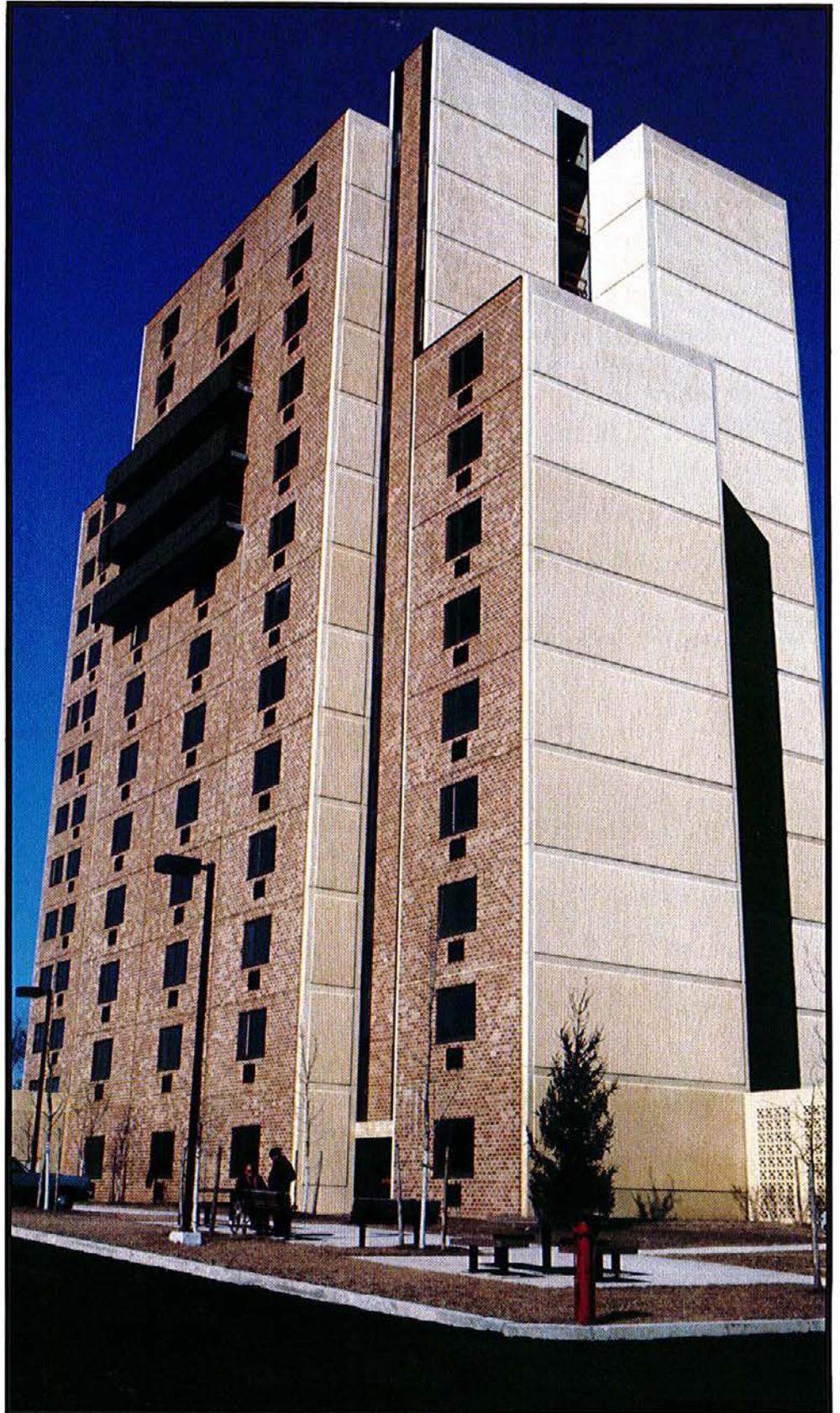
PHFA is composed of seven basic divisions: Executive, Development, Technical Services, Management, Finance, Legal, and Mortgage Servicing. As of year-end 1978, the staff totalled 81 persons, including 63 professionals with responsibilities in the areas of finance, law, market analysis, architecture, engineering, cost estimating, housing management, construction inspection and mortgage underwriting.

The Executive Division is responsible for the overall management of the agency and its programs, including the equal opportunity and affirmative action functions.

The Development Division is primarily charged with reviewing sites, locations and housing demand. In addition, this staff analyzes potential sites for financial feasibility and evaluates all loan applications. The purpose of these analyses, which result in recommendations to the PHFA Board, is to make sure that the Agency underwrites and finances the best housing possible in locations which are appropriate both in terms of need and which present sound risk from an underwriting point of view.

The registered architects, engineers and support staff of the Technical Services Division review and approve architectural plans and specifications, architectural requirements, construction estimates, utility analysis and other factors related to construction cost estimates.

The Management Division is responsible for monitoring the mortgagors' success in the rental of apartment units, maintenance of the developments and continuing compliance with



1. Robert Stinson Towers
Chester, Delaware County



2

2. Barrier-free architecture meets the special housing needs of residents at Erie Independence House.

3. The recreation center at the B'nai B'rith Apartments Reading, Berks County

4. Hershey Plaza
Derry Township, Dauphin County

5. Lehigh Coal and Navigation Building
Jim Thorpe, Carbon County



4



3



5

Agency, HUD requirements and tenant qualification policies. PHFA's connection with its developments continues after the construction is completed; this division regularly audits the records of each development to ensure that it is operating on a sound fiscal basis and within PHFA regulations and guidelines.

The Management Division also oversees the resident management agent's selection of tenants to ensure that PHFA's equal opportunity goals are met and that all applicants are treated fairly. The division also reviews all financial operations of each development, including rent patterns and increases.

The Finance Division maintains all financial records and supervises the custody, investment and disbursement of funds. The division also has general responsibility for the servicing and payment of Agency bonds and notes. This staff works closely with the Agency's bond underwriters and investment banker, to build the innovative financing packages described elsewhere in this report.

The Legal Division provides legal services for the Agency relative to all its programs and operations, including opinions relating to the issuance of bonds and notes. Legal is responsible for coordinating underwriting activities, closing mortgages and coordinat-

ing activities of outside counsel, bond counsel and underwriter's counsel.

The Mortgage Servicing Division handles supervision of construction loan programs and disbursements of loan proceeds under the Agency's other programs. They prepare escrow analyses and schedules of advances in connection with FHA-insured construction loan developments. In addition, they review the cost certifications prepared by independent Certified Public Accountants.

This division also approves payouts and change orders on all developments.

