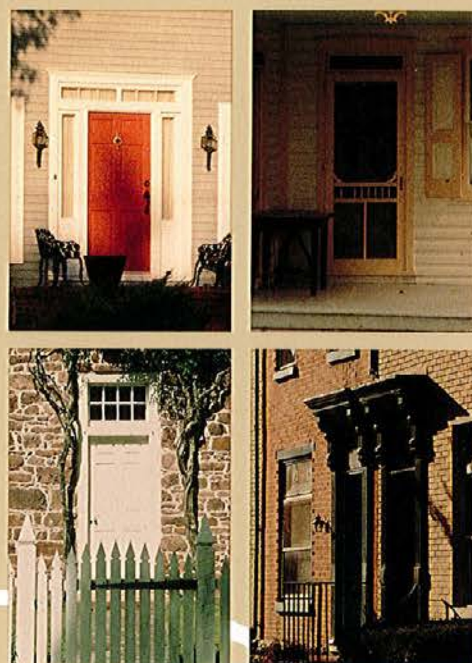


Pennsylvania Housing Finance Agency

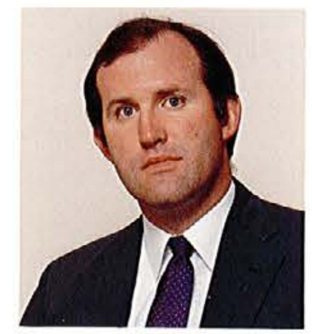
1988 Annual Report

The Pennsylvania Housing Finance Agency is committed to the policy that all persons shall have equal access to its housing programs and employment without regard to race, religion, gender, national origin, handicap or age.

Pennsylvania Housing Finance Agency

MEMBERS OF THE BOARD

Karen A. Miller
Secretary of Community Affairs



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Secretary of Commerce

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State Treasurer

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Ross Development Company

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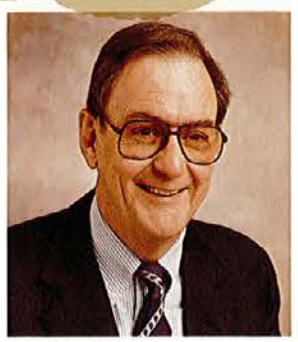
Karen A. Miller
Chairman



Karl Smith
Executive Director

MESSAGE TO THE GOVERNOR

1988 has been a year of challenge and opportunity for the Pennsylvania Housing Finance Agency. The continued decline in federal housing supports and United States tax law changes have made the development of affordable housing more difficult than at any time in the past fifteen years. In this environment the Agency has had to rely more than ever on its own resources. New initiatives to house the homeless, to make home ownership more accessible and to start once again the construction of affordable rental apartments have been undertaken.

The centerpiece of this effort is a $26 million infusion of capital, provided by the Agency's reserves, into multifamily housing. Two programs have been designed around this subsidy to demonstrate successful methods to generate the development of new apartment units. HOMES (Housing Opportunities Make Economic Sense) and the Homeless Housing Demonstration Program are financing permanent housing for our most needy citizens.

HOMES combines attractive long term financing, tax credits and insurance with Agency-funded subsidized loans. Over 1,000 units are in design or under construction.

The Homeless Housing Demonstration Program has brought together an innovative group of sponsors and local support service providers. Creativity is the foundation upon which this program was established. Nineteen proposals have been approved to date allowing 250 families to live in dignity and start to rebuild their lives.

A $20 million construction financing line of credit is now in place with the state Treasury Department. These Treasury-backed loans, at two points below prime rate, will enable the Agency to further reduce the costs of building rental units. This innovation will help the Agency to make decent apartments affordable for more Pennsylvanians.

Owning a home is part of the American dream. It encourages community stability, essential if Pennsylvania's families, local governments, and schools are to thrive. Purchasing a home, however, is increasingly beyond the reach of many citizens. Since 1980 home ownership rates across the United States have declined. According to a study by the Joint Center for Housing Studies of the Massachusetts Institute of Technology and Harvard University, if home ownership had remained at 1980 levels, an additional 400,000 households would own homes today.

The Agency is helping to reverse this trend in Pennsylvania.

Two requirements of purchasing a home, mortgage insurance and closing costs, are major obstacles to first time buyers with little cash available. Responding to the needs of these Pennsylvanians, the Agency has instituted major policy changes that have enhanced its home financing efforts. PHFA lowered its closing cost requirements and initiated an effort authorizing participating single family lenders to offer Federal Housing Administration insurance. These refinements allow the Agency to reach many qualified home buyers who were previously excluded from ownership.

