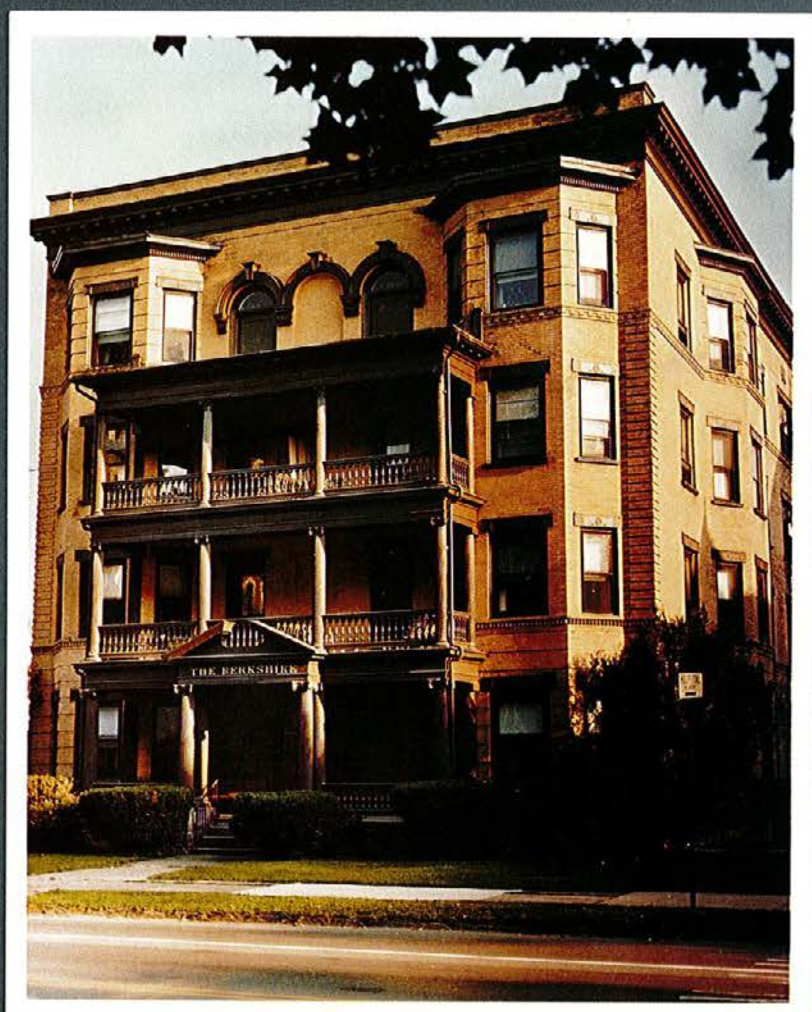
PENNSYLVANIA HOUSING FINANCE AGENCY 1984 ANNUAL REPORT



Governor's Message

Government is no less limited than business in its ability to provide services to citizens. Neither has a monopoly on the skills, talent and creative energy required to meet the challenges of this last quarter-century. For this reason, I have built my Administration on the belief that when private enterprise and the public sector join forces to accomplish desirable goals, society will benefit.

This is exemplified in the policy and operation of the Pennsylvania Housing Finance Agency. It is a unique organization: a public corporation of the Commonwealth designed to assist private enterprise to provide housing for Pennsylvanians.

Using its financial strength, the Agency is able to generate the funding that is critical to the continued improvement in Pennsylvania's housing stock. The Agency functions in an effective and responsive manner to satisfy the various demands of investors, the lender community, business and government. By doing this, PHFA allows the housing industry not only to survive, but to flourish.

The advantages of a well-housed population reach beyond mere shelter. Combining PHFA's public funding with private development creates thousands of jobs and millions of dollars in wages in the construction and related fields, benefits local governments by increasing their tax bases and contributes to community stability by offering homeownership and decent rental opportunities to our citizens.

Just as the Commonwealth can look to the Agency's record of accomplishment with considerable pride, so can we look to its potential for future development with confidence. With its dedicated and involved Board of Directors, its highly motivated management and a competent, committed professional staff, the Agency will be able to maintain its financial position and exceed its housing production record to continue making Pennsylvania a better place to call home. People who need housing have a friend in Pennsylvania.

Dick Thornburgh
Governor

Chairperson's Message

Throughout his administration Governor Thornburgh has emphasized the need for government to work with the private sector to achieve the best for Pennsylvania. Not only is this a desirable goal in itself, it is absolutely essential for the successful operation of the Pennsylvania Housing Finance Agency.

During the past year PHFA completed the financing of its first Section 8 moderate rehabilitation apartment development, saw the positive results of the implementation of the minority home ownership program for black and Hispanic families, assumed the responsibility for the Homeowners' Emergency Mortgage Assistance Program to help families avoid foreclosure, sold its largest ever single-family mortgage revenue bond issue and developed the structure for multi-family apartment financings that are backed by private mortgage insurance. All of these accomplishments were achieved at the same time that the Agency continued its less dramatic, but no less important day-to-day management of the single-family and multi-family mortgage loan portfolio. These activities contribute to the economic development of the Commonwealth as a better place in which to live and work, but none could have been accomplished without the active cooperation of private enterprise.

PHFA's Board and staff have worked closely with Governor Thornburgh's administration, the Legislature, Congress and the U.S. Department of Housing and Urban Development in order to reach those constituents, both public and private, who can help provide good, decent, affordable homes. It will continue this effort because the strength of the Agency lies in its ability to attract capital for investment in Pennsylvania's housing stock. Working with the building and development industry, the lending community, and the financial markets, PHFA provides the vehicle to focus the necessary talent and resources into new home and apartment construction, rehabilitation of older dwellings and mortgage financing for homes and rental developments.

Meeting the challenges posed by the changed realities of housing remains the standard by which the Agency will be measured. That task is neither simple nor is it easy to accomplish, but PHFA has responded with vigor and a resilience of purpose based on its capability to adapt to new circumstances. The results hold the promise of an undiminished housing future for the citizens of the Commonwealth, especially for the lower income and minorities.