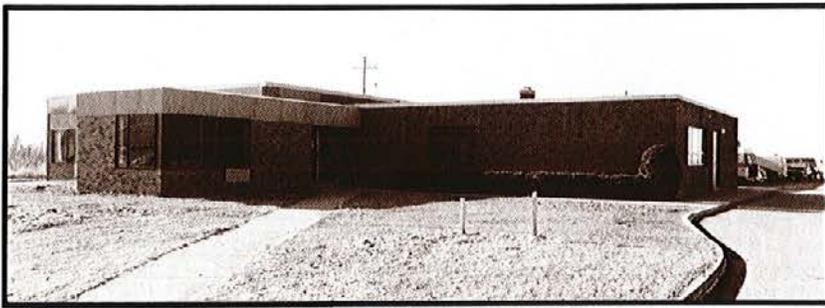
**Pennsylvania Housing Finance Agency
Rental Housing Program
Occupancy Report**

PROJECT & MORTGAGE AMOUNT	COUNTY	INITIAL OCCUPANCY DATE	NUMBER OF DWELLING UNITS				MINORITY OCCUPANCY
			TOTAL	CERTIFIED	LEASED	OCCUPIED	
Blairsville House \$1,450,000	Indiana	12/74	87	87	87	87	1
Marlboro Place \$1,345,000	Luzerne	4/75	76	76	74	74	2
Plaza Apartments \$2,225,000	Lebanon	5/75	128	128	109	109	5
Squires Manor \$2,412,058	Allegheny	4/75	132	132	119	119	9
Meadowick Village \$7,050,000	Montgomery	6/75	273	273	242	237	41
Edwardsville Village \$4,950,000	Luzerne	7/75	252	252	244	244	7
Williamsburg Estates \$7,050,000	Dauphin	8/75	312	312	309	309	30
Temple University \$2,000,000	Philadelphia	9/75	82	82	82	82	30
Cumberland Court \$2,365,000	Dauphin	8/75	108	108	104	104	83
Shields Building \$625,000	Allegheny	11/75	30	30	30	30	5
One Buttonwood Square \$10,220,000	Philadelphia	10/75	304	304	282	282	47
Wimmerton \$1,819,966	Westmoreland	11/75	100	100	84	82	4
Hilltop Apartments \$2,945,000	Allegheny	11/75	152	152	142	142	78
Markvue Apartments \$563,000	Westmoreland	12/75	35	35	35	35	1



Pennsylvania Housing Finance Agency
 Rental Housing Program
Occupancy Report

PROJECT & MORTGAGE AMOUNT	COUNTY	INITIAL OCCUPANCY DATE	NUMBER OF DWELLING UNITS				MINORITY OCCUPANCY
			TOTAL	CERTIFIED	LEASED	OCCUPIED	
Rolling Hills \$6,250,000	Montgomery	1/76	232	232	225	225	54
777 Court Street \$2,463,152	Berks	4/76	90	90	90	90	3
Delaire Landing \$3,845,000	Philadelphia	6/76	180	180	165	165	28
Fairfax Apartments \$3,965,000	Allegheny	6/76	233	233	225	229	17
First Valley Bank \$6,500,000	Luzerne	7/76	211	211	209	209	1
Riverview Park \$3,250,000	Allegheny	7/76	168	168	165	164	17
Queen Village II \$1,180,000	Philadelphia	7/76	51	51	50	50	8
Bellefield Dwellings \$4,330,000	Allegheny	4/76	158	158	158	158	82
Beaver Falls Plaza \$3,800,000	Beaver	2/77	120	120	120	120	13
Allentown \$4,195,000	Lehigh	5/77	160	160	158	158	8
Pennsylvanian \$2,655,000	Erie	7/77	112	112	112	112	10
Pocono Creek \$2,265,000	Monroe	7/77	100	100	99	99	4
Millersville Manor \$2,875,000	Lancaster	7/77	121	121	121	121	4
Galilee Village \$2,785,000	Bucks	8/77	120	120	120	120	4
Ten East South \$4,370,000	Luzerne	8/77	130	130	95	95	2
Simpson Manor \$3,510,000	Fayette	9/77	126	126	117	117	37
Tyrone Elderly \$2,495,000	Blair	10/77	100	100	99	99	2
Barclay Village \$2,335,000	Franklin	11/77	86	86	81	81	32

