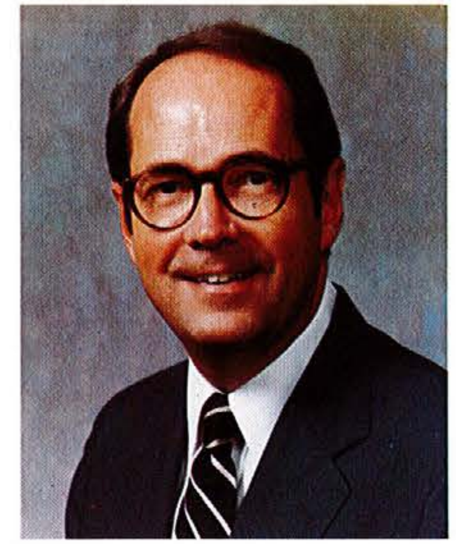
ANNUAL • REPORT • 1983

PENNSYLVANIA HOUSING FINANCE AGENCY

GOVERNOR'S MESSAGE



Housing for Pennsylvania's citizens is a high priority of my administration. Production, renovation and financing of decent, affordable shelter is essential if the Commonwealth is to remain a good place to live and work.

The Pennsylvania Housing Finance Agency is one of the major elements in assuring that we meet our housing obligation. With its ability to generate the badly needed housing capital, PHFA provides the financing for both multi-family apartments and individual owner-occupied dwellings. As the emphasis of federal housing programs changes, the Agency's role will become an even more vital one.

Through careful development and prudent use of its resources the Housing Finance Agency has been the impetus to stimulate an increase in the Commonwealth's housing stock. This creates jobs, new tax bases and helps stabilize communities.

Working with the private sector, PHFA has demonstrated its ability to produce good, durable apartments for families of modest means and for our elderly and handicapped citizens. The Agency's interaction with the state's lending community has produced a mortgage program for more than 8,000 families who would not otherwise enjoy the benefits of home ownership.

All of this contributes to the economic well being of the Commonwealth and a better quality of life for our citizens. We are proud of the job being done by the Housing Finance Agency to assist Pennsylvanians.

Investors in PHFA securities can be sure that it is an Agency with a dedicated leadership, a strong financial base and sound management.

Dick Thornburgh
Governor

CHAIRPERSON'S MESSAGE

The year 1983 has demonstrated the strength and productivity of the Pennsylvania Housing Finance Agency. It has overcome financial market uncertainties and the withdrawal of federal housing support yet still has functioned as a reliable institution to finance housing for the Commonwealth's citizens.

During 1983, the Housing Finance Agency reached the billion dollar mark in bond issues. It has provided the financial backing necessary to make decent, affordable apartments available to 28,000 Commonwealth families, and has made the dream of home ownership a reality to thousands of citizens through its mortgage program. It has done this without added burdens to Pennsylvania taxpayers.

The Agency develops its housing program in order to meet several objectives, including:

- Financing both rental and owner-occupied housing units for Pennsylvanians of low and moderate income, including older citizens and persons with special housing needs such as handicapped individuals.
- Providing an equitable allocation of PHFA financial resources throughout Pennsylvania.
- Making full use of federal, state and local housing programs where possible.
- Promoting the state's economy by attracting the housing and financial communities that assist with building, renting or providing mortgages for Commonwealth families.
- Creating and maintaining a sound mortgage loan portfolio that will allow PHFA to continue raising funds in the securities market.

One of Governor Thornburgh's highest priorities for the state is to provide the economic climate that will make Pennsylvania an even better place to call home. With this in mind, PHFA's role as catalyst for housing production provides not only the obvious benefit of good, affordable shelter, but also makes it an important vehicle to bring new investment capital to Pennsylvania.

Pennsylvania Housing Finance Agency notes and bonds are well received in the nation's capital markets. Moody's Investors' Service rates PHFA multi-family bonds A-I and Agency notes MIG-I, the highest possible rating. PHFA bonds are rated A+ by Standard and Poor's. Its single-family bonds have recently been upgraded to AA by Moody's. Because of the financial standing of its securities, the Agency is a significant contributor to the Commonwealth's economy.

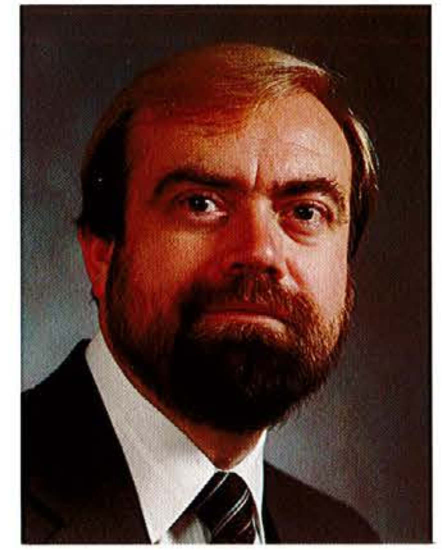
As an administrator of housing subsidy programs, PHFA is responsible for returning federal tax dollars to the state. Section 8 rental subsidies, Farmers Home Administration mortgages and FHA insurance are some of the programs that have been used by the Agency.

The Board of Directors is proud of the performance of the Agency. Our history is a great part of the foundation upon which Pennsylvania's housing will rest. The Board will continue to provide the guidance that allows PHFA to carry out its operations in a responsive and responsible manner that will benefit our Commonwealth's citizens.

Shirley M. Dennis

Shirley M. Dennis
Chairperson

EXECUTIVE DIRECTOR'S MESSAGE



I am pleased to present the Annual Report of the Pennsylvania Housing Finance Agency for the 1983 fiscal year. This has been a year of transition for the Agency. It has also been a good year in terms of Agency programs. PHFA has provided financing to complete a number of Section 8 new construction and substantial rehabilitation projects that have been in the production pipeline. It has initiated a financing program for moderate rehabilitation of rental housing and has continued its low interest financing of single-family owner occupied dwellings for the Commonwealth's citizens.

The Agency's activities have produced a substantial benefit to the Commonwealth's economy in many areas. Now in its eleventh year of operation, production has exceeded 28,000 multi-family rental housing units and mortgage funds for the purchase of 8,000 single family homes. This includes 2,800 mortgages to purchase newly constructed dwellings.