Shirley M. Dennis

Shirley M. Dennis
Chairperson

Executive Director's Message

During the past year, the activities of the Pennsylvania Housing Finance Agency have been governed by a Chinese curse and a Benjamin Franklin adage; "May you live in a time of change" and "Necessity is the mother of invention." All three major programs, multi-family rental, single family homeownership and emergency mortgage foreclosure assistance have faced severe challenges. Yet the Agency has developed innovations that still continued to increase housing production for the low and moderate income citizens of the Commonwealth.

The multi-family rental financing program has completed the evolution from the Section 8 rental subsidy system to the 80/20 market rate system, thanks to the Thornburgh Administration and the General Assembly's support for necessary legislative changes. PHFA has distinguished itself by issuing the first Section 8 Moderate Rehabilitation bond issue that was rated by the major rating agencies. It was also the first housing finance agency in the nation to use a portion of fees earned through its 80/20 financings to subsidize the mortgages for new construction and rehabilitation of rental housing for families earning approximately 50% of the state median income.

The single family homeownership program survived a six month moratorium resulting from the failure of the U.S. Congress to repeal the sunset provisions of the Mortgage Revenue Bond Tax Act, in spite of the unanimous support for the program by the Pennsylvania Congressional Delegation. The average income of the 10,000 homebuyers that have taken advantage of the program remains at approximately $22,000 which is 80% of the state median income. The Federal Government classifies families in this income range as "lower income". The Agency also initiated a minority homeownership program, the first in the nation, designed to achieve homeownership for low income black and Hispanic families. The average income for the participants in this program was $17,500. Also, the Agency initiated a neighborhood rehabilitation program in cooperation with 14 local governments and also began efforts in conjunction with the home building industry to create a low cost housing construction program to bring lower cost, quality homes within the grasp of the lower income homebuyer.

Pennsylvania became the first state to adopt legislation designed to assist unemployed homeowners to keep their homes from foreclosure until they have had time to financially get back on their feet. The Pennsylvania Housing Finance Agency was chosen to administer the program. The demand for assistance was great and the time limits to start the program and review the overwhelming number of applications was short. However, once these hurdles were cleared, the help provided to those needy families has restored the dignity that they deserve while providing time to recover from the personally and financially devastating effects of unemployment.

The 1983–84 Fiscal Year led to the complete restructuring of the Multi-family Rental Financing Program and to the creation of a new Homeowners' Emergency Mortgage Assistance Program. The Single Family Mortgage Revenue Bond Program was given another four years of life by the Federal Government. Several innovative programs were initiated, many for the first time in the nation. The most important item to note is that the Pennsylvania Housing Finance Agency is continuing to play a central role in the Commonwealth to provide for the preservation of communities and neighborhoods through the financing of low and moderate multi-family rental housing construction and rehabilitation; through the provision of relatively low interest mortgages for the purchase of existing and newly constructed single family homes for the lower income and through a program designed to help the unemployed homeowner keep their home until their economic condition improves. Time has changed but through inventive responses, the Agency has continued to fulfill its mandate.

Wayne D. Gerhold

Wayne D. Gerhold
Executive Director

(Note) In April 1985, Michael A. Donadee was named Acting Executive Director of the Agency following Mr. Gerhold's decision to pursue a career in the private sector.

The Year In Review: Production and Performance

Since its creation in 1972, the Pennsylvania Housing Finance Agency has become a major housing force in the Commonwealth. Its ability to provide lower interest rate mortgage loans for the construction and rehabilitation of apartment complexes and for the purchase of single family homes makes possible the development of affordable housing for the citizens of Pennsylvania.

By the end of fiscal year 1984, PHFA had made over $950 million of multi-family mortgage loans available for the construction and permanent financing of 280 rental developments in 40 of the state's counties with a record of no foreclosures. This equals a total of 28,500 apartment units financed under the Agency's rental housing and construction loan programs.

Its single family portfolio has grown as well. As of June 30, 1984, PHFA has purchased 10,000 loans in the aggregate amount of $330,000,000. Home mortgage loans have been made in every one of Pennsylvania's 67 counties.

The Pennsylvania Housing Finance Agency does not receive any state or federal funds for the operation of its multi-family or single-family housing programs. It counts solely on its demonstrated ability to sell tax exempt securities to fund mortgage production and cover administrative costs.

During Fiscal Year 1984, PHFA sold $26,000,000 multi-family bonds and notes for 638 apartment units, and $112,000,000 single-family mortgage revenue bonds for 3,100 individually owned homes.

Obligations issued by PHFA to fund its housing programs are general or special obligations of the Agency. The bonds and notes are well received by the investment community as reflected in the Agency's credit rating: PHFA's single-family bonds were recently upgraded to Aa by Moody's, and rated AA by Standard & Poor's, without the necessity to purchase credit enhancement for the bonds. Multi-family bond issues ranged from A1 to Aa by Moody's and AA+ to AA by Standard & Poor's. PHFA multi-family construction loan notes are rated MIG-1, the highest Moody's rating. Because of its sustained financial strength, PHFA anticipates that its bonds will continue to be highly rated and well received in the national bond markets.

The Pennsylvania Housing Finance Agency is a public corporation and government instrumentality of the Commonwealth. The Agency is governed by a Board of Directors made up of the Secretaries of the Department of Community Affairs, Banking and Commerce, the State Treasurer, and six citizen members appointed by the Governor and confirmed by the State Senate. Citizen Board Members are appointed to six year terms. The Secretary of Community Affairs is Chairperson of PHFA.

Working with the Governor's office, other government agencies, and the Legislature, the Board directs the Agency's programs and policies toward effective housing and economic development goals.