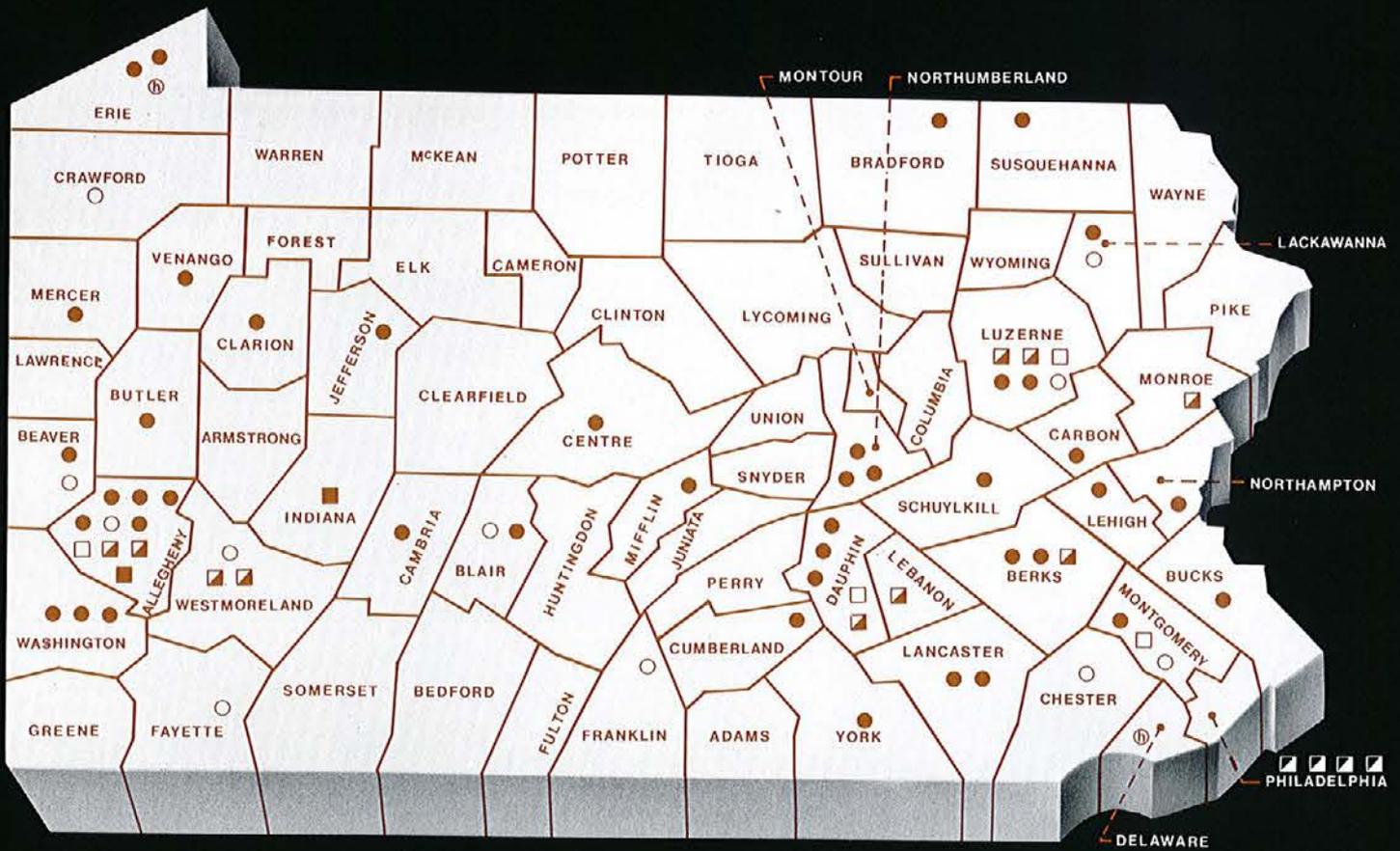


Pennsylvania Housing Finance Agency
 Rental Housing Program
Occupancy Report

PROJECT & MORTGAGE AMOUNT	COUNTY	INITIAL OCCUPANCY DATE	NUMBER OF DWELLING UNITS				MINORITY OCCUPANCY
			TOTAL	CERTIFIED	LEASED	OCCUPIED	
Franklin Arbors \$2,365,000	Venango	5/78	88	88	87	87	2
Hershey Plaza \$7,245,000	Dauphin	5/78	215	215	215	215	4
Mount Carmel \$2,700,000	Northumberland	5/78	100	100	99	99	0
Hazlewood \$2,520,000	Luzerne	6/78	100	94	76	74	1
B'nai B'rith \$4,910,000	Berks	6/78	175	175	173	173	9
Thomas Campbell \$2,255,000	Washington	6/78	75	75	75	75	7
Coal Township \$2,860,000	Northumberland	6/78	101	101	73	73	0
Prince Street \$6,266,666	Lancaster	7/78	201	201	200	200	19
Robert Stinson \$4,840,000	Delaware	7/78	150	150	149	149	69
Kish Apartments \$3,725,000	Mifflin	8/78	141	141	140	140	1
Carson Towers \$4,210,000	Allegheny	12/78	133	120	6	6	1
Butler Arbors \$3,050,000	Butler	11/77	120	120	119	119	0
Scranton Townhouse \$5,655,000	Lackawanna	12/77	160	160	146	146	29
Tyrone Family \$1,520,000	Blair	1/78	50	50	49	49	1
Delphia House \$3,050,000	York	1/78	104	104	103	103	18
Mahoning Towers \$2,450,000	Jefferson	1/78	101	101	100	100	0
Easton Elderly	Northampton	2/76	98	98	97	95	6
Canon House \$3,165,000	Washington	2/78	104	104	103	103	11
Sencit Towne House \$5,135,000	Berks	3/78	201	201	200	199	14
Philipsburg \$2,705,000	Centre	5/78	102	102	101	101	0

Housing Developments Financed by the Pennsylvania Housing Finance Agency.

Section 8	Other
●	■ elderly
○	□ family
	▣ general occupancy
Ⓜ	handicapped



Affirmative Action a Reality at PHFA

While PHFA's Affirmative Action staff is technically a section of the Agency's Executive Division, the dual principles of affirmative action and equal opportunity apply to all agency activities from utilization of minority professionals, subcontractors, suppliers and vendors to the management, staffing and occupancy of completed units.

Approximately 13% of all families residing in PHFA-financed units at year-end 1978 are minority persons. The agency strives to achieve racial and economic balance in all of its housing and to encourage minority developers to participate in its lending programs.

The PHFA staff itself reflects a commitment to equal employment opportunity. Of full-time employees, minority persons make up 21% of professionals and 24% of the clerical staff. Women make up 47% of the Agency's staff, including 34% of its professional employees.

PHFA Seeks to Assist Single-Family Homeowners

In 1978, the General Assembly failed to pass enabling legislation which would have allowed PHFA to participate in lending programs which would provide financing for single-family homes at lower costs and downpayment requirements to deserving Commonwealth citizens. It is hoped that Commonwealth lawmakers will give serious consideration to a new bill, scheduled for introduction in early 1979.

The proposed legislation would allow PHFA to finance single-family home ownership under two programs, the "Loans to Lenders Program" and the "Mortgage Purchase Program."

"Loans to Lenders" would permit the Agency to make mortgage loans to Commonwealth residents by lending lower interest mortgage money to existing lending institutions. These institutions, in turn, could relend to individual borrowers, allowing them to purchase homes at mortgage interest

rates considerably below the market and with a downpayment requirement of 5%.

The "Mortgage Purchase Program" would permit PHFA to buy first mortgages on new or existing single-family homes in Pennsylvania at below-market rates. Qualifying residents whose mortgages are purchased by PHFA would receive lower rates from existing lending institutions, as well as a 5% downpayment requirement.

Both of these programs would be implemented with proceeds from PHFA sales of tax-exempt revenue bonds. Like PHFA's current programs, the single-family financing proposed in the new legislation will not require any appropriation by the General Assembly; nor will it increase the tax burden on Pennsylvania citizens. In making mortgage loans through existing lending institutions, PHFA will reduce the cost to qualifying families because no new or expanded bureaucratic structure will be created to service the mortgage loans; the framework, in effect, has been created; the Agency seeks only the opportunity to utilize it more effectively. For those who obtain mortgages, the loan amount under the proposed legislation is limited to the HUD-insured maximum mortgage loan limits established by Congress.

PHFA has proved itself a national leader in producing federally assisted multi-family rental housing. It is also the undisputed leader in the production of such housing in the Commonwealth. In its five-year history, PHFA has provided financing for 16,000 apartment units, creating at least as many construction related jobs for state residents. More than \$3,000,000 in real estate taxes are currently being paid to localities where PHFA developments are located. And PHFA's financial track record is highly esteemed in the financial community—the Agency has the experience, trained personnel, and the fiscal solvency to responsibly and competently manage programs that provide single-family housing for Pennsylvanians. Most important, the proposed programs would provide badly-needed housing assistance. Studies estimate that more than 250,000 state families cannot afford housing at current rates and downpayments. Were these proposals made

into law, residents could purchase homes with downpayments of 5%, compared to the 20% required by conventional lending practices and at rates lower than the current 10+% interest rates.

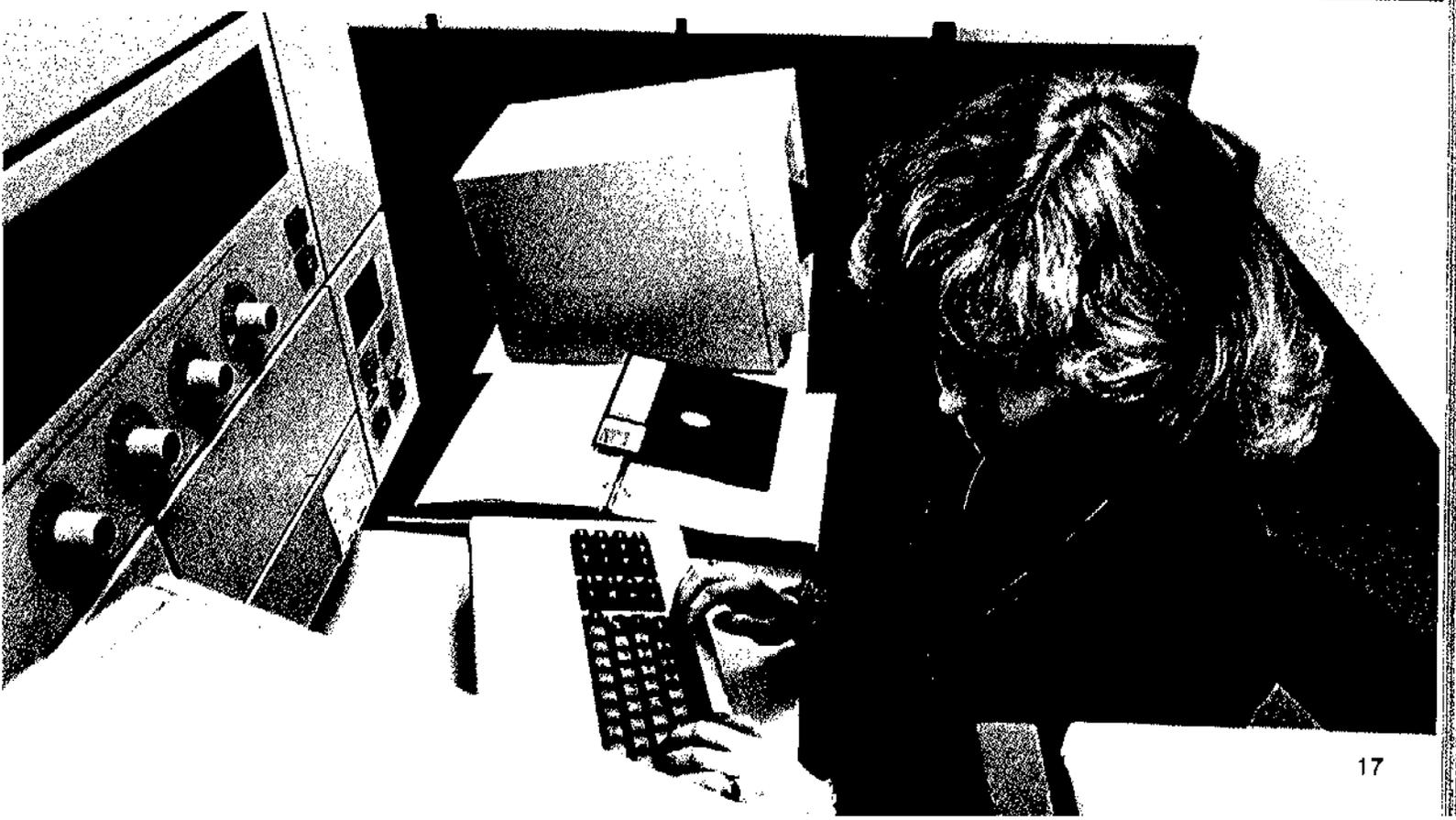
PHFA has every hope that the General Assembly will give serious attention to these proposals in 1979 and make it possible for PHFA to expand its chartered goal of making safe, decent housing an affordable reality for Pennsylvanians.