The Agency's marketing of $249,600,000 of single-family mortgage revenue bonds, $176,560,000 of multi-family bonds, as well as $80,000,000 of construction loan notes would not have been possible without the cooperation and support of its extremely interested and active Board of Directors, a dedicated staff of professionals, and the support of the Administration and General Assembly.

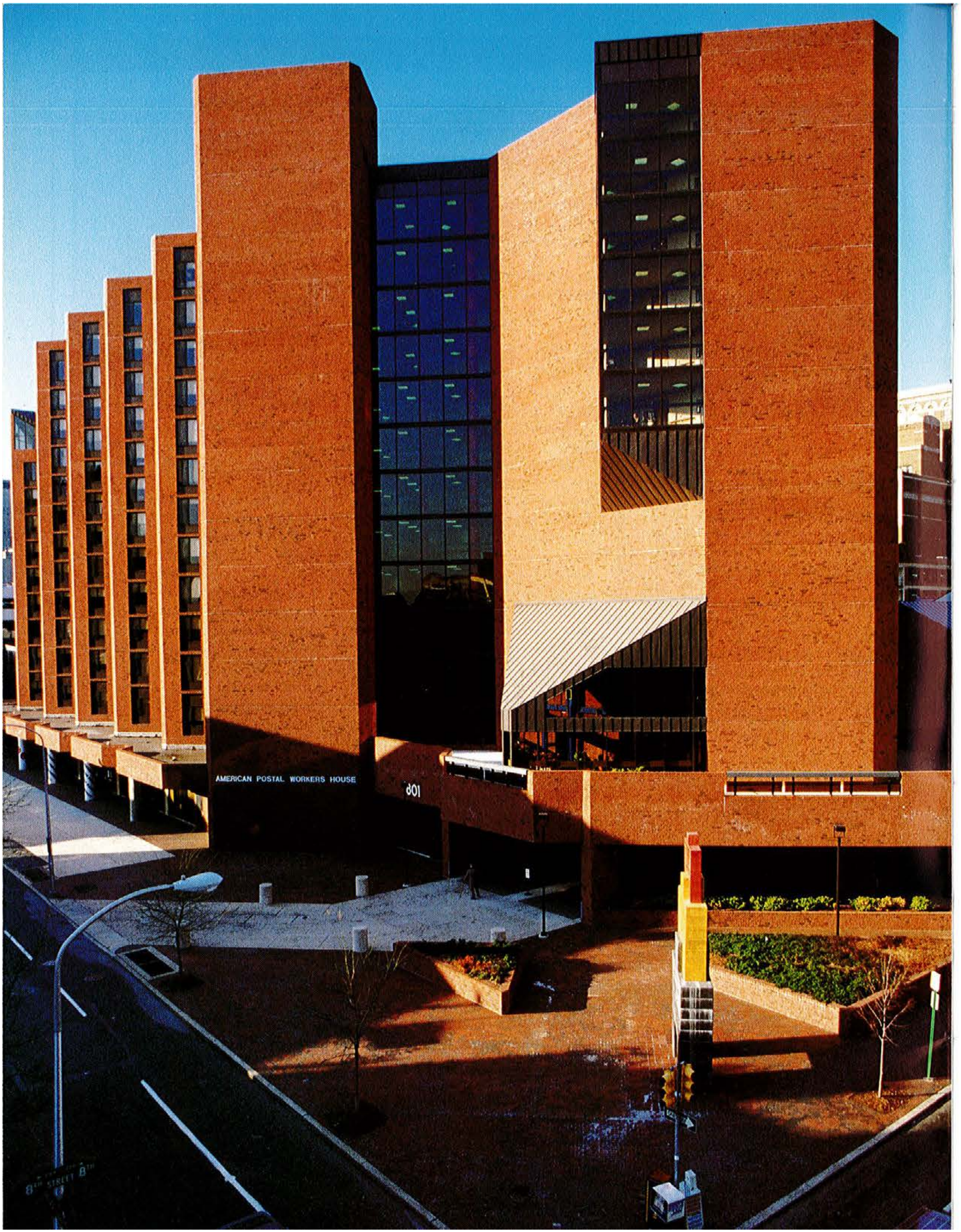
In the absence of the Section 8 rent subsidy program, PHFA anticipates that it will continue financing housing in the future. Several methods are being developed to finance various types of federally assisted rental housing developments for qualified families and older Pennsylvanians as well as handicapped individuals. The Agency expects to continue providing construction financing for rental housing developments through the issuance of short-term construction loan notes under its Construction Loan Program.

During the past year, PHFA has expanded its computerized management information system. With its IBM System 38 computer, the Agency utilizes on-line capabilities that provide instant access to information that can be updated immediately. Approximately 900 computer programs are being used by the Agency and this has allowed PHFA to significantly improve its capabilities. All accounting records, investments, multi-family interest, multi-family projects and fee billing have been computerized as well as data generated by the Single-Family Mortgage Program.

The Pennsylvania Housing Finance Agency is a proven entity that sees opportunity in problems faced in financing new multi-family and single-family housing. It is continually reviewing its operations and programs to determine how it can best meet the needs of the Commonwealth in providing decent, safe and adequate housing for its citizens in an economical and effective manner. The Agency plans to remain a dependable supplier of needed housing finance in Pennsylvania, for new construction, substantial rehabilitation and moderate rehabilitation programs for those who rent as well as those who wish to own their homes.

Wayne D. Gerhold

Wayne D. Gerhold
Executive Director



THE AGENCY

The Pennsylvania Housing Finance Agency is an agency of the Commonwealth created in 1972 to assist in the financing of rental housing for elderly persons, handicapped individuals and families of low and moderate income. In 1981, the Agency received authority to implement a low interest homeownership program to promote the construction and sale of single-family homes.

As of June 30, 1983, the Agency had made multi-family mortgages totaling $912,158,000 for 266 rental developments in 54 of the Commonwealth's counties. This equals 28,273 apartment units financed directly by the Agency under its Rental Housing and Construction Loan Programs.

