Pennsylvania Housing Finance Agency

1982 Annual Report

Governor's Message

When I assumed office, a major goal of my administration was to help create conditions which would enable Pennsylvania and its people to meet their housing needs. This goal was made clear in the fashioning and continuing implementation of a pioneering "Pennsylvania Housing Policy", the first in our state's history. Integral to that policy is the work of the Pennsylvania Housing Finance Agency (PHFA).

Progress has been made on two equally important fronts: single and multi-family housing for our citizens. Since 1979 PHFA has financed 138 multi-family developments totalling 11,244 units. Mortgage money provided through these PHFA efforts has totalled $446,351,314.

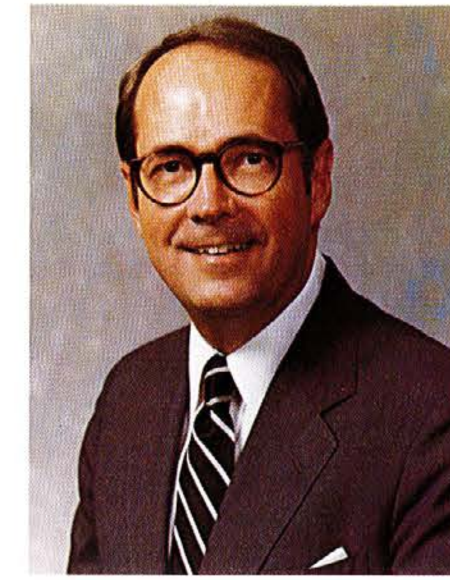
These projects pay municipal and school district real estate taxes. Total real estate taxes generated by the Housing Finance Agency's efforts is $4,868,652 per year. When taken over the 30 year life of the mortgages, these developments will have generated local taxes totalling nearly $150 million.

PHFA's financing accounts for more than just buildings and local taxes. It creates jobs. In construction employment alone, agency-financed developments have provided 9,288 jobs for Pennsylvania workers.

After the projects are built, other permanent jobs are created. Since 1979, PHFA-financed developments have been supporting 562 full-time jobs.

With the advent of the PHFA's single-family program, which I inaugurated and the General Assembly extended in 1982, we now are providing lower than conventional rate mortgages to many Pennsylvania citizens who had been kept out of the housing market because of high interest rates and expensive down-payment requirements. Under this program, the Housing Finance Agency has sold $215 million worth of bonds for financing home mortgages at below-market rates. These sales will finance more than 5,300 homes for the Commonwealth's first-time home-buyers and provide a needed boost to the state's housing industry. In addition, this program has placed a new emphasis on the rehabilitation of older homes in Pennsylvania, along with the construction of new ones.

As the Pennsylvania Housing Finance Agency enters its second decade of service, it will be expected to remain an integral part of our effort to provide safe, decent and affordable housing, as well as productive jobs, for Pennsylvanians throughout this Commonwealth.



Dick Thornburgh
Governor

Chairperson's Message

The tenth year of the Pennsylvania Housing Finance Agency's existence was a landmark year. It was the first year the Agency made funds available to finance single family owner-occupied housing. It was the first year the Agency made contributions from its general fund to keep interest costs down and the production of housing at an all time high. It marked an expansion of the Board's role in the management of Agency financed projects, thus insuring that quality housing will continue to be a hallmark of PHFA.

During fiscal 1982, the Agency sold $47.14 million of bonds to finance multi-family rental housing. During this same period the Agency issued $100 million of single family mortgage revenue bonds which it anticipates will finance approximately 2,000 below market rate mortgages for first time homebuyers in the Commonwealth. At the same time the Agency sold $75.76 notes for construction loans for multi-family rental jobs such as turnkey public housing, Farmers Home Administration, subsidized rental housing and 221(d)4's. The Agency has been able to issue bonds at favorable rates, despite uncertain marketing conditions, thus allowing it to finance dwellings that would otherwise not have been built in the Commonwealth.

Realizing the changing nature of federal involvement in multi-family rental housing, PHFA's Board of Directors, working with the Governor's office, began encouraging the state legislature to expand the Agency's authority into single family housing. In December of 1981, the legislature passed House Bill 930 and Governor Thornburgh's signature on December 31 made the Agency's new program a reality. In January of 1982, the Agency began developing the guidelines and necessary program details to allow it to issue its first single family mortgage revenue bonds. By early April market conditions allowed PHFA to sign a purchase contract for $100 million of bonds bearing a net interest cost to the Agency of 13.73%. This action provided participating lending institutions with the ability to originate 30 year fixed-rate mortgages.

Under the Single Family Program, the Housing Finance Agency will finance mortgages for first-time homebuyers with up to a 95% loan-to-value ratio and in some cases using VA insurance up to 100%. This program is a valuable asset to the Commonwealth's real estate and home construction business because it allows new construction as well as existing homes to be purchased. The $100 million issue sold by the Agency to finance its first purchase of home mortgages was but the initial step in a program to assist hard-pressed homebuyers. In August the Agency sold a second issue which will allow substantial rehabilitation of houses as well as purchases of new and existing homes.

Having made fruitful use of the Section 8 rental assistance program, PHFA during fiscal year 1982 processed 35 applications to finance 2592 units of multi-family rental housing for low income families, handicapped persons and elderly individuals that will be built during the ensuing months. PHFA attempts to select from a host of applications the sites that best address the need for housing within the Commonwealth. The Agency is selective in its approval process. The ratio of approved applications to submitted ones is approximately 20-1. This selectivity assures investors in PHFA bonds that the projects will be carefully under-

written, well built and properly managed for the duration of the mortgage. Such actions also assure residents of PHFA-financed developments that their homes will be decent places to live for a long period of time.

Looking forward to 1983, the Agency will continue to expand its single family activity and explore new multi-family possibilities, always keeping in mind the needs of the marketplace and the potential for success that lies before us.