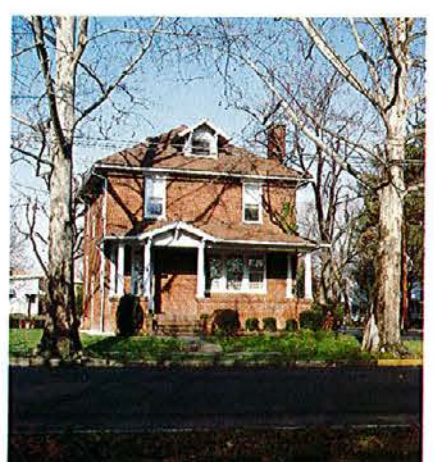
Current Operations: Multi-Family

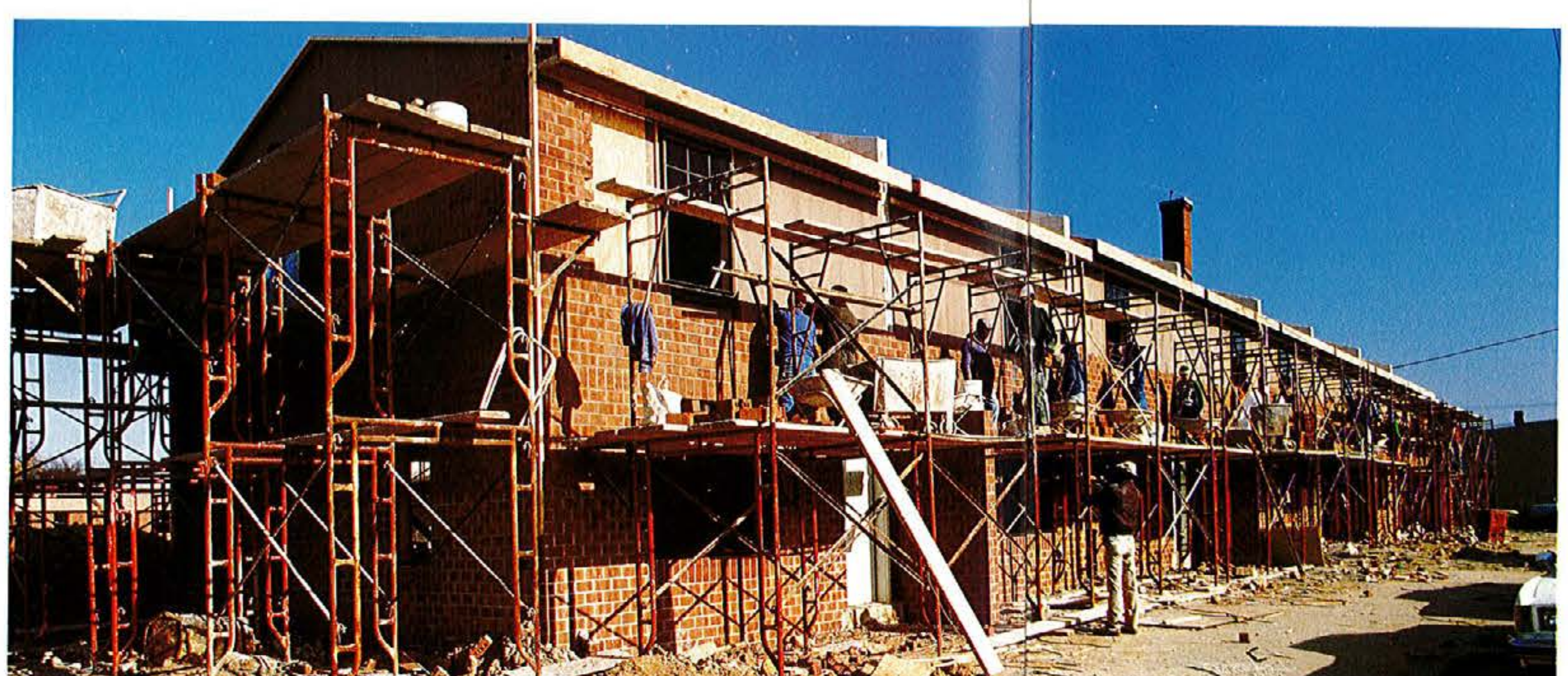
Prior to 1984, PHFA's multi-family activity had been limited by statute to the financing of rental units developed in conjunction with federal housing programs. The major federal initiative with which the Agency worked was the Section 8 program implemented by Congress in 1974.

Under Section 8, PHFA has provided long term financing of 152 apartment developments for lower income families, the elderly and handicapped, representing 14,682 rental apartment units. However, the new Section 8 subsidy projects are no longer funded by the federal government for apartment construction or substantial rehabilitation developments. Responding to the diminished role of the federal government, the PHFA Board has sought other avenues for enhancing the quality and number of affordable housing units in the Commonwealth. In May, 1984 the Agency received expanded legislative authority to better achieve this goal. The requirement of federal involvement is no longer necessary.

The "80/20" Program

The Pennsylvania Housing Finance Agency has begun the marketing of a new multi-family apartment production





PHFA mortgages finance owner-occupied homes and multi-family rental apartments for Commonwealth citizens of all ages.

program based on the realities of current federal housing policy. During the next few years the main source of rental housing development activity is expected to be in financing "80-20" market rate projects.

The Mortgage Subsidy Bond Tax Act of 1980 allows tax exempt bond financing of apartments that maintain twenty percent of available units for families whose income is less than 80 percent of median income. By taking advantage of this federal statute, PHFA will be able to increase the number and quality of housing units in the Commonwealth.

PHFA expects that it will finance 2,500 new apartment units in the next year using new financing techniques developed by the staff for this program. Private enterprise will use its expertise to develop and build the apartments. The Agency will use its financial strength and experience to provide tax exempt mortgage loans to make the rents more affordable. To expand the supply for lower income housing units, financing fees for the 80/20 projects will be set aside in a special subsidy reserve fund. These funds will be used to reduce the mortgage financing required for the construction and rehabilitation of projects developed for low income families, older Pennsylvanians and handicapped persons. This private-public partnership will address the housing needs of more citizens who choose to or must rent.