The Agency had approved nearly 7,000 single-family mortgage loans equaling $294,700,000 by June 30, 1983. Of this amount, 4,336 loans in an aggregate principal amount of $140,289,000 had been purchased by PHFA. These single family mortgage loans were made in 58 counties of the state.

With its multi-family and single-family programs firmly in place, the Pennsylvania Housing Finance Agency continues to be a major factor in the Commonwealth's housing affairs.

Policy direction for the Agency's activities is provided by a ten member Board of Directors. The members of the Agency's Board are the Secretary of Community Affairs who also serves as Chairperson, the Secretaries of Banking and Commerce, the State Treasurer and six private citizens appointed by the Governor, subject to State Senate approval. Each appointed member serves a term of six years.

PHFA provides both construction loans and long term permanent financing under its multi-family programs. Excellence of design and attention to detail are stressed in all cases.

The Board works closely with the Governor's office, various government departments and the Legislature in order to direct PHFA's resources toward economical and effective housing programs.

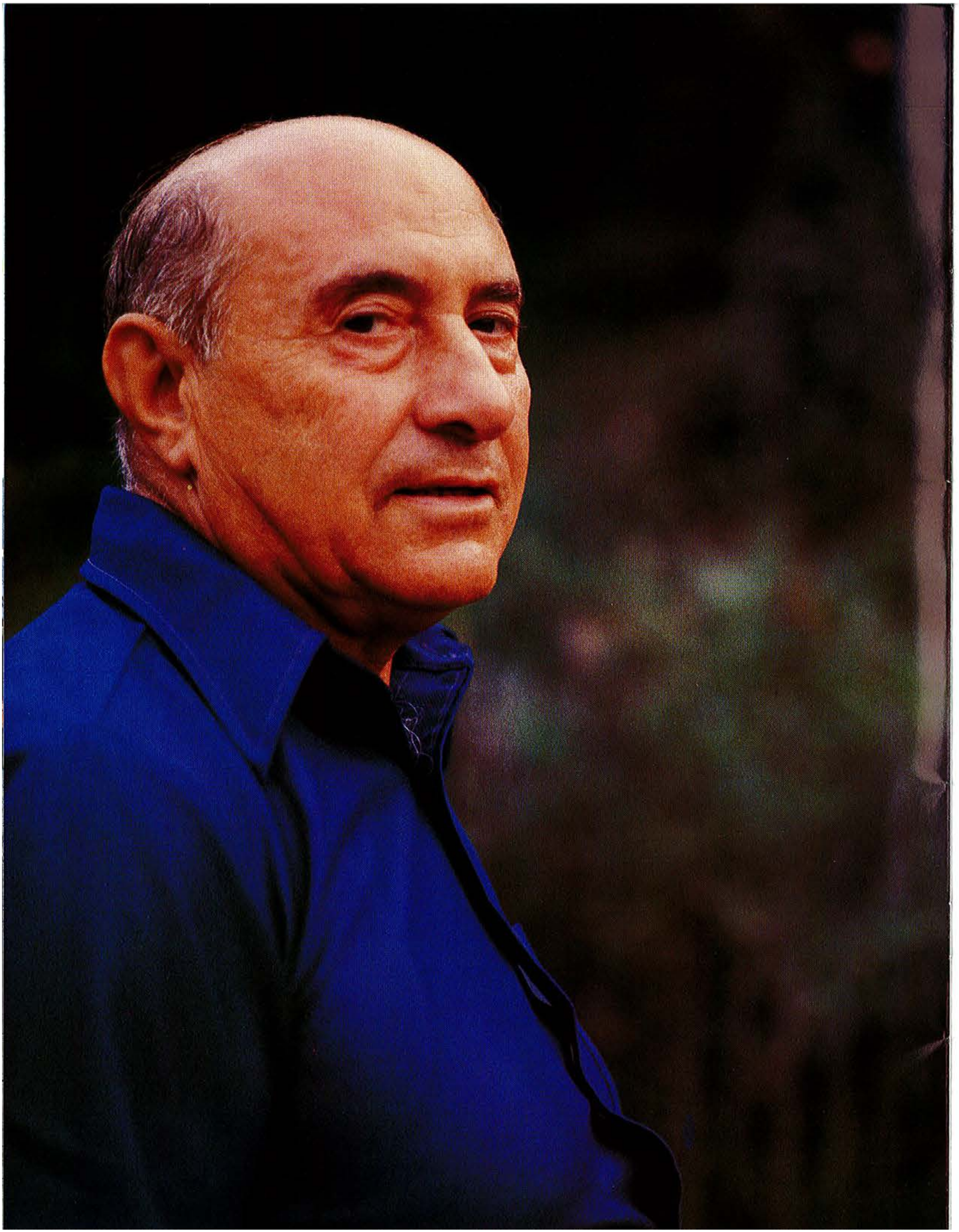
Supporting the Board is the Agency staff. At present, 126 persons, including 106 professionals in the fields of architecture, construction, engineering, data processing, finance, housing management, law and mortgage underwriting comprise the staff of the Agency.

The Executive Division is charged with overall implementation of Board policy and the administration of necessary affairs that are involved in the complex business of housing finance.

In order to accomplish its policy goals, the Agency is administratively organized into several divisions.

- The Affirmative Action Division is responsible for equal opportunity and affirmative action programs both within the Agency, at Agency-financed developments and in the single-family program.
- The Data Processing Division works closely with all Agency programs to provide computer services for all other divisions.
- The Development Division receives multi-family apartment proposals, reviews project site and market feasibility and recommends the mortgage underwriting of projects to the Board for approval.
- The Finance Division is the Agency's fiscal administrator. It is responsible for financial records, supervises the custody, investment and disbursement of PHFA funds, and maintains escrow funds for Agency-financed developments. In addition, this Division supervises the servicing and payment of Agency obligations.
- The Legal Division, under the Commonwealth's Office of General Counsel, is responsible for legal matters related to administration and operation of Agency programs and closes the Agency's multi-family mortgage loans.
- The Management Division monitors occupancy and maintenance of the Agency's permanently financed multi-family developments. It also is administrator of the HUD Section 8 Housing Assistance Payments contracts from these developments.
- The Mortgage Servicing Division administers the Agency's single family housing program. It supervises disbursement of loan proceeds for all Agency loan programs.
- The Technical Services Division supervises the architectural, engineering and construction cost estimation standards of Agency-financed multi-family developments and provides program research data for energy efficiency and maintenance costs for existing and future projects. It also insures that PHFA financed multi-family developments are built according to approved plans and specifications. The Division conducts inspections during the construction and guaranty periods. It also must review and approve contractors' cost certifications.