Shirley M. Dennis
Chairperson

Executive Director's Message

Productivity has been the most obvious feature of PHFA's activity this past year. Some of these activities are:

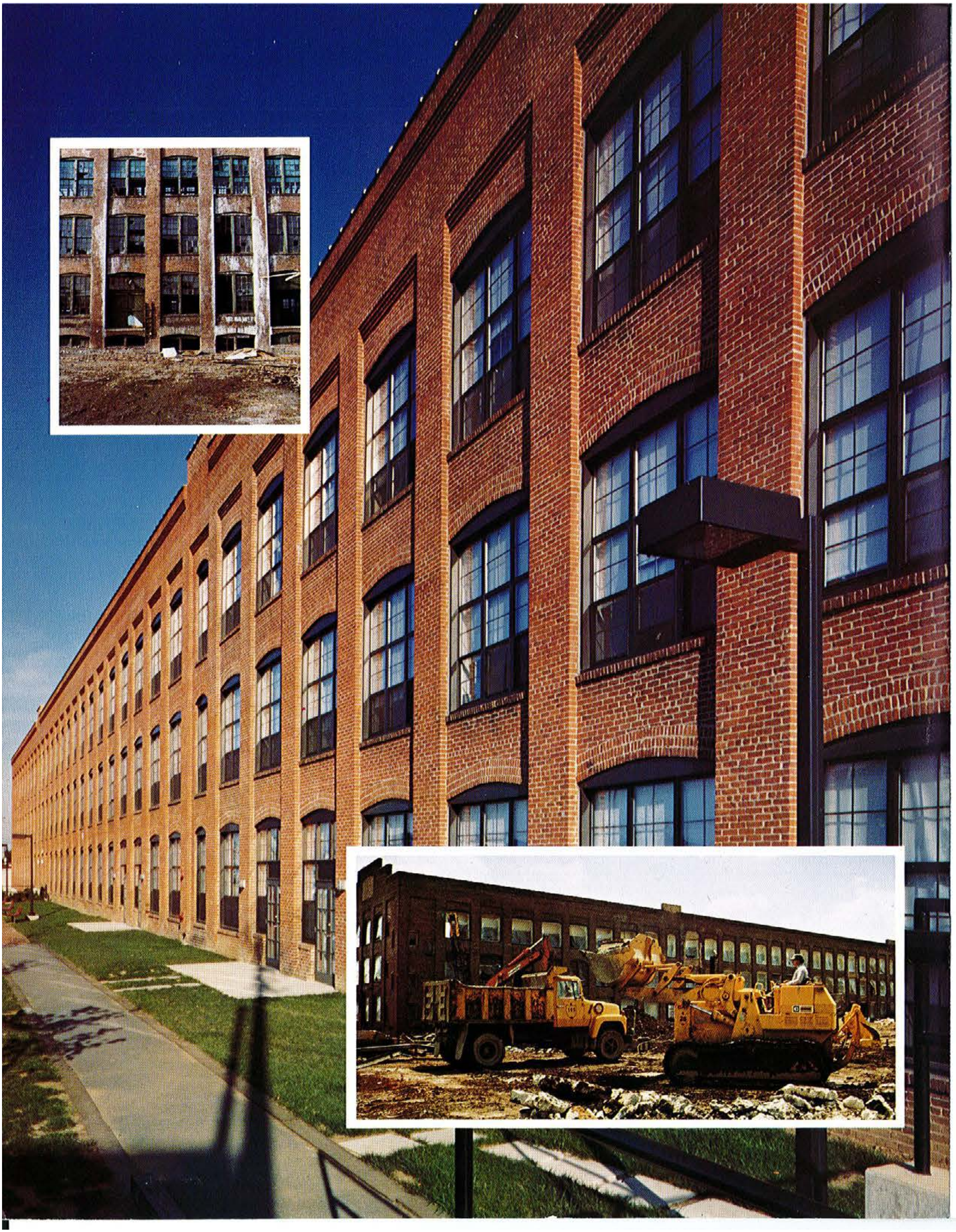
- Legislative passage and implementation of the PHFA Single-Family Program.
- Movement by Agency to close 35 Section 8 developments, including 8 FHA insured projects in formerly unserved areas of Philadelphia and Pittsburgh.
- Sale of first $100 million single-family mortgage revenue bonds and $47,140,000 of multi-family bonds.
- Sale of $75,755,000 multi-family mortgage loan notes to finance its construction loan program.
- Introduction of efficiencies including a new field office in Pittsburgh and upgrading of electronic data processing capabilities.
- Aggressive, but safe investments to protect Agency bond issues against short-term negative arbitrage.

PHFA's Single-Family Program comes at a time when federally assisted housing efforts are decreasing. After receiving legislative authority to engage in a homeownership program, the Agency moved rapidly to sell $100 million of Mortgage Revenue Bonds. PHFA's Single-Family Program is essentially this:

- The Agency accepts advance commitments from participating banks to originate mortgages at a rate that will be established by a subsequent bond sale.
- After selling bonds, banks originate and sell mortgages to the Agency.
- Eligible mortgagors are generally first-time homebuyers with average family incomes of approximately $24,000.
- Homebuyers living in target areas established by the U.S. Treasury Department and PHFA, may have previously owned a house, but are subject to purchase prices that have been designated by the U.S. Treasury.
- To protect its investment against arbitrage while bond proceeds are flowing into mortgages, PHFA invests in high yielding short-term securities. This feature shields PHFA against the necessity to call bonds.

The 1982 Annual Report outlines some of the Agency's programs and activities. PHFA enters its eleventh year of business in a strong, financially secure position that will allow it to continue to serve the needs of the Commonwealth.

Karl C. Smith
Acting Executive Director



The Agency

The Pennsylvania Housing Finance Agency is a public corporation of the Commonwealth created in 1972 to promote the financing of rental housing for families of low and moderate income, as well as the elderly and handicapped. Since its inception, PHFA has financed 24,974 units of multi-family rental apartments in 191 municipalities. This record of achievement has been reached through financing provided by the Agency's permanent financing program and its construction loan program.

On December 31, 1981, Governor Thornburgh signed HB 930 (Act 176 of 1981), which authorized PHFA for the first time to finance single-family, owner-occupied housing. On April 7, 1982, PHFA sold its first $100 million of single-family mortgage revenue bonds, and in August another issue of $115 million was sold. With the single-family program now firmly in place, the Agency remains a very important housing provider in the Commonwealth.

Such accomplishments could not have occurred without the active support of the Governor's office, the General Assembly, a dedicated Board of Directors and a highly-qualified professional staff committed to meeting the housing needs of the Commonwealth's citizens.