PHFA emphasizes the private-public relationship in other ways by encouraging greater participation by private lending institutions in the multi-family development process. Letters of credit, surety bonds or insurance coverage provided by lending institutions are opportunities for private enterprise to assist the Agency by enhancing the credit security of its issues. Private enterprise can also benefit from the newly conceived PHFA multi-family loans-to-lenders program. By acting as a pass-through agent for PHFA tax-exempt loans, a lender can become the institution from which a developer can secure multi-family apartment financing.

Congregate Care Facilities

As the life expectancy of Americans increases, the need for additional housing for older citizens increases. Despite its accomplishments in providing Section 8 subsidized housing for the elderly, there is still a need for PHFA to continue financing apartment units for the Commonwealth's aging population.

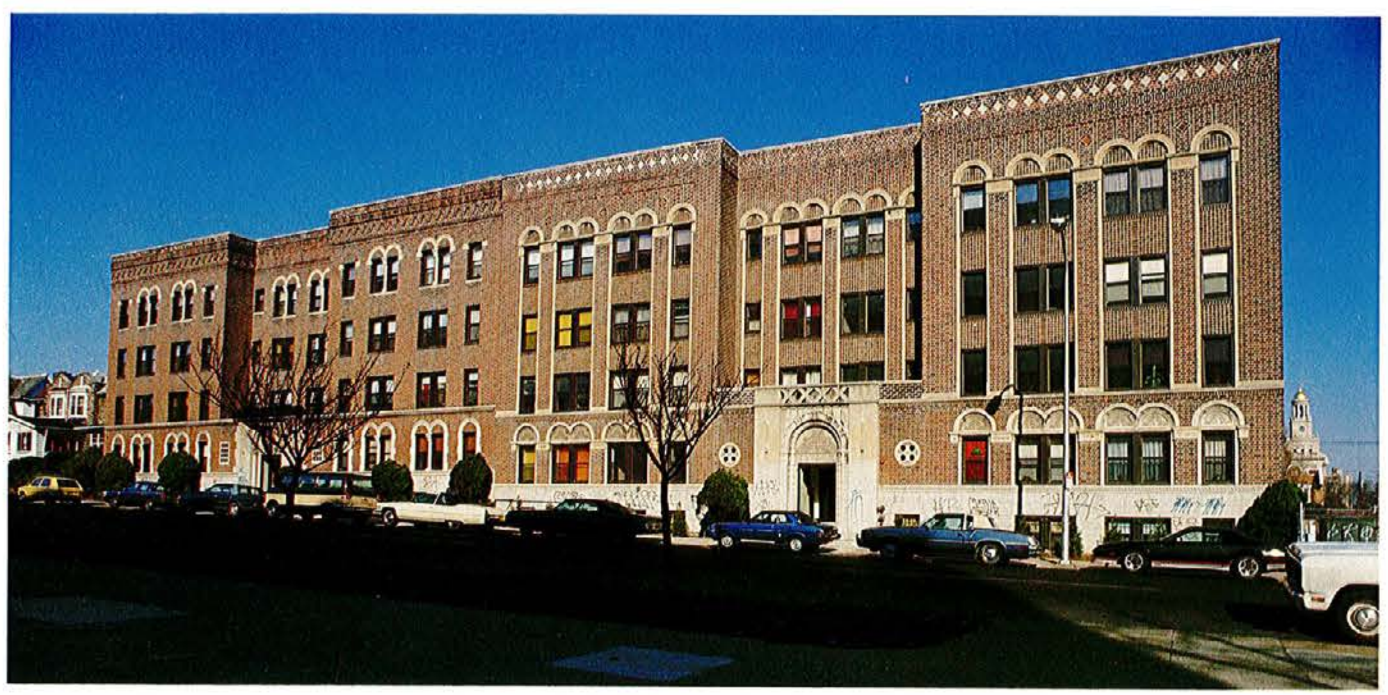
This need is being addressed by the Agency's programs to finance congregate care facilities for those who, while requiring some support services, are still quite capable of living productive, independent lives outside of expensive skilled or intermediate care facilities. With the cooperation of the sponsors, various charitable organizations and advocacy by the elderly, the Pennsylvania Housing Finance Agency is poised to provide financing for this needed and desirable kind of shelter.