While each division has assigned duties for the success of individual programs, certain activities require multi-discipline resources from all divisions.



The Pennsylvania Housing Finance Agency operates two broad categories of production programs: the multi-family housing program and the single-family homeownership program.

Multi-Family Programs

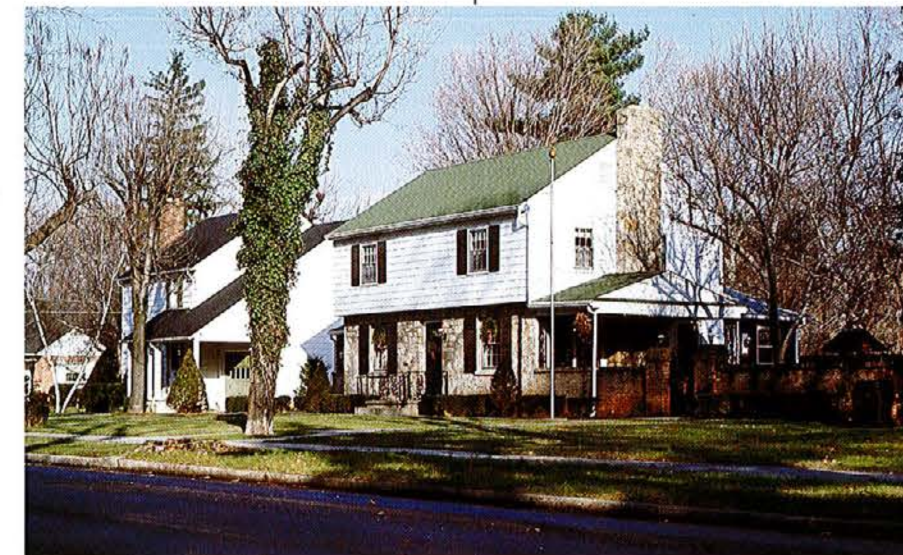
Pennsylvania is a state that is fortunate to have a wealth of scenic and natural resources. Its industrial and agricultural productivity surpasses that of many nations. The citizenry represents a diversity of heritage and talent that is rivaled by few other states. With two major metropolitan areas, three busy seaports, a host of small and medium-sized boroughs and cities and the largest rural population in the United States, Pennsylvania's history is reflected in its architecture.

An abundance of fine old buildings, many of them suitable for conversion to housing, exist throughout the Commonwealth. Using these existing resources in combination with a strong commitment to new apartment construction PHFA has been able to provide permanent and interim financing for more than 28,000 multi-family rental units to date.

Rental Housing Program

The Rental Housing Program is the cornerstone upon which the Agency has built its multi-family production history. Under the Rental Housing Program, PHFA has made mortgage loans of $567,000,000 for the financing of 168 developments that represent 17,505 apartment units. Of these, 148 are subsidized under the Section 8 Housing Rental

Loans from the Agency finance apartment developments for older Pennsylvanians and mortgages for first time home buyers.



Assistance Program; four are subsidized under other federal programs and sixteen are non-subsidized market-rate developments. During fiscal year 1983, 3,342 apartment units received PHFA financing totalling $127,000,000.

As of June 30, 1983, 150 of the Rental Housing developments consisting of 15,805 units, were under management. The overall occupancy rate is 98% with a minority occupancy rate of 17%.

Agency loans for Rental Housing Program developments are secured by a first mortgage lien on real property or on a leasehold estate. Rental Housing Program loans provide both construction and permanent financing.

All for-profit mortgagor distributions must be approved by the Agency and are made at the end of the development's fiscal year. Distributions are made after all expenses such as debt service, taxes and escrows, regulatory and building loan agreement conditions, and mortgage payments have been satisfied by the mortgagor.

PHFA law limits for-profit mortgagors' return on investment to 8% per annum. It is possible that mortgagors may receive smaller distributions than the statutory limit.

Thorough underwriting, rigorous technical and fiscal review and constant management supervision assures investors and residents that PHFA-financed developments will be enduring ones. Attention to detail in design, careful inspection during construction and prudent financial control are all key elements that contribute to the Agency's production record. No PHFA-financed development has ever experienced a default.

The Construction Loan Programs

In addition to its Rental Housing Program, the Agency has undertaken other rental housing programs for construction loan financing. These are the Insured Construction Loan Program, the Rural Construction Loan Program and the Turnkey Construction Loan Program. These various programs are another method that allows PHFA to produce badly needed multi-unit rental housing for the Commonwealth. During 1983, 350 apartments received construction financing totalling $11,000,000 from PHFA.

In all the Construction Loan Programs permanent financing is provided by agencies of the federal government such as the Government National Mortgage Association (GNMA), the Farmers Home Administration (FmHA),

and the U.S. Department of Housing and Urban Development (HUD).

Although PHFA's assurances are subject to different factors for each program, satisfactory and timely construction completion and execution of required documentation are necessary for all interim financings. Notes used to finance construction loan developments are short term obligations of the Agency.

Insured Construction Loan Program

The Agency makes construction loans insured by the Federal Housing Administration on rental developments subject to a commitment from the Government National Mortgage Association to purchase the mortgage after construction completion and final endorsement. In providing construction financing PHFA may reserve the options to permanently finance the development under the Rental Housing Program rather than calling on another commitment to purchase the mortgage. Agency construction loans have produced sixty-six apartment complexes for Commonwealth citizens.

Rural Construction Loan Program

Rural Construction Loans are made for developments that are permanently financed under the Farmers Home Administration Rural Housing Program. PHFA obtains 100% payment and performance bonds to guarantee completion of construction. After completion, the Farmers Home Administration pays the Agency for all construction advances. Ten projects have been financed under this program in rural areas of the state.

PHFA financed developments are located across the Commonwealth. Companionship and employment are two of the by-products of the Agency's activities.