The members of the Agency's Board of Directors are the Secretary of Community Affairs, who serves as Chairperson, the Secretaries of Banking and Commerce, the State Treasurer and six members appointed by the Governor subject to the advice and consent of the State Senate. Each appointed member serves a term of six years.

The Agency's Board is charged with broad policy making authority. They are supported by a staff of 122 including 106 professionals trained in law, finance, market analysis, management, construction inspection, cost estimating, architecture, engineering and mortgage underwriting.

Housing finance is a complex business. To simplify and streamline the process, PHFA is organized into several divisions.

The Executive Division oversees the management of the Agency which includes responsibility for personnel, administration, public information and legislative affairs.

Eight other divisions make up the remainder of the Agency's work force:

- The Affirmative Action Division is responsible for equal opportunity programs, affirmative action within the Agency and on Agency-financed developments, prevailing wage compliance and fair housing practices.
- The Construction Division is responsible for inspecting PHFA developments during the construction and guaranty periods and for reviewing and approving contractor's cost certification.
- The Development Division is responsible for site location and review, program research and implementation, feasibility analysis and mortgage underwriting.
- The Finance Division maintains the Agency's financial records, supervises the custody, investment and disbursement of PHFA funds, maintains the escrow for Agency developments and has general responsibility for servicing and payment of Agency securities.
- The Legal Division serves as PHFA's general counsel and is responsible for closing the Agency's mortgage loans.
- The Management Division oversees the rental occupancy and maintenance of the Agency's financed housing developments.
- The Mortgage Servicing Division supervises disbursements of loan proceeds for all Agency programs.
- The Technical Services Division insures that developments are properly underwritten according to PHFA architectural, engineering and construction cost estimating standards.

During the past year the Agency has opened a field office near Pittsburgh to allow its staff to better supervise the construction and management of its multi-family developments. Also, the Agency's data-processing capabilities have been upgraded with the addition of an IBM System 38 computer. This addition will allow PHFA to more effectively control its various housing programs.

Pennsylvania has an abundance of fine old buildings that are admirably suited for use as housing. The Cable House in York was once a factory that produced industrial rope and chain. Imaginative redesign created an apartment building that is now home for 83 families. Its rehabilitation was financed by a PHFA loan.

Agency Programs

Multi-family Housing

The Rental Housing Permanent Loan Program

Under the Rental Housing Program, the Agency makes loans for new construction or substantial rehabilitation of housing designed for low and moderate income families, handicapped individuals and elderly persons. Agency loans are secured by a first mortgage lien on real property or on a leasehold estate. Low and moderate income persons or families are those who, without the assistance of the Agency, cannot afford to pay for decent, safe and sanitary housing available from private enterprise. A mortgage loan may be made by the Agency in an amount not greater than 90% of the cost of the development in the case of a for-profit mortgagor and in an amount not to exceed 100% of the cost of the development for non-profit sponsors.

The Agency limits the for-profit mortgagor's return on investment to 8% per annum. All for-profit mortgagor distributions must be approved by the Agency and are made at the end of the development's fiscal year. Such distributions are made only after all expenses including debt service, taxes and escrows, the conditions of the regulatory agreement, building loan agreement, and mortgage have been satisfied by the mortgagor. It is possible that mortgagors will receive distributions less than the 8% permitted by statute.

The Agency has made mortgage loans under this program as of June 30, 1982 in the aggregate amount of $463,063,245 to provide permanent financing for a total of 14,975 units.

To PHFA, a decent place to live is more than four walls. It is direct contact with the larger community, safety and security, and the knowledge that in moments of need, someone cares.

Rental Housing Construction Loan Financing Program

The Agency has undertaken additional rental housing programs under which it provides construction loan financing only. These are the Construction Loan Program, the Rural Construction Loan Program and the Turnkey Construction Loan Program.

Permanent financing for developments financed by the Agency under these programs is provided by various federal agencies upon completion of construction. PHFA's assurances of permanent financing are subject to different factors for each program, but in all cases include timely and satisfactory completion of construction and execution of required documentation. The notes to finance these programs are direct and general obligations of the Agency to which the full faith and credit of the Agency is pledged. None of the monies, assets, funds or accounts, including the Capital Reserve Fund, which are pledged to the holders of bonds under an indenture, may be used or applied to the payment of the Agency's obligations issued to finance these other programs.

Construction Loan Program

The Agency makes construction loans insured by the United States Federal Housing Administration ("FHA") under the National Housing Act of 1937, as amended, on rental developments pursuant to an agreement with an FHA approved originating mortgagee. The Agency finances the construction mortgage loans for these developments through the issuance of construction mortgage loan notes, and the mortgages are subject to a commitment from the Government National Mortgage Association to purchase the mortgage upon final endorsement by the FHA. As of June 30, 1982, the Agency has made 63 loans under this program, 13 of which are still outstanding. In providing construction loan financing under this program, the Agency may reserve the option to provide permanent financing under the Rental Housing Program, rather than calling on another commitment to purchase the mortgage loan at completion of construction. These loans have assisted in the construction of over 9,000 units in Pennsylvania.

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. The Agency obtains 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 Farmers Home Administration pays the Agency 100% of all construction advances pursuant to the commit-

ment which the Agency received prior to making the loan, subject to the availability of funds. It has been the practice of the Farmers Home Administration to set aside funds for a period of one year prior to making a commitment.

The Agency has made eight loans under this program, with $3,580,000 of notes outstanding. This program has been responsible for 725 apartment units in rural Pennsylvania.

Turnkey Construction Loan Program

The Agency has undertaken a program of providing construction financing for "turnkey" developments through the sale of turnkey construction mortgage loan notes. Under this program, the development is constructed by private developers pursuant to a contract with a local housing authority and HUD. Although there is no insurance of 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 such 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 upon satisfactory completion.

Agency-financed turnkey construction loan notes have assisted several Commonwealth housing authorities to meet the needs of their constituents by providing $42,598,295 to build projects with 1231 apartment units. $38,025,000 million of turnkey notes are outstanding.

While the actual buildings themselves are the most evident aspects of PHFA activities, they are by no means the only benefits to the Commonwealth. Agency financed developments create thousands of construction jobs, offer employment in property management and development related service businesses and add ratables to local government tax rolls.