These modifications have allowed 3,500 families with incomes below $22,000 to purchase their first homes. PHFA will continue its review of the single family program to extend the benefits of ownership to as many Commonwealth citizens as possible.

The number of families served by the Homeowners' Emergency Mortgage Assistance Program grew to over 8,000 in 1988. As this unique endeavor has matured PHFA has demonstrated that, with dedication and support, a state can help those citizens who, through economic circumstances beyond their control, are threatened with the loss of their homes to foreclosure. More than $95 million has been committed to the program to date.

On behalf of the Board and Staff of the Pennsylvania Housing Finance Agency, we wish to thank the Governor, the General Assembly, and the Commonwealth's Congressional delegation for their guidance and support. As we approach the new year we are ready to confront the challenges ahead and committed to the premise that all citizens have a right to decent, affordable housing.

Karen A. Miller　　Karl Smith

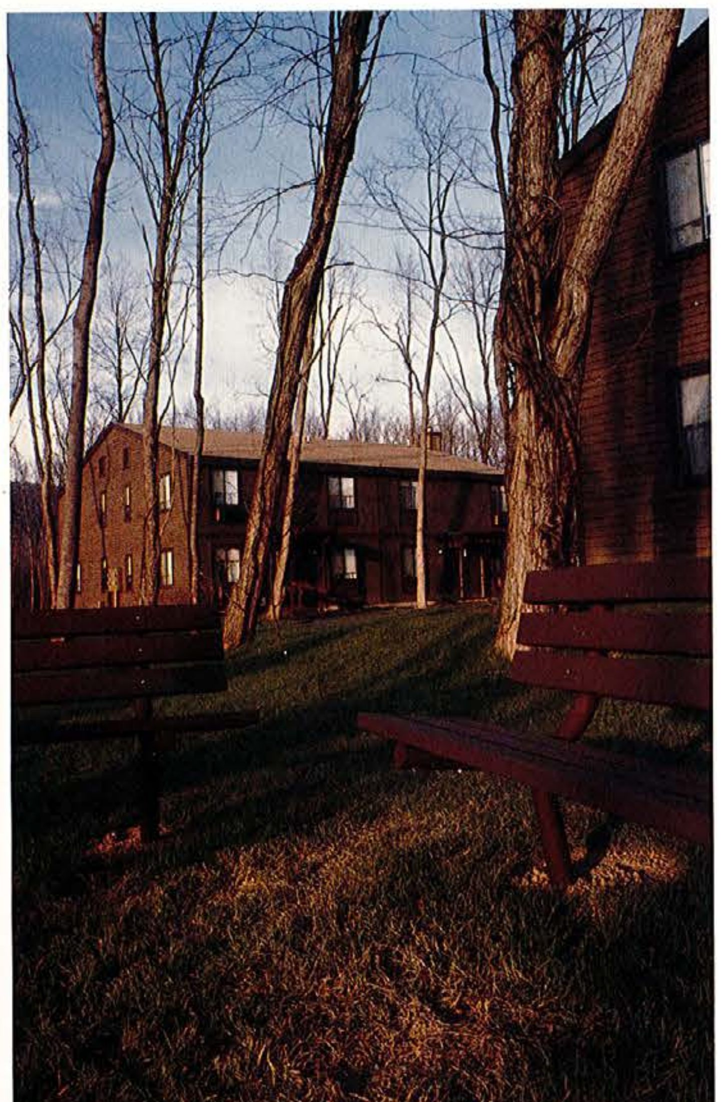
Karen A. Miller
Chairman

Karl Smith
Executive Director

THE YEAR IN REVIEW

Agency Programs

In the past year PHFA has committed $26 million to increase Pennsylvania's stock of affordable rental housing units. This will result in the development of nearly 1,300 new or rehabilitated apartments.



When it created the Pennsylvania Housing Finance Agency in 1972, the General Assembly gave the state a valuable mechanism to provide decent, affordable places to live for its citizens. By financing apartments and making mortgage loans to first time home buyers the Agency has helped stabilize and enhance the state's housing stock.

With over $2 billion in financing to date, the Agency has played a significant role in meeting the needs of those households who, because of financial limitations, are unable to find affordable shelter. 30,600 apartments in 310 developments across the state have been constructed using Agency financing.

In 1981, the Legislature authorized the Agency to issue single family mortgage revenue bonds for first time home buyers. This set in motion a home ownership program that has allowed 25,000 families to buy homes of their own. Loans are originated by local lenders and are available in every county of the state. The typical buyer has an income of $22,300. Families participating in the program buy modestly priced starter houses.