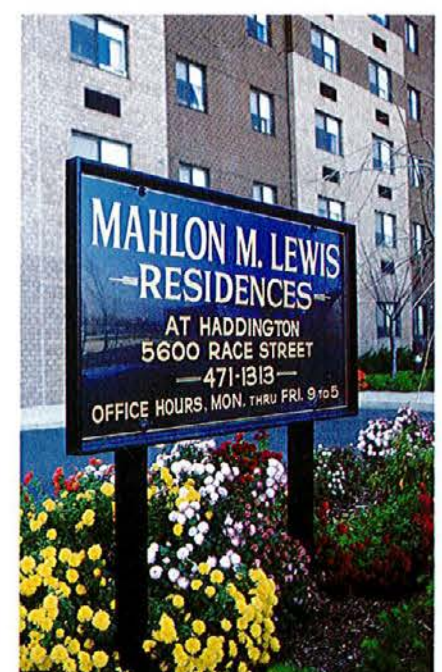
CURRENT OPERATIONS: SINGLE FAMILY

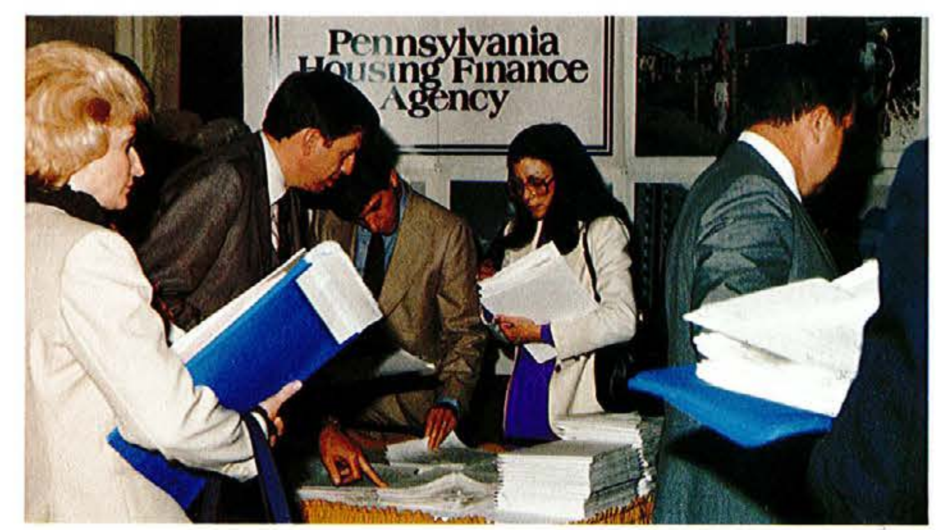
The Minority Home Ownership Program

Addressing the housing needs of minority families is another area upon which PHFA has placed special emphasis during the past two years. In April, 1983 PHFA began a special program to extend home ownership opportunities to minority families who have not traditionally been in the housing market. The minority homeownership program combined mortgage proceeds from the Agency's 1983 Series D Single-Family Bond Issue, the counseling and outreach capabilities of local non-profit housing counseling agencies and the experience of the Commonwealth's lending community to create a process that would specifically assist lower income black and Hispanic families to buy their own homes.

Eligible mortgagors were minority families willing to participate in pre-purchase and post-purchase counseling. Priority was given to lower income families who had never previously owned a home. In all cases, however, the essential qualifying factor was that applicants have a strong desire to buy their own homes. This program also contributes to the stabilization of urban neighborhoods. If a neighborhood has a larger percentage of homeownership, its citizens are usually more active







Because of its ability to attract investment capital PHFA enhances the economic development of the Commonwealth, encouraging new construction, expanding lending opportunities for financial institutions and generating additional tax bases for local communities.

and concerned about preventing the deterioration of existing housing, crime control and the improvement of the quality of education for their children.

178 loans have been approved under the minority homeownership program. Qualifying incomes of participants have averaged $17,500. Average home sales prices are $30,000. This compares to incomes of $22,000 and sales prices of $45,000 for all other loans made under the Agency's single-family program.

Unexpected benefits are being realized from the minority home ownership program. First, communities involved in the program have gained expertise in using PHFA resources that have helped enhance their positions with other state and federal neighborhood grant and loan projects; and second, non-profit housing corporations using the Agency's financial capabilities have increased private-sector financing and contributions for other worthwhile projects in minority communities throughout the Commonwealth.

Single-Family Pilot Programs

Over half the Commonwealth's housing stock is 50 years old or older, located largely in small or medium sized boroughs and cities. Unfortunately, many fine housing units are unlivable without major renovations.

Pennsylvania has a number of local government community development agencies that are capable of identifying homes in need of rehabilitation, provide construction financing, monitoring repairs, screening potential homebuyers and in many cases providing mortgage subsidies to lower monthly payments and defray closing costs. By working closely with such organizations and using part of its bond issuing authority, PHFA has implemented a substantial rehabilitation single-family mortgage purchase program.

Five local community development agencies are presently working with PHFA and the Pennsylvania Department of Community Affairs to substantially rehabilitate older homes which will be sold to qualified residents.

Another pilot program initiated by the Agency involves financing the construction of low cost energy efficient single-family homes. $980,000 has been reserved by PHFA to underwrite mortgages on 20 such homes that will be completed in 1985.

Plans for the houses emphasize efficient use of available floor space, low land costs, the use of readily available standard building materials and off-site pre-construction. PHFA has identified home builders who can undertake this effort and sell to qualified buyers.

The costs of the new houses will be approximately $49,000 each, well below the $54,000 average for new homes purchased under PHFA's standard single-family program.

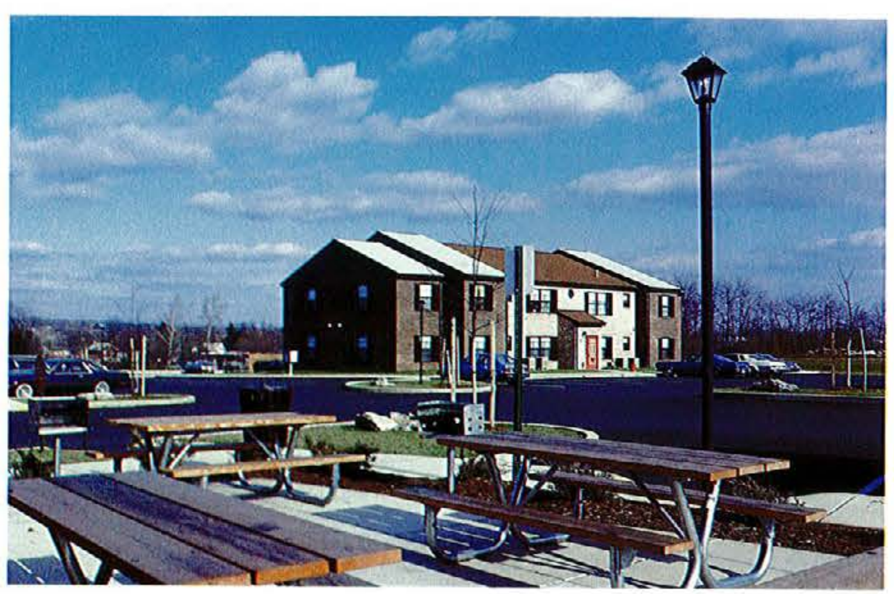
The purpose of this program is to stimulate the private sector development of a quality, marketable, low cost home that can be purchased by lower income families and individuals. Work will continue in this effort next year to overcome problems related to local government zoning and building code restrictions and the tendency of the homebuilder to maximize profits by increasing the purchase price of the home over what is really necessary when market demand is present.

Current Operations: The Homeowners' Emergency Mortgage Assistance Program

During the past year, PHFA has been assigned the responsibility of developing a new initiative, the Homeowners' Emergency Mortgage Assistance Program, created by Act 91 of 1983. The program is designed to help those homeowners who, through no fault of their own, are unable to make their mortgage payments.