Single-Family Homeownership Program

Act 176 was signed by the Governor on December 31, 1981, allowing PHFA to sell tax-exempt mortgage revenue bonds. Bond proceeds are used for the purchase of home mortgages from participating lenders. Although PHFA had never administered a single-family program before, it seized the opportunity to aid the housing industry and assist hard-pressed homebuyers. Three months and one week after receiving the legal authority to develop a single family homeownership program, PHFA sold its first $100 million of mortgage revenue bonds. With 56 lenders participating statewide, the Agency was able to finance 30 year, 14.05% fixed rate mortgages for first time homebuyers with a minimum down payment of 5%.

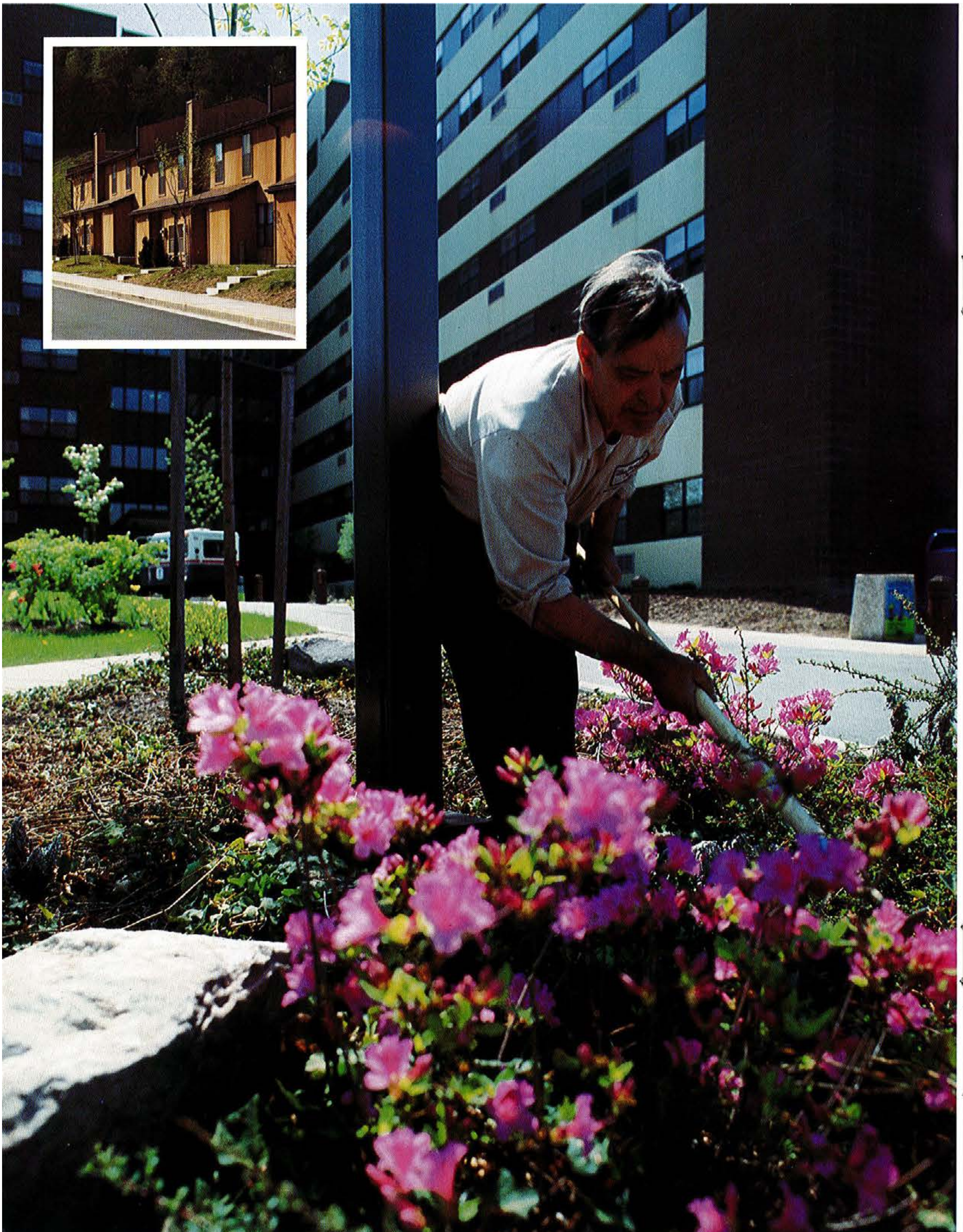
Experience to date has shown the average homebuyer participating in the program earns approximately $22,500, purchases a house costing slightly more than $38,000 and places 15% down.

(PHFA has had a second single-family bond issue, although not in the 1982 fiscal year. The Agency in August sold its second single family bond issue. Proceeds of that $115 million issue make 13.08%, 30 year, fixed-rate mortgage available through 108 participating lending institutions.) In its first issue, the Agency agreed to purchase mortgages for new and existing houses. In the second issue, the program was expanded to include the purchase of mortgages for substantially rehabilitated dwellings.

PHFA intends to continue its single-family program during calendar year 1983. Agency activity in single-family housing beyond that year is dependent on several factors. Of prime importance is an extension by Congress of the "Mortgage Subsidy Bond Tax Act of 1980," which restricts the sale of mortgage revenue bonds for single family housing beyond December 31, 1983. In addition, PHFA's enabling legislation permitting single-family housing must be extended beyond May 31, 1984. If these "sunset" provisions are relaxed the Agency is confident that it can continue to make mortgage financing available to assist housing and related industries while allowing first time homebuyers to recognize their homeownership goals.

Although its direct contribution to Pennsylvania's housing is itself noteworthy, Agency activities benefit Commonwealth citizens in a number of significant ways.

The impact of PHFA-financing on the state's economy is no small factor. Each $1,000,000 of Agency mortgage money creates 18,000 hours of construction work per year. This is the equivalent of nine full-time positions. A sample of 8,000 PHFA financed apartments showed that the average unit is responsible for $433 in local real estate property taxes, and the average 100 unit PHFA-financed development provides approximately 5 full-time site-related permanent positions in administrative,



clerical, accounting and maintenance positions.