Perspective: The First Five Years

PHFA has come a long way in its initial five year operating period. The Agency's primary goal for the coming year is to continue the work it was created to do: to provide financing for the construction of quality housing developments for a broad cross section of Pennsylvania citizens. In addition, the Agency will assist in efforts to successfully enact legislation that will provide lower interest mortgage funds to Pennsylvanians who desire to purchase and own their own homes.

Another objective for 1979 is to further strengthen PHFA's relationship with the financial community; continued favorable recognition by credit rating agencies, combined with a record of prudent financial management, will make it possible for PHFA to receive a greater allocation of Section 8 subsidies in 1979. Finally, the Agency will work toward the development of programs directed to non-profit and limited profit developers across the state, so that they may participate in PHFA programs and help meet Pennsylvania's continuing housing needs.

*PHFA's staff is
committed to service*



PHFA STAFF

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William Cleveland
Deputy Director of Operations
Mildred Williams
Executive Assistant
Olivia Peck
Director of Affirmative Action
Phillip Friday
Director of Public Information & Legislative Affairs
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Prevailing Wage Technician
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Emma Woodyard
Clerk-Typist

Derrick Donnell
Administrative Clerk-Typist
Kristine Frey
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Kim Petrone
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Gayle Swigart
Legal Secretary II



Cynthia Park
Legal Secretary II
Carrie Ramsey
Legal Secretary I

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Marcia Caruso
Management Budget Analyst II
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Raymond Friend
Senior Management Representative
Jerome Flood
Senior Management Representative
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Management Representative
Kathy Price
Management Representative
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Ramona Cook
Management Representative
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Auditor

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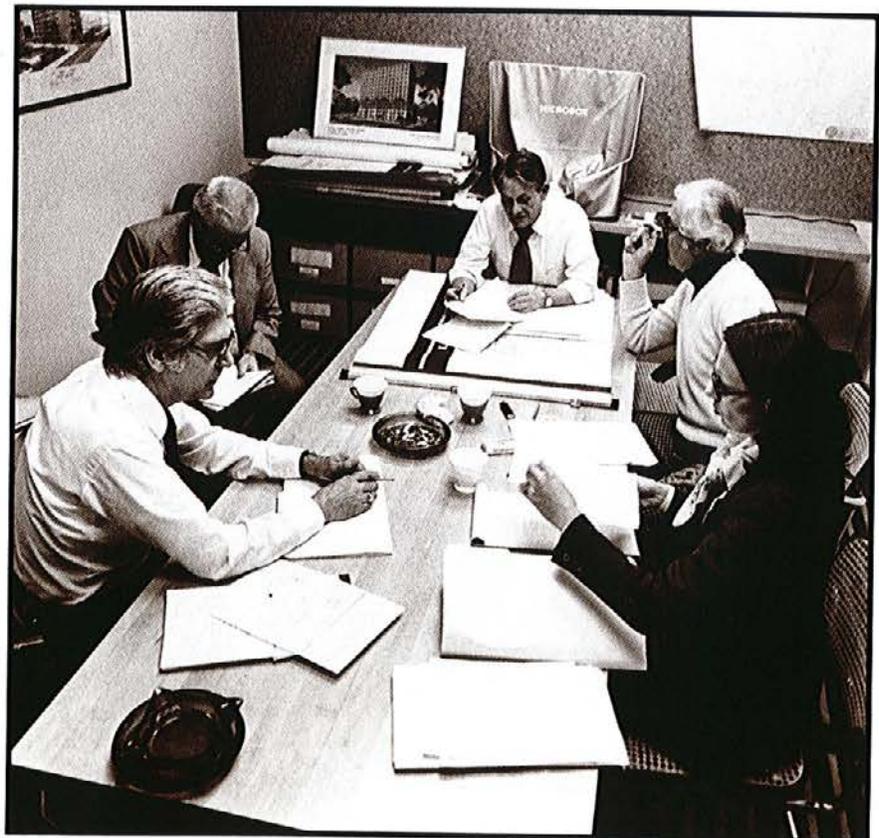
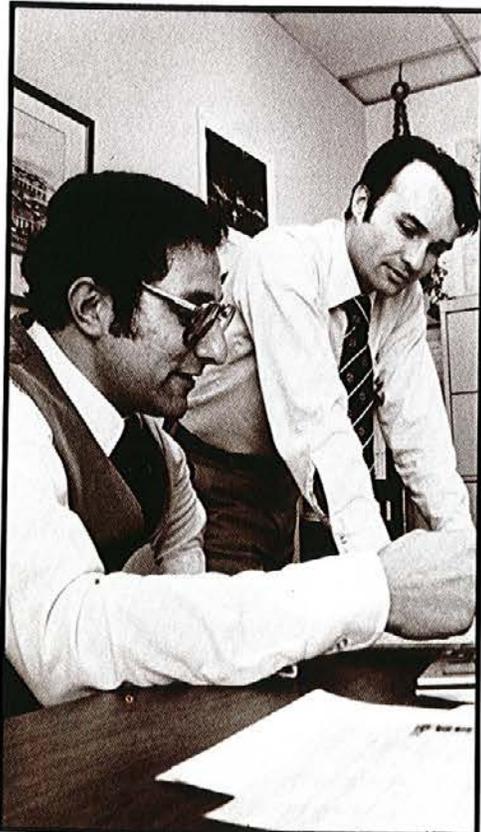
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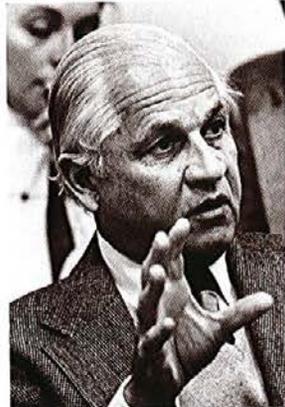
Hon. William R. Davis
Secretary of Community Affairs



Hon. William R. Davis

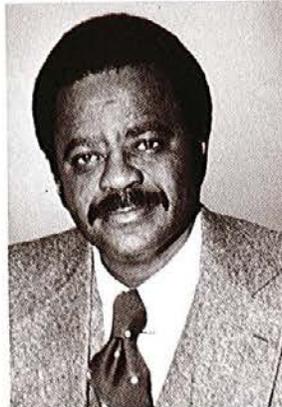
Vice Chairman

Mr. Walter G. Arader
President
Walter G. Arader & Associates



Mr. Walter G. Arader

James A. Lineberger, Esquire
Director of Community Relations
District Attorney's Office



James A. Lineberger, Esquire

Mr. John H. Miller, Jr.
President, John Hobart Miller, Inc.