Assistance is provided in the form of loans that cure mortgage delinquencies, and provide continuing assistance for up to three years. Homeowners who qualify must be able to resume full mortgage payments after assistance ceases.

Funds for this program come from a combination of state appropriations and contributions from businesses. Businesses that contribute will receive a 70% tax credit on their corporate net income tax, bank shares tax, net earnings tax or insurance premium



Agency-financed rental developments offer attractively designed, well built apartments. Particular attention to quality control is essential to successful construction.

tax. To date, the Agency has received more than 8,000 applications for mortgage assistance. This is the only program administered by the Agency that uses Pennsylvania taxpayer funds. No other Agency funds or assets are used or committed to this program.

Current Operations: Loan Management

The Agency's permanent loan portfolio remains a healthy one. None of its multi-family projects has ever experienced a foreclosure and cash flow from occupied developments remains healthy. Vacancy rates average less than one percent. An on-going program entailing oversight and preventive maintenance ensures the developments will remain desirable places to live.

Emphasis on providing decent, safe and affordable housing is not only sound public policy, it is also good business. By practicing a "no-default" policy based on tenant satisfaction and economic feasibility, purchasers of Agency issued multi-family bonds are assured that their investments are secure.

The growing single-family portfolio is likewise in sound condition. The one percent delinquency rate is indicative of careful underwriting by originators and stringent monitoring of the loan servicing.

The Agency intends to continue its home ownership program to benefit as many Pennsylvania homebuyers as possible.

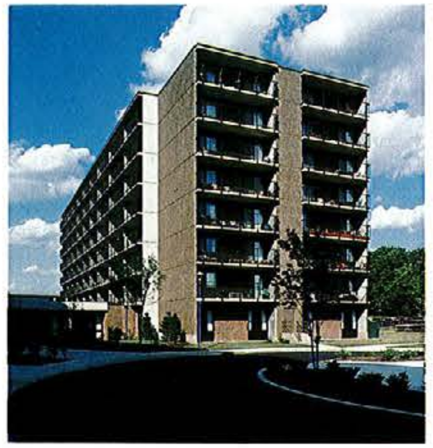
Summary

1984 was a year of transition for the Pennsylvania Housing Finance Agency. With the demise of the Section 8 program, PHFA began the task of developing new sources of subsidy for continued production of multi-family developments. New credit enhancement proposals have been evaluated and are being implemented. An expanded Agency role in congregate care facilities will provide new housing opportunities for older Pennsylvanians. Lower income families will benefit from the subsidized mortgages that will come from the "low income mortgage" fund initiated by PHFA.

The minority home ownership program has proven its worth in attracting black and Hispanic families who are capable and anxious to buy their own homes. It will be expanded to meet additional needs in the years to come. With the single-family program a fully established entity within the Agency's overall financing effort, thousands of Pennsylvanians will benefit from affordable mortgages.

While the provision of housing itself is a worthwhile accomplishment, other advantages are gained by Pennsylvania as a result of PHFA's activities. Thousands of construction jobs producing millions of dollars in wages are the direct result of the Agency's single-family and multi-family financings. Local tax bases are enhanced for the municipalities where PHFA's loans produce housing. The community stability derived from the Agency activities produces benefits not only for those directly involved but also for other neighborhood residents as well.

PHFA intends to offer leadership in housing. It has the financial strength, the tested experience and the willingness to confront the difficulties that lie ahead. Its capacity to adopt to changing circumstances and remain a useful force for housing finance will allow it to meet and overcome those problems. Good, affordable housing for all Pennsylvanians will remain the goal of PHFA.



PHFA is concerned with the long term housing needs of Pennsylvania. Careful underwriting of apartment developments and single-family loans produces a financially sound mortgage portfolio. Preventive maintenance is an Agency priority.

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. James O. Pickard


Hon. R. Budd Dwyer


Ronald S. Mintz, Esquire

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Director of Community Relations
District Attorney's Office, Philadelphia

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Secretary

Mrs. Carrie Barnes
Pennsylvania Housing Finance Agency

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Goldman, Sachs & Co.

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

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

Bond Counsel
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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, 1984 and 1983 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, 1984 and 1983 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 14, 1984

BALANCE SHEETS

	June 30, 1984 and 1983							
	1984				1983			
	General Fund	Multi-Family Program	Single Family Program	Combined Total–Memorandum Only	General Fund	Multi-Family Program	Single Family Program	Combined Total–Memorandum Only
ASSETS								
Investments and cash (note 5)	$45,094,114	204,498,415	59,582,997	309,175,526	28,114,424	320,317,490	116,475,601	464,907,515
Mortgage loans receivable (note 6)	715,183	523,996,197	315,198,064	839,909,444	766,665	417,336,807	147,477,399	565,580,871
Construction advances (note 6)	–	42,624,820	–	42,624,820	–	109,655,576	–	109,655,576
Deferred and other assets (note 8)	1,303,583	10,490,936	1,021,771	12,816,290	1,006,165	10,977,475	557,799	12,541,439
Due from other funds	2,836,106	–	–	2,836,106	475,568	–	–	475,568
	$49,948,986	781,610,368	375,802,832	1,207,362,186	30,362,822	858,287,348	264,510,799	1,153,160,969
LIABILITIES AND FUND BALANCES								
Notes payable (note 7)	$ –	41,564,869	–	41,564,869	–	129,968,419	–	129,968,419
Accrued interest payable	–	20,954,699	10,557,921	31,512,620	–	23,047,663	7,283,810	30,331,473
Accounts payable and accrued expenses	597,560	–	–	597,560	396,065	–	–	396,065
Escrows and other liabilities	630,375	38,198,667	246,543	39,075,585	318,120	25,672,383	1,650,021	27,640,524
Bonds payable (note 5, 8 and 10)	–	649,663,505	351,696,925	1,001,360,430	–	642,341,476	244,774,834	887,116,310
Due to other funds	–	2,627,144	208,962	2,836,106	–	336,568	139,000	475,568
TOTAL LIABILITIES	1,227,935	753,008,884	362,710,351	1,116,947,170	714,185	821,366,509	253,847,665	1,075,928,359
Fund balances (notes 8 and 10)	48,721,051	28,601,484	13,092,481	90,415,016	29,648,637	36,920,839	10,663,134	77,232,610
	$49,948,986	781,610,368	375,802,832	1,207,362,186	30,362,822	858,287,348	264,510,799	1,153,160,969