As of June 30, 1982, the Agency had made construction and permanent mortgage loans in excess of $820,000,000 to provide financing of 230 developments totalling 26,000 dwelling units. These developments are located in 159 Pennsylvania municipalities in 53 counties. Thus, Agency multi-family financing accounts for more than 14,000,000 man-hours of construction employment or 7,400 jobs, nearly 1,200 full-time post-construction jobs and $11,000,000 of property taxes paid to Commonwealth local governments.

Pennsylvania Housing Finance Agency notes and bonds are perceived as secure investments in the nation's capital markets. PHFA bonds are rated A-1/A+ by the major credit rating agencies. Agency notes are rated MIG-1, the highest rating issued by Moody's Investors Service. Because of this investor confidence, the Agency is a major generator of capital income to Pennsylvania.

Also, by taking the fullest possible advantage of national housing programs, PHFA is able to insure that federal tax dollars are returned to the state. Such tax returns may be in the form of Section 8 rental assistance payments for its multi-family or apartment units for the elderly, Farmers Home Administration permanent mortgage loans for rural rental housing projects which have been built with Agency construction financing, and Federal Housing Administration insurance that has been used in several Agency-financed developments.

PHFA has been an aggressive producer of Section 8 new construction and substantial rehabilitation housing. The Agency has made use of this subsidy program not only to build new apartments across the state, but to act as the agent for the preservation of several fine older structures that have been converted into decent, livable dwellings. Without the Agency's direct involvement in encouraging adaptive reuse, many excellent examples of the state's architectural heritage would have been lost.

As the Agency sees the remaining Section 8 projects it has processed begin construction, it is confident that sound underwriting, on-going management oversight, maintenance supervision, and concern for residents' well-being will insure enduring, affordable dwellings for thousands of citizens.

PHFA-financed developments for elderly persons and families are genuine investments in the community. The Agency's commitment to strong management and preventive maintenance guarantees that the developments' good design and careful underwriting will continue to offer enduring homes for thousands of Pennsylvanians.

The Future

Although the Section 8 program will no longer be subsidizing new multi-family developments, the Agency will continue to seek new, practical methods of producing multi-family housing.

In the interim, the Agency expects to pursue financing single-family housing through the issuance of mortgage revenue bonds. Already the positive benefits of the homeownership programs have begun to show that the homebuilding, real estate and mortgage lending businesses, while depressed, are still resilient and capable of vigorous activity when given an opportunity. The Agency's single-family program has offered many an opportunity that would have otherwise been unavailable.

The Agency's record is a proven one. Its position in the investment and housing communities makes it the ideal vehicle to meet the housing challenges it will face in future years of service.

PHFA Board Members


Hon. Shirley M. Dennis


Mr. Hillard Madway


James A. Lineberger, Esquire

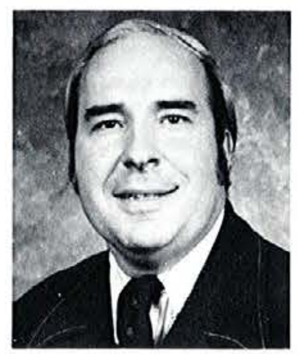

Mr. John H. Miller, Jr.


David A. Murdoch, Esquire


Mr. Herman Silverman


Hon. Ben McEnteer


Hon. Geoffrey Stengel, Jr.


Hon. R. Budd Dwyer


Ronald S. Mintz, Esquire

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Hon. R. Budd Dwyer
State Treasurer

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

Hon. Ben McEnteer, Ex Officio
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Secretary of Commerce

Secretary

Mrs. Carrie Barnes
Pennsylvania Housing Finance Agency

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Co-Managing Underwriters
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Butcher & Singer, Inc.
Elkins & Co.
Janney Montgomery Scott, Inc.
L. F. Rothschild, Unterberg, Towbin
Parker/Hunter, Inc.
Russell, Rea & Zappala, Inc.

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

Bond Counsel
Rose, Schmidt, Dixon & Hasley
Wolf, Block, Schorr and Solis-Cohen

Outside Counsel
Dechert Price & Rhoads
Rhoads, Sinon & Hendershot

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Hamilton Bank
Industrial Valley Bank and Trust
Philadelphia National Bank

Paying Agents
Chase Manhattan Bank, N.A.
Chemical Bank
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Continental Illinois National Bank
and Trust Company of Chicago
First National Bank of Chicago
First Pennsylvania Bank, N.A.
Hamilton Bank
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Depositories
Bank of America, N.T.S.A.
Bank of Pennsylvania
Central Penn National Bank
CCNB, N.A.
Citibank, N.A.
Commonwealth National Bank
Continental Bank of Norristown
Dauphin Deposit Bank and Trust Co.
Equibank, N.A.
First Pennsylvania Bank, N.A.
Hamilton Bank
Home-Unity Savings and Loan Association
Industrial Valley Bank and Trust Company
Mellon Bank, N.A.
Morgan Guaranty Trust Co.
New World National Bank
Philadelphia National Bank
Pittsburgh National Bank
Provident National Bank

Accountant's 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, 1982 and 1981 and the related statements of revenues, 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, 1982 and 1981 and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.