Mr. John H. Miller, Jr.



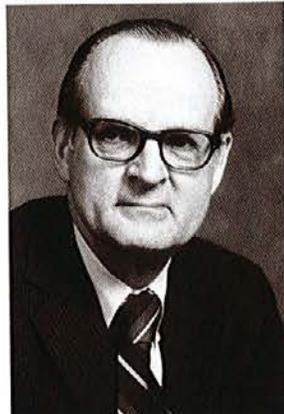
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Hon. Robert E. Casey

Mrs. Nancy Neuman
Vice President
League of Women Voters
of the United States

Mr. Herman Silverman
Chairman of the Board
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Secretary of Banking

Hon. James F. Bodine
Secretary of Commerce

Hon. Robert E. Casey
State Treasurer

Secretary

Mrs. Mildred D. Williams
Pennsylvania Housing Finance Agency

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UNDERWRITERS**

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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

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Industrial Valley Bank and Trust Company
National Central Bank

Paying Agents
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Continental Illinois National Bank
and Trust Company of Chicago
Chemical Bank
First National Bank of Chicago
Morgan Guaranty Trust Co.
Bankers Trust Co.

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Central Penn National Bank
Commonwealth National Bank
Equibank, N.A.
First National Bank of Allentown
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
Pittsburgh National Bank
Provident National Bank

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, 1978 and 1977, and the related statements of revenues, operating expenses and 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, 1978 and 1977, 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 changes, with which we concur, in the methods of accounting as described in notes 4 and 5 to the financial statements, have been applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

Harrisburg, Pennsylvania
September 25, 1978

Balance Sheets

June 30, 1978 and 1977

	1978				1977			
	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	\$ 52,392	—	4,365	56,757	—	171,065	229,197	400,262
Marketable securities	4,723,159	49,458,859	137,832,938	192,014,956	5,282,483	78,271,499	96,086,020	179,640,002
Mortgage loans receivable held as investments	171,566	—	886,490	1,058,056	180,025	—	996,041	1,176,066
Mortgage loans receivable (note 6)	—	—	99,765,949	99,765,949	—	—	48,473,932	48,473,932
Construction advances (note 6)	—	59,786,831	79,120,316	138,906,947	—	36,864,377	66,687,470	103,551,847
Furnishings, fixtures and equipment	113,082	—	—	113,082	92,190	—	—	92,190
Other real estate	—	1,933,132	—	1,933,132	—	—	—	—
Deferred and other assets (notes 5 and 8)	226,857	321,027	11,606,155	12,154,039	37,201	187,582	1,369,850	1,594,633
Due from other funds	2,273,884	—	—	2,273,884	1,743,696	—	—	1,743,696
	<u>\$ 7,560,940</u>	<u>111,499,649</u>	<u>329,216,213</u>	<u>448,276,802</u>	<u>7,335,595</u>	<u>115,494,523</u>	<u>211,842,510</u>	<u>334,672,628</u>
Liabilities and Fund Balances								
Notes payable (note 7)	\$ —	105,023,967	2,000,000	107,023,967	—	112,492,977	4,958,475	117,451,452
Accrued interest	—	1,037,040	6,592,511	7,629,551	—	1,577,541	4,912,346	6,489,889
Accounts payable and accrued expenses	139,855	—	1,218,777	1,358,632	121,272	—	915,535	1,036,807
Other liabilities	—	1,616,860	2,275,476	3,692,336	—	267,739	2,089,554	2,357,293
Deferred revenue (note 4)	212,575	—	—	212,575	—	—	—	—
Bonds payable (note 8)	—	—	310,332,475	310,332,475	—	—	193,869,299	193,869,299
Due to other funds	—	1,443,263	830,621	2,273,884	—	50,455	1,693,241	1,743,696
Total liabilities	<u>352,430</u>	<u>109,121,130</u>	<u>323,249,860</u>	<u>432,723,420</u>	<u>121,272</u>	<u>114,388,712</u>	<u>208,458,452</u>	<u>322,968,436</u>
Fund balances (note 8)	7,208,510	2,378,519	5,966,353	15,553,382	7,214,323	1,105,611	3,384,058	11,704,192
	<u>\$ 7,560,940</u>	<u>111,499,649</u>	<u>329,216,213</u>	<u>448,276,802</u>	<u>7,335,595</u>	<u>115,494,523</u>	<u>211,842,510</u>	<u>334,672,628</u>

See accompanying notes to financial statements.
 Certain reclassifications for 1977 have been made to conform to classifications adopted in 1978.

Statements of Revenues, Operating Expenses and Changes in Fund Balances

Years ended June 30, 1978 and 1977

	1978				1977			
	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
Revenues:								
Interest income:								
Investments.....	\$ 225,327	3,985,939	5,628,161	9,839,427	156,498	2,694,480	4,997,309	7,848,287
Mortgage loans receivable (note 6).....	—	—	6,951,193	6,951,193	—	—	1,606,033	1,606,033
Construction advances (note 6).....	—	2,480,645	5,481,844	7,962,489	—	2,795,271	6,337,815	9,133,086
Mortgage loans receivable held as investments, net.....	9,896	—	55,169	65,065	6,550	—	68,819	75,369
Total interest income.....	235,223	6,466,584	18,116,367	24,818,174	163,048	5,489,751	13,009,976	18,662,775
Fees and charges (note 4).....	3,809,218	—	—	3,809,218	4,221,856	—	—	4,221,856
Other.....	22,697	32,767	3,267	58,731	20,311	—	—	20,311
Total revenues.....	4,087,138	6,499,351	18,119,634	28,686,123	4,405,215	5,489,751	13,009,976	22,904,942
Operating expenses:								
Interest on notes (note 7).....	—	4,415,018	206,880	4,621,898	—	4,028,974	877,967	4,906,941
Interest on bonds (note 8).....	—	—	16,497,163	16,497,163	—	—	11,501,484	11,501,464
Salaries and related benefits.....	1,551,728	—	—	1,551,728	1,169,164	—	—	1,169,164
Other general and administrative.....	1,016,045	—	—	1,016,045	732,917	—	—	732,917
Provision for potential loan losses (note 6).....	20,000	—	300,000	320,000	—	229,000	100,000	329,000
Total operating expenses.....	2,587,773	4,415,018	17,004,043	24,006,834	1,902,081	4,257,974	12,479,431	18,639,486
Excess of revenues over operating expenses before the cumulative effect of changes in accounting principles.....	1,479,365	2,084,333	1,115,591	4,679,289	2,503,134	1,231,777	530,545	4,265,456
Cumulative effect of changes in accounting principles (notes 4 and 5).....	(786,480)	—	—	(786,480)	161,571	—	157,051	318,622
Excess of revenues over operating expenses.....	692,885	2,084,333	1,115,591	3,892,809	2,664,705	1,231,777	687,596	4,584,078
Intertund transfers (note 8).....	(698,698)	(768,006)	1,466,704	—	1,970,710	(1,747,411)	(223,299)	—
Refund of excess investment income.....	—	(43,619)	—	(43,619)	(20,453)	(34,275)	(369,548)	(424,276)
Fund balances at beginning of period.....	7,214,323	1,105,811	3,384,058	11,704,192	2,599,361	1,855,720	3,289,309	7,544,390
Fund balances at end of period.....	\$ 7,208,510	2,376,519	5,966,353	15,553,382	7,214,323	1,105,811	3,384,058	11,704,192