Turnkey Construction Loan Program

Twenty-two turnkey public housing projects have been financed by PHFA turnkey construction loans. Under this program, developments are constructed by private developers pursuant to contracts with local housing authorities and the U.S. Department of Housing and Urban Development. Payment

and performance bonds assure satisfactory construction. After completion, the local housing authority is obligated to purchase the development for the contract price to repay the Agency's loan.

Single-Family Homeownership Program

A home-ownership program was begun by the Agency in April 1982, in order to provide additional low-cost mortgage financing for qualified Commonwealth home buyers. To provide funds for this program PHFA sells

tax-exempt mortgage revenue bonds and uses the proceeds to purchase mortgages from participating lenders.

All single-family mortgages are made by lending institutions in accordance with advance commitment agreements and other guidelines approved by the Agency. More than 100 lenders have participated in the program to date, and include savings and loan associations, commercial banks, mutual savings banks and mortgage banking companies.

Under the single-family program, PHFA offers thirty-year, fixed-rate mortgages to qualified homebuyers with minimum downpayments of five percent. The mortgage interest rate is usually two or three percent below conventional mortgage rates. Both new and existing houses are eligible for PHFA mortgages.

During the 1982–1983 fiscal year three single-family mortgage revenue bond issues have been sold by the Pennsylvania Housing Finance Agency for a total of $245,000,000. The proceeds of those bond issues have been used for 6,500 mortgages. The average loan has been $35,000 and the average purchase price of homes financed under the program is $39,000. The average income of the home buyer is $22,000 annually.

Investors who purchase PHFA mortgage revenue bonds are protected by the security of the mortgages themselves as well as by mortgage pool insurance. Primary insurance must also be maintained by those home buyers whose mortgages have loan-to-value ratios of more than eighty percent. Primary mortgage insurance must be obtained from companies licensed in the Commonwealth that are qualified to issue mortgages purchased by Fannie Mae or Freddie Mac for mortgages where the down-payment is less than 20 percent.

Economic Benefits

The Agency's financings benefit the State's economy. Each $1,000,000 of Agency multi-family mortgage financing creates 18,000 hours of construction employment a year. On an average, each PHFA-financed apartment unit generates $435 of local real property tax each year for the local municipality. On the single-family side, more than 2,000 newly constructed homes have been purchased by Agency financing. The average house was priced slightly more than $53,000. This has resulted in 3,600 full-time jobs paying $66 million in wages and $5.6 million in local and state taxes.

Looking Ahead

The Pennsylvania Housing Finance Agency has proven itself to be a capable and committed housing producer for the Commonwealth. Thorough attention to all the elements of sound housing policy have earned the Agency respect and support by the nation's investment and development communities. Because of the financial and technical soundness of its apartment developments, Agency multi-family bonds are rated A-1/A+ by the major rating agencies. Agency single-family housing bonds have recently been upgraded to AA by Moody's.

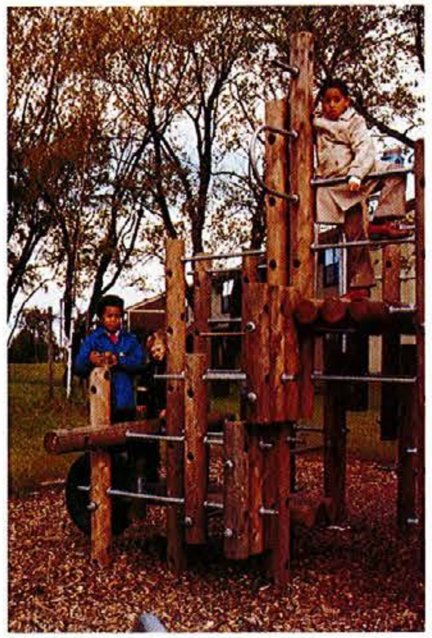
The Agency provides the financing for the development, but the residents make it their home. Increasing emphasis is being given to community support services.

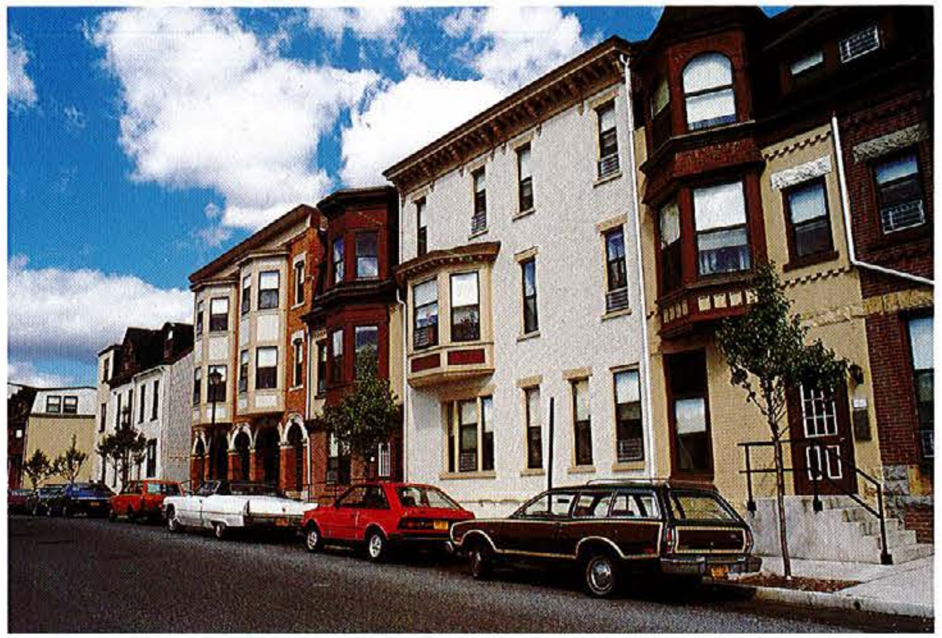
PHFA intends to continue to build on this record of accomplishment. Although a changed federal housing policy has slowed the production of subsidized apartments, it has generated an opportunity for PHFA to expand into moderate rehabilitation projects in many areas of the state, spurred the submission of proposals from developers for partially subsidized market-rate developments and an interest among municipalities in a development cost write-down for apartments through Community Development programs.