September 27, 1982

Pennsylvania Housing Finance Agency

Balance Sheets

June 30, 1982 and 1981

	1982					1981			
	General Fund	Construction Loan Fund	Rental Housing Program	Single Family Program	Combined Total-Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program	Combined Total-Memorandum Only
Assets									
Investments and cash (note 5)	$ 16,248,331	83,329,866	233,598,684	106,462,338	439,639,219	21,386,090	65,019,077	219,520,071	305,925,238
Mortgage loans receivable (note 6)	833,285	—	345,111,194	790,014	346,734,493	862,054	—	264,119,437	264,981,491
Construction advances (note 6)	—	41,198,756	80,391,445	—	121,590,201	—	64,366,945	115,870,558	180,237,503
Deferred and other assets	728,256	83,405	10,900,805	335,221	12,047,687	671,247	74,767	10,868,637	11,614,651
Due from other funds	391,863	—	—	—	391,863	345,863	—	—	345,863
	$ 18,201,735	124,612,027	670,002,128	107,587,573	920,403,463	23,265,254	129,460,789	610,378,703	763,104,746
Liabilities and Fund Balances									
Notes payable (note 7)	$ —	117,970,031	44,628,652	—	162,598,683	—	120,920,031	44,502,304	165,422,335
Accrued interest payable	—	2,270,555	14,864,030	3,310,830	20,445,415	—	2,820,092	12,298,625	15,118,717
Accounts payable and accrued expenses	385,009	782,645	—	—	1,167,654	1,927,096	—	148,474	2,075,570
Escrows and other liabilities	—	101,810	15,855,033	1,497,004	17,453,847	96,452	1,399,689	15,022,424	16,518,565
Bonds payable (note 8)	—	—	556,813,038	97,519,836	654,332,874	—	—	514,839,300	514,839,300
Due to other funds	—	—	391,863	—	391,863	—	—	345,863	345,863
Total liabilities	385,009	121,125,041	632,552,616	102,327,670	856,390,336	2,023,548	125,139,812	587,156,990	714,320,350
Fund balances (note 8)	17,816,726	3,486,986	37,449,512	5,259,903	64,013,127	21,241,706	4,320,977	23,221,713	48,784,396
	$ 18,201,735	124,612,027	670,002,128	107,587,573	920,403,463	23,265,254	129,460,789	610,378,703	763,104,746

See accompanying notes to financial statements.

Pennsylvania Housing Finance Agency

Statements of Revenues, Expenses and Changes in Fund Balances

Years ended June 30, 1982 and 1981

	1982					1981			
	General Fund	Construction Loan Fund	Rental Housing Program	Single Family Program	Combined Total-Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program	Combined Total-Memorandum Only
Revenues:									
Interest income:									
Investments (note 5)	$ 2,985,359	8,462,309	21,498,962	2,235,781	35,182,411	1,910,832	7,174,517	22,815,935	31,901,284
Mortgage loans receivable (note 6)	59,988	—	24,790,270	509	24,850,767	57,847	—	18,139,292	18,197,139
Construction advances (note 6)	—	4,845,570	7,422,581	—	12,268,151	—	4,039,260	8,977,352	13,016,612
Total interest income	3,045,347	13,307,879	53,711,813	2,236,290	72,301,329	1,968,679	11,213,777	49,932,579	63,115,035
Fees, charges and other income	4,597,382	—	—	—	4,597,382	5,312,376	—	—	5,312,376
Gain on early extinguishment of debt	—	—	874,201	—	874,201	—	—	—	—
Total revenues	7,642,729	13,307,879	54,586,014	2,236,290	77,772,912	7,281,055	11,213,777	49,932,579	68,427,411
Expenses:									
Interest on bonds (note 8)	—	—	40,268,454	2,079,262	42,347,716	—	—	37,784,948	37,784,948
Interest on notes (note 7)	—	10,375,062	2,699,761	—	13,074,823	—	8,550,482	2,489,801	11,040,283
Salaries and related benefits	3,469,480	—	—	—	3,469,480	2,746,030	—	—	2,746,030
Other general and administrative	1,523,914	—	—	—	1,523,914	1,436,939	—	—	1,436,939
Provision for potential loan losses (note 6)	—	628,248	1,500,000	—	2,128,248	—	—	1,656,802	1,656,802
Total expenses	4,993,394	11,003,310	44,468,215	2,079,262	62,544,181	4,182,969	8,550,482	41,931,551	54,665,002
Excess of revenues over expenses	2,649,335	2,304,569	10,117,799	157,028	15,228,731	3,098,086	2,663,295	8,001,028	13,762,409
Interfund transfers (notes 4 and 8)	(6,074,315)	(3,138,560)	4,110,000	5,102,875	—	1,402,490	(2,335,814)	933,324	—
Fund balances at beginning of period	21,241,706	4,320,977	23,221,713	—	48,784,396	16,741,130	3,993,496	14,287,361	35,021,987
Fund balances at end of period	$ 17,816,726	3,486,986	37,449,512	5,259,903	64,013,127	21,241,706	4,320,977	23,221,713	48,784,396

See accompanying notes to financial statements.

Pennsylvania Housing Finance Agency

Statements of Changes in Financial Position

Years ended June 30, 1982 and 1981

	1982					1981			
	General Fund	Construction Loan Fund	Rental Housing Program	Single Family Program	Combined Total-Memorandum Only	General Fund	Construction Loan Fund	Rental Housing Program	Combined Total-Memorandum Only
Sources of funds:									
From operations:									
Excess of revenues over expenses	$ 2,649,335	2,304,569	10,117,799	157,028	15,228,731	3,098,086	2,663,295	8,001,028	13,762,409
Items which do not use (provide) funds:									
Provision for potential loan losses	—	628,248	1,500,000	—	2,128,248	—	—	1,656,802	1,656,802
Amortization of discounts on notes and bonds payable	—	633,998	597,027	17,711	1,248,736	—	496,223	570,909	1,067,132
Gain on early extinguishment of debt	—	—	(874,201)	—	(874,201)	—	—	—	—
Other	126,063	(11,345)	437,596	3,552	555,866	85,847	6,487	517,555	609,889
Funds provided from operations	2,775,398	3,555,470	11,778,221	178,291	18,287,380	3,183,933	3,166,005	10,746,294	17,096,232
Inter-fund transfers	(6,074,315)	(3,138,560)	4,110,000	5,102,875	—	1,402,490	(2,335,814)	933,324	—
Bond proceeds, net of discount	—	—	45,868,554	97,502,125	143,370,679	—	—	61,854,970	61,854,970
Note proceeds, net of discount	—	75,136,002	—	—	75,136,002	—	85,058,078	44,385,771	129,443,849
Mortgage principal payments	28,117	67,734	2,022,267	—	2,118,118	54,007	63,490	1,394,976	1,512,473
Mortgages permanently financed	—	76,740,936	—	—	76,740,936	—	37,251,274	—	37,251,274
Change in:									
Investments, net of premium and discount, and cash	5,129,555	—	—	—	5,129,555	—	2,324,494	—	2,324,494
Due to other funds	—	—	46,000	—	46,000	—	—	345,863	345,863
Accrued interest payable	—	(549,537)	2,565,405	3,310,830	5,326,698	—	109,598	3,862,995	3,972,593
Other assets and liabilities, net	—	—	245,927	1,169,569	1,415,496	1,530,388	—	2,514,763	4,045,151
Total	$ 1,858,755	151,812,045	66,636,374	107,263,690	327,570,864	6,170,818	125,637,125	126,038,956	257,846,899
Uses of funds:									
Investment in construction advances and mortgage loans receivable	$ —	54,268,729	49,037,933	797,800	104,104,462	—	47,966,269	84,913,612	132,879,881
Payment of bond principal	—	—	3,522,541	—	3,522,541	—	—	1,951,000	1,951,000
Payment of note principal	—	78,720,000	—	—	78,720,000	—	76,510,000	—	76,510,000
Change in:									
Investments, net of premium and discount, and cash	—	18,299,444	14,075,900	106,465,890	138,841,234	5,824,955	—	39,174,344	44,999,299
Due from other funds	46,000	—	—	—	46,000	345,863	—	—	345,863
Other assets and liabilities, net	1,812,755	523,872	—	—	2,336,627	—	1,160,856	—	1,160,856
Total	$ 1,858,755	151,812,045	66,636,374	107,263,690	327,570,864	6,170,818	125,637,125	126,038,956	257,846,899