See accompanying notes to financial statements.
 Certain reclassifications for 1977 have been made to conform to classifications adopted in 1978.

Pennsylvania Housing Finance Agency
Statements of Changes in Financial Position

Years ended June 30, 1978 and 1977

	1978				1977			
	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
Sources of funds:								
From operations:								
Excess of revenues over operating expenses before the cumulative effects of changes in accounting principles	\$ 1,479,365	2,084,333	1,115,591	4,679,289	2,503,134	1,231,777	530,545	4,265,456
Items which do not use (provide) funds:								
Depreciation	15,996	—	—	15,996	38,501	—	—	38,501
Provision for potential loan losses	20,000	—	300,000	320,000	—	229,000	100,000	329,000
Amortization of premium and discount, net	1,910	256,815	573,970	832,695	(1,484)	231,447	262,831	492,794
Funds provided from operations	1,517,271	2,341,148	1,989,561	5,847,980	2,540,151	1,692,224	893,376	5,125,751
Cumulative effect of changes in accounting principles	(786,480)	—	—	(786,480)	161,571	—	157,051	318,622
Inter-fund transfers	(698,698)	(768,006)	1,466,704	—	1,970,710	(1,747,411)	(223,299)	—
Bond proceeds	—	—	196,233,970	196,233,970	—	—	113,804,319	113,804,319
Mortgage principal payments	—	22,688,700	272,613	22,961,313	—	27,902,258	135,274	28,037,532
Change in:								
Cash	—	171,065	224,832	395,897	—	960,098	407,268	1,367,366
Investments	557,413	28,794,284	—	29,351,697	—	—	—	—
Mortgage loans receivable held as investments	—	—	109,551	109,551	—	—	191,457	191,457
Inter-fund accounts	—	1,392,808	—	1,392,808	—	—	1,557,362	1,557,362
Notes payable	—	—	—	—	—	47,683,911	—	47,683,911
Accrued interest payable	—	—	1,680,163	1,680,163	—	—	2,615,820	2,615,820
Other assets and liabilities, net	4,615	—	—	4,615	84,379	31,335	1,634,785	1,750,499
Total	\$ 594,121	54,619,999	201,977,394	257,191,514	4,756,811	76,522,415	121,173,413	202,452,639
Uses of funds:								
Refund of excess investment income	\$ —	43,619	—	43,619	20,453	34,275	369,548	424,276
Investment in construction advances and mortgage loans receivable	—	45,610,954	66,297,476	111,908,430	—	18,108,817	43,633,389	61,742,206
Bonds defeased (note 8)	—	—	80,005,034	80,005,034	—	—	—	—
Change in:								
Cash	52,392	—	—	52,392	—	—	—	—
Investments	—	—	41,828,348	41,828,348	3,248,972	57,720,441	53,802,545	114,771,958
Mortgage loans receivable held as investments	11,541	—	—	11,541	97,462	—	—	97,462
Inter-fund accounts	530,188	—	662,620	1,392,808	1,364,812	192,550	—	1,557,362
Notes payable	—	7,707,469	2,960,000	10,667,469	—	—	21,834,999	21,834,999
Accrued interest payable	—	540,501	—	540,501	—	392,482	—	392,482
Other assets and liabilities, net	—	717,456	10,023,916	10,741,372	25,112	73,850	1,532,932	1,631,894
Total	\$ 594,121	54,619,999	201,977,394	257,191,514	4,756,811	76,522,415	121,173,413	202,452,639

See accompanying notes to financial statements.
 Certain reclassifications for 1977 have been made to conform to classifications adopted in 1978.

**Notes
to Financial
Statements**

June 30, 1978 and 1977

- (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. 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 and 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) **Description of Fund Groups**
- (a) **GENERAL FUND**
The General Fund is utilized to record certain loan origination fees, service charges and revenue from investments not otherwise pledged for the repayment of notes or bonds in the other funds. All expenses of the Agency are recorded in this fund except interest and provisions for loan losses which are charged to the funds to which such expenses relate.
- (b) **CONSTRUCTION LOAN FUND**
The Construction Loan Fund is primarily utilized to account for transactions related to the making of construction advances on developments insured by the Federal Housing Administration. Also, these developments are generally subject to permanent loan commitments from the Federal or Government National Mortgage Associations.
- (c) **RENTAL HOUSING PROGRAM GROUP**
The Rental Housing Program Group is utilized to account for transactions related to construction, rehabilitation and permanent financing of rental housing developments generally designed for low and moderate income persons and families or elderly persons.
- (3) **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.
- (b) **MARKETABLE SECURITIES**
Marketable securities consist of collateralized certificates of deposit, savings accounts, U.S. Treasury bills and U.S. Government securities held under repurchase agreements, and are carried at amortized cost which approximates market value.
- (c) **MORTGAGE LOANS AND CONSTRUCTION ADVANCES**
Mortgage loans and construction advances are carried at amounts advanced plus accrued interest and fees, less collections and allowance for potential loan losses, if any.

- (d) **ALLOWANCE FOR POTENTIAL LOAN LOSSES**
The allowance for potential loan losses is based primarily upon the current financial condition of the loan portfolio. Additions to the allowance are made by charges to operating expense.
- (e) **FURNISHINGS, FIXTURES AND EQUIPMENT**
Furnishings, fixtures and equipment 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.
- (f) **LOAN INTEREST AND FEES**
Loan financing fees, service fees and interest charges on construction advances during the construction period are generally capitalized as part of the loan. Financing fees are recognized as revenue as described in note 4.
- (g) **MORTGAGE ORIGATION COSTS**
Costs related to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and construction advances are charged to operations in the General Fund as incurred.
- (h) **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 effective yield 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 effective yield method.
- (4) **Change in Method of Accounting For Loan Financing Fees**
The Agency generally charges a "financing fee" at the initial closing of a construction loan. In prior years, financing fees were recognized at such time. Effective July 1, 1977, the Agency changed its policy to defer the recognition of revenue relative to the portion of a fee in excess of 1% of the loan commitment and began recognizing such excess over the estimated construction period. The Agency believes such method results in a better matching of revenues with expenses. This change affected only fees related to loans of the Rental Housing Program Group. The effect of the change in the year ended June 30, 1978 was to decrease the "excess of revenues over operating expenses before cumulative effect of changes in accounting principles" of the General Fund by approximately \$322,000. The cumulative effect of \$786,480 in the General Fund to apply the new method retroactively is included in the "excess of revenues over operating expenses" of the General Fund for the year ended June 30, 1978. The pro-forma "excess of revenues over operating expenses" assuming the new method had been in use in the General Fund during the year ended June 30, 1977 is \$2,053,710.
- (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 changes in accounting principles" 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 the "excess of revenues over operating expenses" in the respective funds for the year ended June 30, 1977.