Two single-family pilot programs, a minority home ownership project and a new construction cluster housing program, offer the potential for success in previously unexplored areas.

The expansion of the data processing network into all Agency programs has begun to show quantitive results in energy consumption analysis and savings, project maintenance, prepayment computations and investment forecasting that will allow PHFA to reap the benefits of economy and effectiveness of its computer system's capability.

Housing is an inherent part of the total economic picture of Pennsylvania. The preservation of existing housing and the production of new single-family and multi-family units are intimately tied to other factors in the community such as the quality of education, availability of jobs, and viable commercial centers. In the future, the Agency intends to develop stronger ties with other branches of the public sector both on the state and local level and with the private sector to determine their needs and concerns and ultimately to work more closely together to advance and improve the quality of life in the Commonwealth.





Loans have been made for newly constructed developments and the rehabilitation of older structures. In all cases attractive, safe and adequate shelter is stressed. Agency Chairperson Shirley M. Dennis is a leading advocate for good housing.

To the Members of the Pennsylvania Housing Finance Agency:

We have examined the balance sheets of Pennsylvania Housing Finance Agency as of June 30, 1983 and 1982 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, 1983 and 1982 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 23, 1983

BALANCE SHEETS

June 30, 1983 and 1982

	1983 General Fund	1983 Multi-Family Program	1983 Single Family Program	1983 Combined Total-Memorandum Only	1982 General Fund	1982 Multi-Family Program	1982 Single Family Program	1982 Combined Total-Memorandum Only
Assets								
Investments and cash (note 5)	$ 28,114,424	320,317,490	116,475,601	464,907,515	16,248,331	316,928,550	106,462,338	439,639,219
Mortgage loans receivable (note 6)	766,665	417,336,807	147,477,399	565,580,871	833,285	345,111,194	790,014	346,734,493
Construction advances (note 6)	–	109,655,576	–	109,655,576	–	121,590,201	–	121,590,201
Deferred and other assets (note 8)	1,006,165	10,977,475	557,799	12,541,439	728,256	10,984,210	335,221	12,047,687
Due from other funds	475,568	–	–	475,568	391,863	–	–	391,863
	$ 30,362,822	858,287,348	264,510,799	1,153,160,969	18,201,735	794,614,155	107,587,573	920,403,463
Liabilities and Fund Balances								
Notes payable (note 7)	$ –	129,968,419	–	129,968,419	–	162,598,683	–	162,598,683
Accrued interest payable	–	23,047,663	7,283,810	30,331,473	–	17,134,585	3,310,830	20,445,415
Accounts payable and accrued expenses	396,065	–	–	396,065	385,009	782,645	–	1,167,654
Escrows and other liabilities	318,120	25,672,383	1,650,021	27,640,524	–	15,956,843	1,497,004	17,453,847
Bonds payable (note 5, 8 and 10)	–	642,341,476	244,774,834	887,116,310	–	556,813,038	97,519,836	654,332,874
Due to other funds	–	336,568	139,000	475,568	–	391,863	–	391,863
Total liabilities	714,185	821,366,509	253,847,665	1,075,928,359	385,009	753,677,657	102,327,670	856,390,336
Fund balances (notes 8 and 10)	29,648,637	36,920,839	10,663,134	77,232,610	17,816,726	40,936,498	5,259,903	64,013,127
	$ 30,362,822	858,287,348	264,510,799	1,153,160,969	18,201,735	794,614,155	107,587,573	920,403,463

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

Years ended June 30, 1983 and 1982

	1983 General Fund	1983 Multi-Family Program	1983 Single Family Program	1983 Combined Total-Memorandum Only	1982 General Fund	1982 Multi-Family Program	1982 Single Family Program	1982 Combined Total-Memorandum Only
Revenues:								
Interest income:								
Investments	$ 2,332,514	33,646,028	15,028,657	51,007,199	2,985,359	29,961,271	2,235,781	35,182,411
Mortgage loans receivable (note 6)	47,092	30,394,090	9,262,358	39,703,540	59,988	24,790,270	509	24,850,767
Construction advances (note 6)	–	11,528,224	–	11,528,224	–	12,268,151	–	12,268,151
Total interest income	2,379,606	75,568,342	24,291,015	102,238,963	3,045,347	67,019,692	2,236,290	72,301,329
Fees, charges and other income	6,503,475	–	206,650	6,710,125	4,597,382	–	–	4,597,382
Gain on early extinguishment of debt	–	73,848	–	73,848	–	874,201	–	874,201
Total revenues	8,883,081	75,642,190	24,497,665	109,022,936	7,642,729	67,893,893	2,236,290	77,772,912
Expenses:								
Interest on bonds (note 8)	–	53,030,166	23,980,112	77,010,278	–	40,268,454	2,079,262	42,347,716
Interest on notes (note 7)	–	12,750,979	–	12,750,979	–	13,074,823	–	13,074,823
Salaries and related benefits	3,583,455	–	–	3,583,455	3,469,480	–	–	3,469,480
Other general and administrative	1,444,419	–	–	1,444,419	1,523,914	–	–	1,523,914
Provision for potential loan losses (note 6)	–	–	–	–	–	2,128,248	–	2,128,248
Loss on early extinguishment of debt (note 8)	–	–	1,014,322	1,014,322	–	–	–	–
Total expenses	5,027,874	65,781,145	24,994,434	95,803,453	4,993,394	55,471,525	2,079,262	62,544,181
Excess (deficiency) of revenue over expenses	3,855,207	9,861,045	(496,769)	13,219,483	2,649,335	12,422,368	157,028	15,228,731
Interfund transfers (notes 4, 8 and 10)	7,976,704	(13,876,704)	5,900,000	–	(6,074,315)	971,440	5,102,875	–
Fund balances at beginning of period	17,816,726	40,936,498	5,259,903	64,013,127	21,241,706	27,542,690	–	48,784,396
Fund balances at end of period	$ 29,648,637	36,920,839	10,663,134	77,232,610	17,816,726	40,936,498	5,259,903	64,013,127

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended June 30, 1983 and 1982