See accompanying notes to financial statements.

Certain reclassifications have been made for 1981 to conform to classifications adopted in 1982.

(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; prohibit the Agency from issuing bond anticipation notes except to renew outstanding bond anticipation notes; and subject the issuance of bonds and notes to the written approval of the Governor.

The Act was further amended, on December 31, 1981, to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single-family residences.

(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 potential loan losses which are charged to the funds to which such expenses relate.

(b) Construction Loan Fund
The Contruction 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 are subject to permanent loan commitments from the Federal or Government National Mortgage Associations (FNMA/GNMA).
(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.

(c) Rental Housing Program
The Rental Housing Program is utilized to account for transactions related to construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for low and moderate income persons and families or elderly persons.

(d) Single Family Program
The Single Family Program is utilized to account for transactions related to the financing of mortgage loans for owner-occupied single-family residences for low and moderate income persons and families.

(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) Investments
Investment securities are carried at amortized cost.

(c) Mortgage Loans and Construction Advances
Mortgage loans and construction advances are carried at amounts disbursed 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 determined based upon management's evaluation of the loan portfolio. Additions to the allowance are made by charges to expense.

(e) Loan Interest and Fees
For loans from the Construction Loan Fund and Rental Housing Program, loan financing fees, service fees and interest charges on construction advances during the construction period are generally capitalized as part of the loan. Loan origination financing fees, which range from 0.75% to 1.5% of the loan commitment, are recognized as income at the date of initial mortgage closing. Other financing fees in excess of the loan origination fee are recognized on a straight-line basis over the estimated construction period.

For the Single Family Program, the Agency charges a fee of 1½% of the mortgage amount when it purchases a loan, which fee is recognized as income on an interest method over the life of the mortgage.

(f) Mortgage Origination 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.

(4) Interfund Transfers

The Agency is permitted to make fund balance transfers from the Construction Loan Fund, Rental Housing Program and Single Family Program to the General Fund to the extent that such fund balances and the related assets are not required to meet the Agency's debt obligations. Amounts which may be transferred from the Construction Loan Fund result from earnings in excess of the note interest and other related expenses. Transfers are made after construction loans are permanently financed and the related notes mature. Transfers which may be made from the Rental Housing Program also result primarily from excess earnings. Transfers from these Programs are made from time to time at the discretion of the Agency.

In accordance with the trust indentures of certain of the Agency's Bonds, the Agency has transferred prescribed amounts from the General Fund to the Rental Housing and Single Family Programs. Such transfers for the years ended June 30, 1982 and 1981 were as follows:

Date	Related to	Amount	Purpose
July, 1980	Residential Development Bonds, Issue I	$ 1,460,000	for a Special Sub-Account for Issue I bond principal or interest, if required
February, 1982	Residential Development Bonds, Issue J	$ 2,700,000	to make mortgage loans
April, 1982	Residential Development Bonds, Issue K	$ 1,410,000	to make mortgage loans
May, 1982	Single Family Mortgage Revenue Bonds, 1982 Series A	$ 5,102,875	primarily to meet the related Capital Reserve Fund Requirement

(5) Investments and Cash

Substantially all investments of the Construction Loan Fund, Rental Housing Program and Single Family Program are restricted for required capital reserve requirements, payment of construction advances and payment of debt service on the related notes and bonds. Investment securities consist of collateralized certificates of deposits, savings accounts, U.S. Government securities and U.S. Government securities held under repurchase agreements. Investments and cash have the following amortized cost and market values at the indicated dates:

	Amortized Cost	Market Value
June 30, 1982	$ 439,639,219	426,535,514
June 30, 1981	305,925,238	292,793,499

(6) Mortgage Loans Receivable and Construction Advances

The mortgage loans receivable and construction advances receivable are secured by first mortgages on the related properties. In addition, the Federal government provides insurance for certain projects included in the Rental Housing Program and the Construction Loan Fund, with insurance for the Single Family Program being provided by a commercial company. A summary of construction advances and mortgage loans receivable as of June 30, 1982 and 1981 follows:

	Rental Housing Program		Construction Loan Fund—	Single Family Program—
	Mortgage Loans Receivable	Construction Advances	Construction Advances	Mortgage Loans Receivable
June 30, 1982:				
Insured and subsidized	$ —	9,564,844	28,493,582	—
Insured and nonsubsidized	—	—	1,327,976	790,014
Uninsured and subsidized	295,100,331	70,826,601	11,977,198	—
Uninsured and nonsubsidized	57,010,863	—	—	—
	352,111,194	80,391,445	41,798,756	790,014
Allowance for potential loan losses	7,000,000	—	600,000	—
	$ 345,111,194	80,391,445	41,198,756	790,014
Interest rates	6.1%–9.3%	6.5%–12.5%	8.4%–11.5%	14.05%
June 30, 1981:				
Insured and subsidized	$ —	4,132,658	59,558,755	—
Insured and nonsubsidized	—	—	—	—
Uninsured and subsidized	212,590,289	111,737,900	4,908,190	—
Uninsured and nonsubsidized	57,029,148	—	—	—
	269,619,437	115,870,558	64,466,945	
Allowance for potential loan losses	5,500,000	—	100,000	—
	$ 264,119,437	115,870,558	64,366,945	—
Interest rates	6.1%–9.3%	6.5%–10.4%	7.3%–12.4%	—