(6) **Mortgage Loans Receivable and Construction Advances**

The mortgage loans receivable and construction advances are secured by first mortgages on the related properties. Construction loan advances and commitments at June 30, 1978 are at interest rates from 6.00% to 9.50%. Rental Housing Program Group mortgage loans carry interest rates from 6.14% to 9.33% with repayment terms of 18 to 45 years.

As of June 30, 1978, the Agency had made firm mortgage commitments aggregating approximately \$26,500,000 in the Construction Loan Fund and \$72,900,000 in Rental Housing Program Group in excess of principal amounts included in the balance sheet as construction advances and mortgage loans receivable.

Activity in the Agency's allowance for potential loan losses on construction advances and mortgage loans is summarized as follows:

	Years ended June 30,			
	1978		1977	
	Construction Loan Fund	Rental Housing Program Group	Construction Loan Fund	Rental Housing Program Group
Balance at July 1	\$ 355,000	157,000	126,000	57,000
Provision for potential loan losses	—	300,000	229,000	100,000
Amounts charged off	—	—	—	—
Balance at June 30	\$ 355,000	457,000	355,000	157,000

Certain Rental Housing Program Group developments financed by the Agency receive subsidies under various Federal programs, while substantially all construction advances in the Construction Loan Fund are insured by the Federal Housing Administration (FHA). A summary of construction advances and mortgage loans receivable as of June 30, 1978 follows:

	June 30, 1978		
	Mortgage Loans Receivable	Construction Advances	
	Rental Housing Program Group	Rental Housing Program Group	Construction Loan Fund
Uninsured mortgage loans to developments which receive or will receive rent or interest subsidies from the U.S. Government	\$ 53,485,636	79,120,316	—
Uninsured and unsubsidized mortgage loans receivable	46,737,313	—	—
Mortgage loans insured by FHA	—	—	60,141,631
	100,222,949	79,120,316	60,141,631
Allowance for potential loan losses	457,000	—	355,000
	\$ 99,765,949	79,120,316	59,786,631

(7) **Notes Payable**

(a) **CONSTRUCTION LOAN FUND**

The Agency issues various notes for construction financing which are secured by the full faith and credit of the Agency and by all funds received in repayment of construction advances. Notes payable as of June 30, 1978 and 1977 aggregated \$105,023,967 and \$112,492,977, respectively. Interest rates on the notes were from 3.10% to 4.63% at June 30, 1978 and from 3.00% to 5.75% at June 30, 1977 with required principal payments of \$49,298,067, \$53,268,225 and \$2,457,675 in the years ending June 30, 1979, 1980 and 1981, respectively.

(b) **RENTAL HOUSING PROGRAM GROUP**

Outstanding notes payable in the Rental Housing Program Group as of June 30, 1978 and 1977 were \$2,000,000 and \$4,958,475, respectively, and carried interest rates of 6.00% at June 30, 1978 and 3.97% to 7.75% at June 30, 1977. The notes outstanding as of June 30, 1978 are payable to the Commonwealth of Pennsylvania and do not have a scheduled maturity.

(8) **Bonds Payable**

Bonds have been issued to provide financing of mortgage loans under the Rental Housing Program. The bonds are direct and general obligations of the Agency. The full faith and credit of the Agency are pledged for the repayment of all the bonds issued. The bonds are secured by:

- (a) The mortgages securing mortgage loans made on the related permanently financed developments;
- (b) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans made on permanently financed developments; and
- (c) Certain funds and accounts established pursuant to the bond indentures including the investment of the bond proceeds.

These security covenants, together with covenants in note payable agreements, in effect restrict substantially all assets of all funds for debt-related purposes.

Bonds issued and outstanding are as follows:

Issue	Approximate Effective Interest Rate	Final Maturity	Amount Outstanding June 30,	
			1978	1977
Rental Housing Program Bonds:				
1975 Series A	8.17%	2021	\$ —	23,775,000
1976 Series A	7.90	2023	—	58,260,000
Residential Development Bonds:				
Issue A	7.69	2019	84,905,000	84,905,000
Issue B	6.69	2020	32,900,000	32,900,000
Issue 1977 (Refunding)	6.55	2023	91,925,000	—
Issue C	6.43	2020	24,350,000	—
Issue D	6.73	2021	83,000,000	—
Section 23 Assisted Bonds:				
Issue 1977A	5.88	1995	1,575,000	—
			318,655,000	199,840,000
Unamortized bond discount			(8,322,525)	(5,950,701)
			\$310,332,475	193,889,299

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 mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal payments related to the above bonds for the five years commencing July 1, 1978 are as follow:

<u>Year ending June 30,</u>	<u>Principal</u>
1979.....	\$ 760,000
1980.....	1,180,000
1981.....	1,890,000
1982.....	1,950,000
1983.....	<u>2,050,000</u>

Residential Development Bonds Issue 1977 were issued to defease the Rental Housing Program Bonds 1978 Series A and 1975 Series A. The proceeds of the new issue were used to purchase U.S. Treasury obligations 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; the difference between the carrying amounts of the new and the previously outstanding bonds of \$10,884,468 is reflected as a deferred asset net of \$230,182 in amortization in the accompanying June 30, 1978 balance sheet and is being 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 being passed through to mortgagors whose loans secure the new bonds.

Terms of the refunding required the establishment of a "Development Reserve Account" in the Rental Housing Program Group. The Account has been established by the transfer of \$1,400,000 from the General Fund assets and fund balance to the Rental Housing Program Group. The assets of this Account, although held by the Agency, are pledged to the projects securing the new bonds for the term of the developments' mortgage loans.

(9) **Pension Plans**

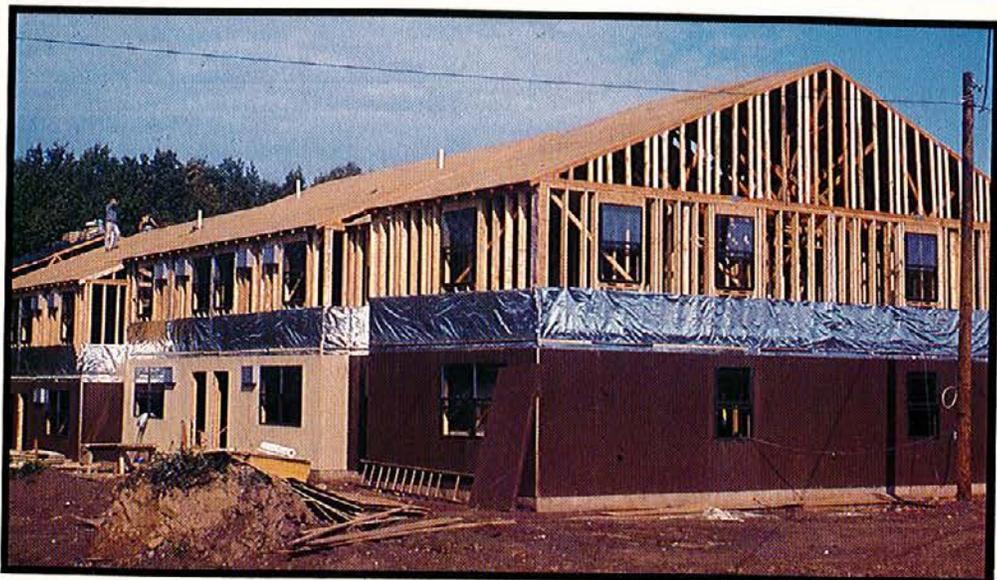
All employees are covered by a contributory pension plan. Employee contributions of 2% of annual gross wages are combined with the Agency's contributions to fund the benefits expected to become payable as determined by actuarial valuation. Total pension expense was \$102,253 in 1978 and \$100,061 in 1977.