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balances

	Years ended June 30, 1984 and 1983							
	1984				1983			
	General Fund	Multi-Family Program	Single Family Program	Combined Total– Memorandum Only	General Fund	Multi-Family Program	Single Family Program	Combined Total– Memorandum Only
Revenues:								
Interest Income:								
Investments	$ 3,574,072	18,807,252	11,332,413	33,713,737	2,332,514	33,646,028	15,028,657	51,007,199
Mortgage loans receivable (note 6)	43,475	44,671,229	28,567,604	73,282,308	47,092	30,394,090	9,262,358	39,703,540
Construction advances (note 6)	–	7,309,207	–	7,309,207	–	11,528,224	–	11,528,224
Total Interest Income	3,617,547	70,787,688	39,900,017	114,305,252	2,379,606	75,568,342	24,291,015	102,238,963
Fees, charges and other income	4,297,072	–	–	4,297,072	6,503,475	–	206,650	6,710,125
Gain on early extinguishment of debt	–	559,186	–	559,186	–	73,848	–	73,848
Total Revenues	$7,914,619	71,346,874	39,900,017	119,161,510	8,883,081	75,642,190	24,497,665	109,022,936
Expenses:								
Interest on bonds (note 8)	–	55,888,555	38,416,659	94,305,214	–	53,030,166	23,980,112	77,010,278
Interest on notes (note 7)	–	6,034,449	–	6,034,449	–	12,750,979	–	12,750,979
Salaries and related benefits	3,820,160	–	–	3,820,160	3,583,455	–	–	3,583,455
Other general and administrative	1,765,270	–	–	1,765,270	1,444,419	–	–	1,444,419
Loss on early extinguishment of debt (note 8)	–	–	54,011	54,011	–	–	1,014,322	1,014,322
Total Expenses	5,585,430	61,923,004	38,470,670	105,979,104	5,027,874	65,781,145	24,994,434	95,803,453
Excess (deficiency) of revenues over expenses	2,329,189	9,423,870	1,429,347	13,182,406	3,855,207	9,861,045	(496,769)	13,219,483
Interfund transfers (notes 4, 8 and 10)	16,743,225	(17,743,225)	1,000,000	–	7,976,704	(13,876,704)	5,900,000	–
Fund balances at beginning 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
Fund balances at end of period	$48,721,051	28,601,484	13,092,481	90,415,016	29,648,637	36,920,839	10,663,134	77,232,610

See accompanying notes to financial statements.

Statements of Changes in Financial Position

	1984 General Fund	1984 Multi-Family Program	1984 Single Family Program	1984 Combined Total—Memorandum Only	1983 General Fund	1983 Multi-Family Program	1983 Single Family Program	1983 Combined Total—Memorandum Only
	Years ended June 30, 1984 and 1983							
Sources of Funds:								
From Operations:								
Excess (deficiency) of revenues over expenses	$ 2,329,189	9,423,870	1,429,347	13,182,406	3,855,207	9,861,045	(496,769)	13,219,483
Items which do not use (provide) funds:								
Amortization of discounts on notes and bonds payable	–	1,509,437	394,839	1,904,276	–	1,727,776	195,142	1,922,918
Loss (gain) on early extinguishment of debt	–	(559,186)	54,011	(505,175)	–	(73,848)	1,014,322	940,474
Other	165,928	493,124	(46,115)	612,937	174,449	428,817	(44,648)	598,618
Funds Provided From Operations	2,495,117	10,867,245	1,832,082	15,194,444	4,029,656	11,983,790	668,047	16,681,493
Inter-fund transfers	16,743,225	(17,743,225)	1,000,000	–	7,976,704	(13,876,704)	5,900,000	–
Bond proceeds, net of discount	–	12,340,992	109,144,893	121,485,885	–	87,989,397	175,285,469	263,274,866
Note proceeds, net of discount	–	8,049,050	–	8,049,050	–	31,666,663	–	31,666,663
Mortgage principal payments	50,826	2,977,953	7,390,888	10,419,667	65,886	2,571,476	1,098,257	3,735,619
Mortgages permanently financed	–	18,804,035	–	18,804,035	–	62,993,133	–	62,993,133
Change in:								
Investments, net of premium and discount, and cash	–	115,823,004	56,950,760	172,773,764	–	–	–	–
Due to other funds	–	2,290,576	69,962	2,360,538	–	–	139,000	139,000
Accrued interest payable	–	–	3,274,111	3,274,111	–	5,913,078	3,972,980	9,886,058
Other assets and liabilities, net	56,390	12,585,273	–	12,641,663	–	8,534,535	–	8,534,535
Total	$19,345,558	165,994,903	179,662,696	365,003,157	12,072,246	197,775,368	187,063,753	396,911,367
Uses of Funds:								
Investment in construction advances and mortgage loans receivable	–	61,480,125	175,079,672	236,559,797	–	125,922,402	147,723,222	273,645,624
Payment of bond principal	–	5,626,814	2,665,000	8,291,814	–	3,425,523	29,115,000	32,540,523
Payment of note principal	–	96,795,000	–	96,795,000	–	64,990,000	–	64,990,000
Change in:								
Investments, net of premium and discount, and cash	16,985,020	–	–	16,985,020	11,940,687	3,382,148	10,010,112	25,332,947
Due from other funds	2,360,538	–	–	2,360,538	83,705	55,295	–	139,000
Accrued interest payable	–	2,092,964	–	2,092,964	–	–	–	–
Other assets and liabilities, net	–	–	1,918,024	1,918,024	47,854	–	215,419	263,273
Total	$19,345,558	165,994,903	179,662,696	365,003,157	12,072,246	197,775,368	187,063,753	396,911,367

See accompanying notes to financial statements.