	1983				1982			
	General Fund	Multi-Family Program	Single Family Program	Combined Total-Memorandum Only	General Fund	Multi-Family Program	Single Family Program	Combined Total-Memorandum Only
Sources of funds:								
From operations:								
Excess (deficiency) of revenues over expenses	$ 3,855,207	9,861,045	(496,769)	13,219,483	2,649,335	12,422,368	157,028	15,228,731
Items which do not use (provide) funds:								
Provision for potential loan losses	–	–	–	–	–	2,128,248	–	2,128,248
Amortization of discounts on notes and bonds payable	–	1,727,776	195,142	1,922,918	–	1,231,025	17,711	1,248,736
Loss (gain) on early extinguishment of debt	–	(73,848)	1,014,322	940,474	–	(874,201)	–	(874,201)
Other	174,449	468,817	(44,648)	598,618	126,063	426,251	3,552	555,866
Funds provided from operations	4,029,656	11,983,790	668,047	16,681,493	2,775,398	15,333,691	178,291	18,287,380
Inter-fund transfers	7,976,704	(13,876,704)	5,900,000	–	(6,074,315)	971,440	5,102,875	–
Bond proceeds, net of discount	–	87,989,397	175,285,469	263,274,866	–	45,868,554	97,502,125	143,370,679
Note proceeds, net of discount	–	31,666,663	–	31,666,663	–	75,136,002	–	75,136,002
Mortgage principal payments	65,886	2,571,476	1,098,257	3,735,619	28,117	2,090,001	–	2,118,118
Mortgages permanently financed	–	62,993,133	–	62,993,133	–	76,740,936	–	76,740,936
Change in:								
Investments, net of premium and discount, and cash	–	–	–	–	5,129,555	–	–	5,129,555
Due to other funds	–	–	139,000	139,000	–	46,000	–	46,000
Accrued interest payable	–	5,913,078	3,972,980	9,886,058	–	2,015,868	3,310,830	5,326,698
Other assets and liabilities, net	–	8,534,535	–	8,534,535	–	–	1,169,569	1,169,569
Total	$ 12,072,246	197,775,368	187,063,753	396,911,367	1,858,755	218,202,492	107,263,690	327,324,937
Uses of funds:								
Investment in construction advances and mortgage loans receivable	–	125,922,402	147,723,222	273,645,624	–	103,306,662	797,800	104,104,462
Payment of bond principal	–	3,425,523	29,115,000	32,540,523	–	3,522,541	–	3,522,541
Payment of note principal	–	64,990,000	–	64,990,000	–	78,720,000	–	78,720,000
Change in:								
Investments, net of premium and discount, and cash	11,940,687	3,382,148	10,010,112	25,332,947	–	32,375,344	106,465,890	138,841,234
Due from other funds	83,705	55,295	–	139,000	46,000	–	–	46,000
Other assets and liabilities, net	47,854	–	215,419	263,273	1,812,755	277,945	–	2,090,700
Total	$ 12,072,246	197,775,368	187,063,753	396,911,367	1,858,755	218,202,492	107,263,690	327,324,937

See accompanying notes to financial statements.

June 30, 1983 and 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.

The Act was 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) Multi-Family Program

The Multi-Family Program is utilized to account for transactions related to:

(i) The making of construction loans for multi-family rental housing developments for which commitments have been made by Federal or local housing agencies to purchase the mortgage upon satisfactory completion of construction.

(ii) The construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for low and moderate income persons and families or elderly persons.

At June 30, 1982, the transactions related to the two types of loans described above were reported in the financial statements as the Construction Loan Fund and Rental Housing Program, respectively. At June 30, 1983 these funds have been reported as the Multi-Family Program and amounts for June 30, 1982 and the year then ended have been reclassified to conform to the new presentation.

(c) 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

(a) Investments

Investment securities are carried at amortized cost.

(b) 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.

(c) Allowance for Potential Loan Losses

The allowance for potential loan losses is determined based upon management's evalua tion of the loan portfolio. Additions to the allowance are made by charges to expense.

(d) Loan Interest and Fees

For loans under the Multi-Family 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.

(e) 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.

(f) Amortization of Note and Bond Discounts

Note and bond discounts, including original issue discounts, are amortized over the lives of the issues using the interest method.

(4) Interfund Transfers

The Agency is permitted to make fund balance transfers from the Multi-Family 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 Multi-Family Program result from earnings in excess of the note and bond interest and other related expenses. Transfers from these Programs are made from time to time at the discretion of the Agency.

In accordance with the bond resolutions of certain of the Agency's Bonds, the Agency has transferred prescribed amounts between the General Fund and the Multi-Family and Single Family Programs. Such transfers are primarily for the purposes of meeting Capital Reserve Fund requirements and to make mortgage loans.

The Agency transferred $1,700,000 from the General Fund to the Single Family Program during the year ended June 30, 1983. Such transfer, and the related income on the investment of the transferred funds, is intended to fund the estimated cost of the Agency's program providing for reduced interest rates for a two-year period on mortgage loans made from approximately $54,500,000 of proceeds of Single Family Mortgage Revenue Bonds, 1982 Series B.

(5) Investments and Cash

The Agency is required under the provisions of applicable debt indentures to restrict sufficient investments of the Multi-Family and Single Family Programs to meet required capital reserve requirements, payment of construction advances, and payment of debt service on related notes and bonds. As of June 30, 1983, the Multi-Family Program contained investments of approximately $33,000,000 that were no longer restricted to that fund by debt indentures. 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, 1983	$ 464,907,515	465,577,824
June 30, 1982	$ 439,639,219	426,535,514

(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 Multi-Family Program, 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, 1983 and 1982 follows:

	Multi-Family Program		Single Family Program—
	Mortgage Loans Receivable	Construction Advances	Mortgage Loans Receivable
June 30, 1983:			
Insured and subsidized	$ 7,995,313	19,223,629	–
Insured and nonsubsidized	–	10,819,341	147,477,399
Uninsured and subsidized	360,195,489	80,212,606	–
Uninsured and nonsubsidized	56,146,005	–	–
	424,336,807	110,255,576	147,477,399
Allowance for potential loan losses	7,000,000	600,000	–
	$ 417,336,807	109,655,576	147,477,399
Interest rate range	7.4%-10.4%	6.5%-13.2%	11.0%-14.0%
June 30, 1982:			
Insured and subsidized	$ –	38,058,426	–
Insured and nonsubsidized	–	1,327,976	790,014
Uninsured and subsidized	295,100,331	82,803,799	–
Uninsured and nonsubsidized	57,010,863	–	–
	352,111,194	122,190,201	790,014
Allowance for potential loan losses	7,000,000	600,000	–
	$ 345,111,194	121,590,201	790,014
Interest rate range	7.4%-9.3%	6.5%-12.5%	14.0%

As of June 30, 1983 and 1982, the Agency had provided $19,452,482 and $41,198,756, respectively, of construction loans for financing during the construction phase only, of which $15,943,620 and $29,821,558, respectively, were insured.