(10) **Subsequent Events**

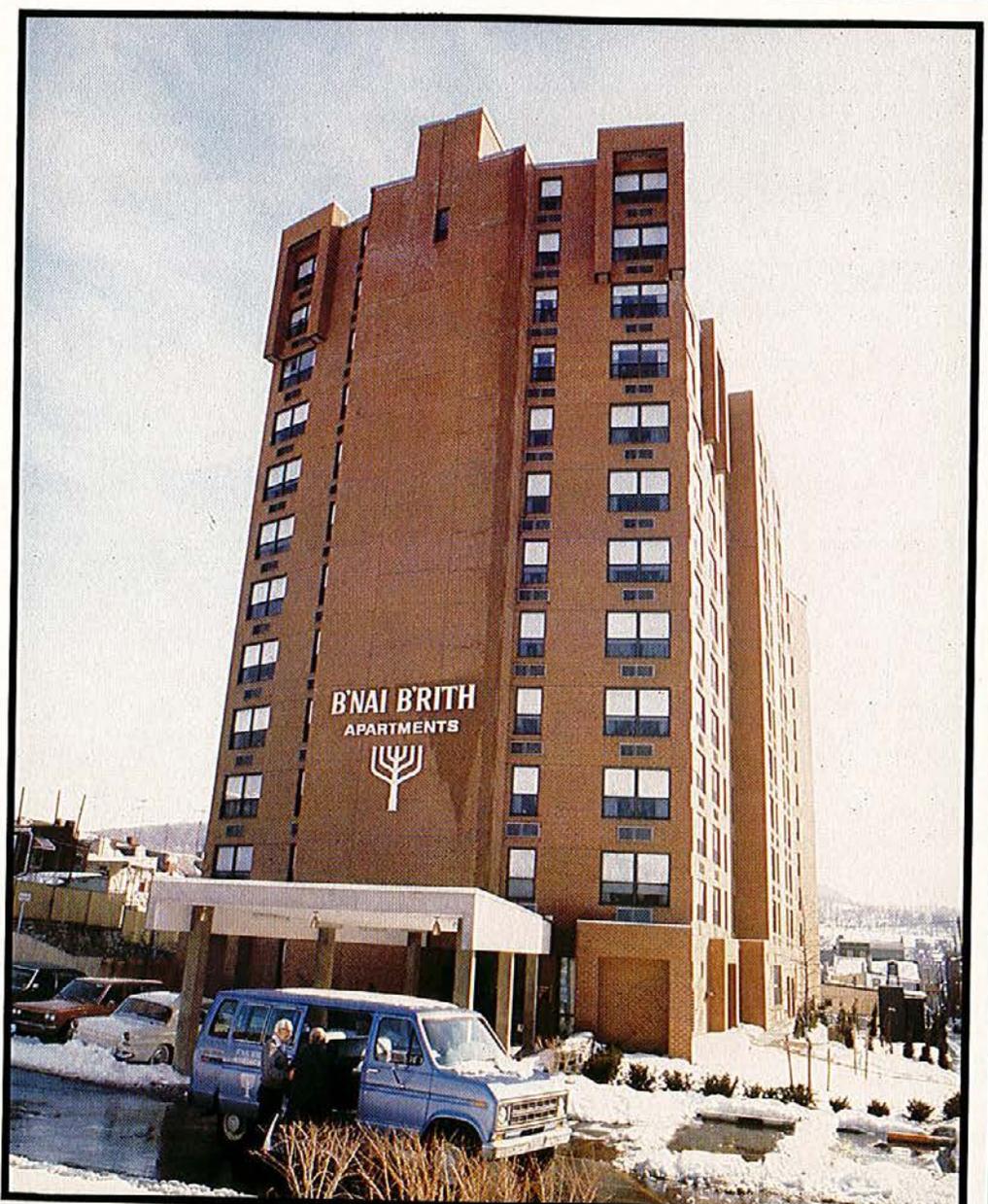
On July 21, 1978, the Agency issued \$23,000,000 Residential Development Bonds, Issue E. The bonds were issued to provide funds to finance mortgage loans on residential developments and to make a deposit in the capital reserve fund established for the bonds.

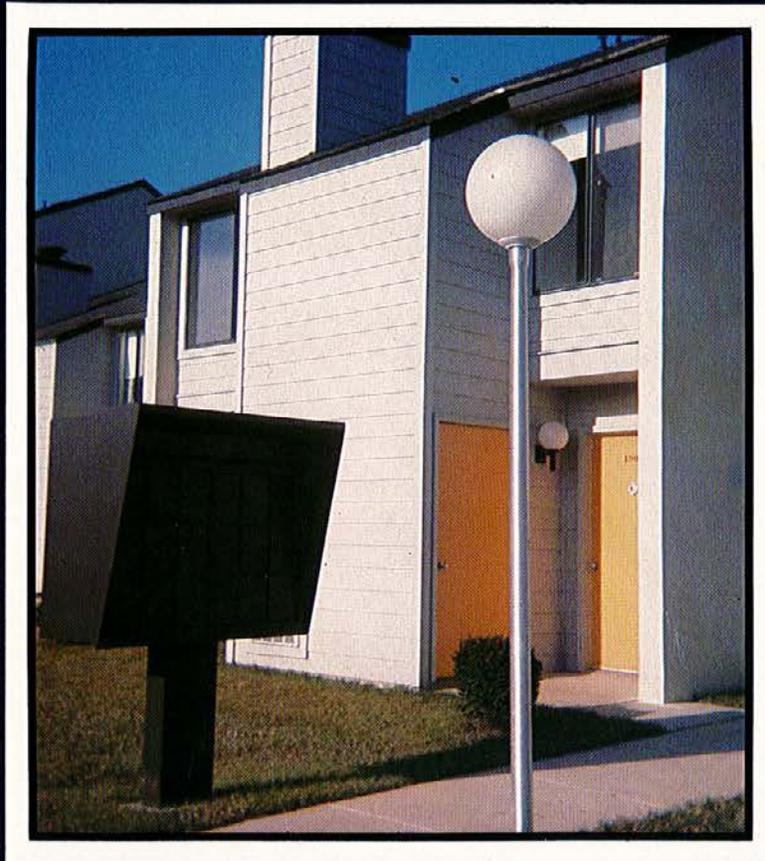
The Agency has issued approximately \$21,235,000 of new or renewal Construction Mortgage Loan Notes in various issues dated July 6, 1978 and September 1, 1978. The proceeds of the note issues were used to provide funds for construction financing for several FHA-insured multi-family rental housing developments for which the Agency does not intend to provide permanent financing.

*Park Springs Family Development
East Vincent Township,
Chester County*



*B'nai B'rith Apartments
Reading, Berks County*





Meadowick Village, Whitpain Township, Montgomery County

**Pennsylvania
Housing Finance Agency**

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