Notes to Financial Statements

Note 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.

The Act was further amended, on May 31, 1984, to authorize the Agency to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

Note 2

Description of Fund Groups

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.

Multi-family Program

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

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.

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.

Single Family Program

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

Note 3

Summary of Significant Accounting Policies

Investments

Investment securities are carried at amortized cost.

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.

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.

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% or 2% 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.

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. Certain of these costs are reimbursed by the mortgagers.

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.

Note 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. There are additional restrictions on transfers contained in the Single Family bond resolutions. 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.

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.

Note 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, 1984, the Multi-Family Program contained investments of approximately $25,000,000 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 repurchse agreements. Investments and cash have the following amortized cost and market values at the indicated dates:

	Amortized Cost	Market Value
June 30, 1984	$309,175,526	296,677,198
June 30, 1983	$464,907,515	465,577,824

Note 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 commercial companies. A summary of construction advances and mortgage loans receivable as of June 30, 1984 and 1983 follows:

	Multi-Family Program		Single Family
	Mortgage Loans Receivable	Construction Advances	Program – Mortgage Loans Receivable
JUNE 30, 1984:			
Insured and subsidized	$ 22,085,927	16,892,852	–
Insured and nonsubsidized	–	16,692,015	315,198,064
Uninsured and subsidized	452,723,841	9,639,953	–
Uninsured and nonsubsidized	56,186,429	–	–
	530,996,197	43,224,820	315,198,064
Allowance for potential loan losses	7,000,000	600,000	–
	$523,996,197	42,624,820	315,198,064
Interest rate range	7.4%-14.0%	7.0%-12.5%	9.9%-14.0%
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%

As of June 30, 1984 and 1983, the Agency had provided $17,397,164 and $19,452,482, respectively, of construction loans for financing during the construction phase only, of which $16,692,015 and $15,943,620, respectively, were insured.

There has been no activity in the Agency's allowance for potential losses for the years ended June 30, 1984 or 1983.

NOTE 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, 1984 and 1983 are at interest rates of 6.25% to 10.0%. Principal payments are required at note maturity. The scheduled principal payments for all notes outstanding at June 30, 1984 for each of the years ending June 30, 1985 and 1986 are $14,720,000 and $27,040,000, respectively.

NOTE 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, 1984	1983
Residential Development Bonds:				
Issue A	5.60-7.60%	2019	$81,660,000	82,530,000
Issue B	5.15-6.60%	2020	31,620,000	31,905,000
Issue 1977 (Refunding)	4.80-6.50%	2023	88,370,000	89,025,000
Issue C	4.85-6.38%	2020	22,860,000	23,855,000
Issue D	5.00-6.78%	2021	79,705,000	80,445,000
Issue E	5.80-7.25%	2022	21,485,000	22,210,000
Issue F	5.90-7.60%	2022	59,450,000	60,020,000
Issue G	7.15%	2012	7,925,000	8,100,000
Issue H	6.10-7.70%	2023	53,940,000	54,465,000
Issue I	5.50-9.30%	2023	51,125,000	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	28,730,000
Issue M	7.25-11.00%	2014	20,835,000	20,835,000
Issue N	9.75%	2014	3,275,000	3,275,000
Issue O	10.375%	2015	6,985,000	–
Issue P	10.375%	2015	5,600,000	–
Section 23 Assisted Bonds, Issue 1977A	5.75%	1995	1,199,000	1,270,000
University Housing Bonds, Issue 1979	7.75%	2007	2,325,000	2,400,000
Multi-family Housing Bonds:				
Issue 1980	9.80-10.00%	2023	11,390,000	11,415,000
Issue 1982A	9.75-13.50%	2024	62,370,000	62,370,000
Issue 1982B	9.50-10.93%	2024	14,210,000	14,210,000
			702,199,000	695,800,000
Unamortized bond discount			(52,535,495)	(53,458,524)
			$649,663,505	642,341,476

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, 1984	1983
Single Family Mortgage Revenue Bonds:				
1982 Series A	8.75-13.75%	2003	$ 68,220,000	70,885,000
1982 Series B	8.00-12.50%	2013	115,000,000	115,000,000
Series C	6.00-9.38%	2014	64,599,325	64,599,325
Series D	5.75-9.25%	2014	69,997,774	–
Series E	6.00-10.75%	2015	41,999,822	–
			359,816,921	250,484,325
Unamortized bond discount			(8,119,996)	(5,709,491)
			$351,696,925	244,774,834

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:		
1985	$4,147,000	3,025,000
1986	4,876,000	5,435,000
1987	5,225,000	5,780,000
1988	5,590,000	6,155,000
1989	5,950,000	7,800,000

NOTE 9

PENSION PLANS

Substantially all employees are covered by a noncontributory pension plan. Agency contributions fund the actuarially determined amount for payment of expected benefits. Total pension expense for the years ended June 30, 1984 and 1983 was $226,488 and $227,701, 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, 1984	1983
Actuarial present value of accumulated plan benefits:		
Accrued and vested	$ 550,243	362,381
Accrued, but not vested	34,488	39,849
	$ 584,731	402,203
Net plan assets available for payment of benefits	$2,131,355	1,679,565

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5% for 1984 and 1983.

NOTE 10

SUBSEQUENT EVENTS

Subsequent to June 30, 1984, the Agency sold Single Family Mortgage Revenue Bonds, Series F, with a par amount of $198,000,000. Pursuant to the resolutions related to the bonds, $2,000,000 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. Additionally, the Agency established a self-insurance fund equal to 1% of the total Single Family mortgages outstanding. This self-insurance fund was created by restricting a portion of the Single Family fund balance and is for casualties not covered by normal property insurance.

PENNSYLVANIA HOUSING FINANCE AGENCY
2101 North Front Street—P.O. Box 8029
Harrisburg, Pennsylvania 17105-8029
(717) 780-3800