Activity in the Agency's allowance for potential loan losses of the Multi-Family Program is summarized as follows for the year ended June 30, 1982:

	Mortgage Loans Receivable	Construction Advances
Balance at beginning of year	$ 5,500,000	100,000
Provision for potential loan losses	1,500,000	628,248
	7,000,000	728,248
Amounts charged off	–	128,248
Balance at end of year	$ 7,000,000	600,000

There were no changes for the year ended June 30, 1983.

(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.

Notes payable at June 30, 1983 and 1982 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, 1983 for each of the three years ending June 30, 1984 through 1986 are $96,795,000, $14,720,000, and $18,920,000, respectively.

(8) Bonds Payable

Bonds have been issued to provide financing of mortgage loans under the Multi-Family 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 Multi-Family Program are as follows:

Issue	Interest Rate Range	Final Maturity Date	Amount Outstanding June 30, 1983	Amount Outstanding June 30, 1982
Residential Development Bonds:				
Issue A	5.60–7.60%	2019	$ 82,530,000	83,080,000
Issue B	5.15–6.60%	2020	31,905,000	32,145,000
Issue 1977 (Refunding)	4.80–6.50%	2023	89,025,000	89,790,000
Issue C	4.85–6.38%	2020	23,855,000	24,025,000
Issue D	5.00–6.78%	2021	80,445,000	80,995,000
Issue E	5.80–7.25%	2022	22,210,000	22,330,000
Issue F	5.90–7.60%	2022	60,020,000	60,500,000
Issue G	7.15%	2012	8,100,000	8,200,000
Issue H	6.10–7.70%	2023	54,465,000	54,900,000
Issue I	5.50–9.30%	2023	51,600,000	51,600,000
Issue J	9.50–14.50%	2013	24,640,000	24,640,000
Issue K	8.50–13.65%	2013	22,500,000	22,500,000
Issue L	7.75–12.13%	2025	28,730,000	–
Issue M	7.25–11.00%	2014	20,835,000	–
Issue N	9.75%	2014	3,275,000	–
Section 23 Assisted Bonds, Issue 1977A	5.75%	1995	1,270,000	1,338,000
University Housing Bonds, Issue 1979	7.75%	2007	2,400,000	2,400,000
Multi-family Housing Bonds:				
Issue 1980	9.80–10.00%	2023	11,415,000	11,440,000
Issue 1982A	9.75–13.50%	2019	62,370,000	–
Issue 1982B	9.50–10.93%	2024	14,210,000	–
			695,800,000	569,883,000
Unamortized bond discount			(53,458,524)	(13,069,962)
			$ 642,341,476	556,813,038

Residential Development Bonds Issue 1977 were issued to defease the Rental Housing Program Bonds 1976 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 (approximately $9,800,000) is reflected as a deferred asset net of amortization in the accompanying balance sheets. The deferral is being amortized over the term of the new issue using the effective interest method. Economic benefits arising from the refunding issue are being passed through to mortgagors whose loans secure the new bonds.

Bonds issued and outstanding for the Single Family Program are as follows:

Issue	Interest Rate Range	Final Maturity Date	Amount Outstanding June 30, 1983	1982
Single Family Mortgage Revenue Bonds:				
1982 Series A	8.75–13.75%	2003	$ 70,885,000	100,000,000
1982 Series B	8.00–12.50%	2013	115,000,000	–
Series C	6.00–9.38%	2011	64,599,325	–
			250,484,325	100,000,000
Unamortized bond discount			(5,709,491)	(2,480,164)
			$ 244,774,834	97,519,836

During the year ended June 30, 1983, the Agency redeemed, prior to maturity, $29,115,000 of Single Family Mortgage Revenue Bonds, 1982 Series A, using undisbursed proceeds from that bond issue. A loss of $1,014,322 resulted from such redemption. However, the Agency retained $206,650 in commitment fees received from financial institutions related to the unused bond proceeds.

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 and from undisbursed bond proceeds. 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:

	Multi-Family Program	Single Family Program
Year ending June 30:		
1984	$ 3,801,000	1,065,000
1985	4,147,000	2,450,000
1986	4,876,000	3,110,000
1987	5,175,000	3,300,000
1988	5,515,000	3,505,000

(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, 1983 and 1982 was $227,701 and $234,106, 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, 1983	1982
Actuarial present value of accumulated plan benefits:		
Accrued and vested	$ 362,381	269,257
Accrued, but not vested	39,849	39,065
	$ 402,230	308,322
Net plan assets available for payment of benefits	$ 1,679,565	1,078,781

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5% for 1983 and 1982.

(10) Subsequent Events

Subsequent to June 30, 1983, the Agency sold Single Family Mortgage Revenue Bonds, Series D, with an approximate par amount of $70,000,000. Pursuant to the resolutions related to the bonds, $1,000,000 is to be transferred from the General Fund to the Single Family Program for the purpose of making mortgage loans and to meet the Capital Reserve Fund requirement for the bonds.

The Agency also transferred $5,620,000 from the Multi-Family Program to the General Fund. These funds were no longer restricted by the terms of the applicable bond indentures.

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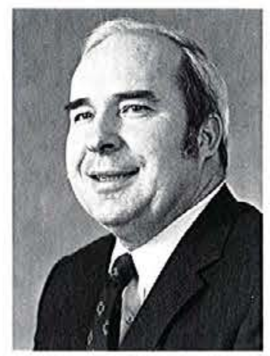
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