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

	Years ended June 30,			
	1982		1981	
	Construction Loan Fund	Rental Housing Program	Construction Loan Fund	Rental Housing Program
Balance at beginning of year	$ 100,000	5,500,000	100,000	3,957,394
Provision for potential loan losses	628,248	1,500,000	—	1,656,802
	728,248	7,000,000	100,000	5,614,196
Amounts charged off	128,248	—	—	114,196
Balance at end of year	$ 600,000	7,000,000	100,000	5,500,000

(7) Notes Payable

The Agency issues various notes for construction financing which are secured by the full faith and credit of the Agency, the underlying construction mortgage, the undisbursed note proceeds and by all funds received in repayment of construction advances.

(a) Notes payable in the Construction Loan Fund at June 30, 1982 and 1981 are at interest rates of 5.75% to 10.0%. Principal payments are required at note maturity. The scheduled principal payments for all notes outstanding at June 30, 1982 for each of the three years ending June 30, 1983 through 1985 are $62,695,000, $52,040,000, and $3,865,000, respectively.

(b) Rental Housing Program notes payable are at 5.75% and mature in July, 1983.

(8) Bonds Payable

Bonds have been issued to provide financing of mortgage loans under the Rental Housing Program and Single Family 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 mortgage loans made on the related properties;

(b) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans; 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 make available all assets of all funds for debt-related purposes.

Bonds issued and outstanding for the Rental Housing Program are as follows:

Issue	Effective Interest Rate	Final Maturity Date	Amount Outstanding June 30, 1982	Amount Outstanding June 30, 1981
Residential Development Bonds:				
Issue A	7.69%	2019	$ 83,080,000	83,840,000
Issue B	6.69	2020	32,145,000	32,370,000
Issue 1977 (Refunding)	6.55	2023	89,790,000	90,355,000
Issue C	6.43	2020	24,025,000	24,190,000
Issue D	6.73	2021	80,995,000	82,495,000
Issue E	7.39	2022	22,330,000	23,000,000
Issue F	7.53	2022	60,500,000	60,500,000
Issue G	7.21	2012	8,200,000	8,200,000
Issue H	7.54	2023	54,900,000	55,400,000
Issue I	9.26	2023	51,600,000	51,600,000
Issue J	14.56	2013	24,640,000	—
Issue K	13.72	2013	22,500,000	—
Section 23 Assisted Bonds, Issue 1977A	5.88	1995	1,338,000	1,403,000
University Housing Bonds, Issue 1979	7.69	2007	2,400,000	2,400,000
Multi-family Housing Bonds, Issue 1980	10.04	2023	11,440,000	11,440,000
			569,883,000	527,193,000
Unamortized bond discount			(13,069,962)	(12,353,700)
			$ 556,813,038	514,839,300

During the year ended June 30, 1982, Single Family Mortgage Revenue Bonds, 1982 Series A, were issued for the Single Family Program at an effective interest rate of 13.73% with a final maturity date of April 1, 2003. At June 30, 1982 the outstanding principal amount of such bonds is $100,000,000, against which is netted $2,480,164 of unamortized bond discount.

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. Bonds may also be redeemed at par prior to the ten-year period if mortgage loan prepayments exceed prescribed levels. 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 are as follows:

	Rental Housing Program	Single Family Program
Year ending June 30:		
1983	$ 2,778,000	—
1984	3,261,000	1,065,000
1985	4,147,000	1,635,000
1986	4,391,000	1,900,000
1987	4,665,000	1,985,000

(9) Pension Plans

Prior to January 1, 1982, employee contributions of 2% of annual gross wages were combined with the Agency's contributions to fund the benefits expected to become payable as determined by actuarial valuation. Effective January 1, 1982, the plan was revised. Substantially all employees are covered by a non-contributory pension plan and Agency contributions fund the actuarially determined amount for payment of expected benefits, which were reduced in an amount consistent with the elimination of employee contributions. Total pension expense for the years ended June 30, 1982 and 1981 was $234,106 and $208,198, respectively.

As of the latest actuarial valuation date, net plan assets available for the payment of benefits exceeded vested benefits. A comparison of accumulated plan benefits and plan net assets for the Agency's defined benefit plan is presented below:

	January 1, 1982	1981
Actuarial present value of accumulated plan benefits:		
Accrued and vested	$ 269,257	745,647
Accrued, but not vested	39,065	329,327
	$ 308,322	1,074,974
Net plan assets available for payment of benefits	$ 1,078,781	926,151

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5% for 1982 and 4.5% for 1981. The decrease in accumulated plan benefits is primarily attributable to the change in the assumed rate of return.

(10) Settlement with the Internal Revenue Service

To settle a dispute between the Agency and the Internal Revenue Service as to whether interest on the Agency's $44,755,000 Residential Development Notes maturing July 1, 1983 is exempt from Federal income taxation, the Agency negotiated an agreement with the IRS which was approved March 17, 1982 by the Board of the Agency. In accordance with the agreement, the IRS has been paid $375,000 in full settlement of this dispute. Approximately $225,000 of this amount has been reflected as a reduction of interest income at June 30, 1982; the remainder has been deferred and will be amortized over the year ending June 30, 1983.

(11) Subsequent Events

Subsequent to June 30, 1982, the Agency sold or entered contracts to sell the following bonds:

Residential Development Bonds, Issue L	$ 28,730,000
Multi-Family Housing Bonds, Issue 1982	$ 62,370,000
Single Family Mortgage Revenue Bonds, Issue 1982B	$ 115,000,000

Pursuant to the resolutions related to the Multi-Family Housing Bonds and Single Family Mortgage Revenue Bonds, $1,426,000 and $4,200,000 are committed to be transferred from the General Fund to the respective Program funds for the purpose of making mortgage loans and to meet the Capital Reserve Fund requirement for the Single Family Bonds.

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