Pennsylvania's housing commitment is also unique. In 1983, the Legislature approved a measure to prevent the loss of homes by those Pennsylvanians who, because of a crisis in the state's economy, were in danger of losing their homes to foreclosure. No other state in the Nation has such a program. Since its inception, the Homeowners' Emergency Mortgage Assistance Program (HEMAP) has allowed over 8,000 Commonwealth citizens to keep their houses. Funds for the program are provided by the state government. The Housing Finance Agency administers the mortgage assistance.

The homes HEMAP has saved represent nearly a half-billion dollars worth of residential property kept from foreclosure. The initiative is a determined effort to protect against the breakup of families, loss of employment and community disintegration.

Multifamily Activities

To help make up for the elimination of federal allocations the Agency has committed $26 million of its own funds to create rental housing. This subsidy makes the high costs of developing affordable housing more economically feasible. Two groups have been targeted: the homeless and low income families. $10 million has been directed to the Homeless Housing Demonstration Program which was developed to help alleviate this all too common phenomenon. To date, 250 permanent apartment units are being developed for the homeless in 19 separate projects throughout the state.

The remaining $16 million has been set aside to demonstrate innovative ways of developing affordable rental units under a program called HOMES: Housing Opportunities Make Economic Sense. HOMES subsidies can be used in a variety of ways to reduce construction and rehabilitation costs. The ultimate goal is lower rent payments for residents. Over 1,000 units will receive HOMES funding. PHFA requires sponsors to make use of as many grant sources and support services as possible to leverage Agency funds.

No state or federal tax dollars are spent for these pioneering efforts. Careful, prudent investments by PHFA have generated sufficient resources to finance both programs from general fund reserves. Projects selected for receipt of Homeless Demonstration or HOMES financing are those that hold high promise of success.

The economic impact of new home construction financed by the Agency is substantial. More than 16,000 jobs paying $320 million in wages are a direct result of PHFA's Single Family program.

The Agency is the second state housing finance agency in the country approved by the U.S. Department of Housing and Urban Development for participation in the 221(d) co-insurance program. This program allows developers of rental housing to receive low cost mortgage insurance directly from PHFA. As a result sponsors of multi-family housing developments can receive the credit enhancement necessary to make their project work. Co-insurance is another cost-effective, practical way PHFA can add to the Commonwealth's affordable rental stock.

During this past year PHFA expanded its Low Income Rental Housing Tax Credit Program, an outgrowth of the Tax Reform Act of 1986. By promoting the use of this program and providing legal and technical assistance to applicants, the Agency has helped multifamily developers produce more than 1,200 new apartments for low income Commonwealth renters. The tax credit is one of the few remaining federal incentives that encourages the commitment of private funds to create and preserve public purpose housing.

The Agency also administers the Rental Rehabilitation Program for more than 200 Pennsylvania communities. This program provides grant funds to small entrepreneurs who renovate substandard, older properties that increase the supply of rental units available for lower income residents. Assistance is on a matching, split subsidy basis, with community need, local commitment and program design strongly affecting awards of program dollars. Since PHFA assumed responsibility for this initiative in 1986, more than 800 apartments have been restored, at an average per unit cost of $3,800. In 1988 the Agency provided $2.5 million to fund 13 new proposals from local developers.

PHFA is pursuing a Robert Wood Johnson Foundation grant to establish a supportive services program for elderly residents. The grant will allow increased coordination of the services provided by local community agencies and make the delivery of these services more efficient. A program to better educate housing managers and support personnel to the needs of older persons is part of the grant request.

Local governments benefit from PHFA programs. Agency financed developments pay $15 million of taxes while new single family homes increase tax bases by $16 million each year.

Key to the success of all these efforts is a commitment by developers, communities and local support organizations to leverage the Agency's limited resources. Innovative contributions of time, talent and money will help to insure the future production of affordable housing.

Single Family Activities

PHFA is continually upgrading its procedures to improve the effectiveness of the single family program. This year, the program was modified to include FHA-insured loans and reduction of closing costs by an average of $1,000 per loan. These two measures helped more lower income Pennsylvanians to buy homes of their own.

The single family program is especially designed to meet the housing needs of the Commonwealth's first time home buyers. Both new and existing homes qualify for mortgage loans. With a fundamentally sound older housing stock, Pennsylvania has a large supply of affordable dwellings. This resource, coupled with Agency financing, has made the program one of the most productive in the nation. Participants have average incomes of $22,300 and buy homes with prices averaging $50,000.

Although the single family program is targeted to those citizens who are otherwise excluded from home ownership, the quality of the Agency's portfolio rivals that of lenders to more affluent clients. Of the 25,000 home loans financed by PHFA, only 178, less than one percent, have been foreclosed. This is an indication of the care with which PHFA structures each of its financing programs.

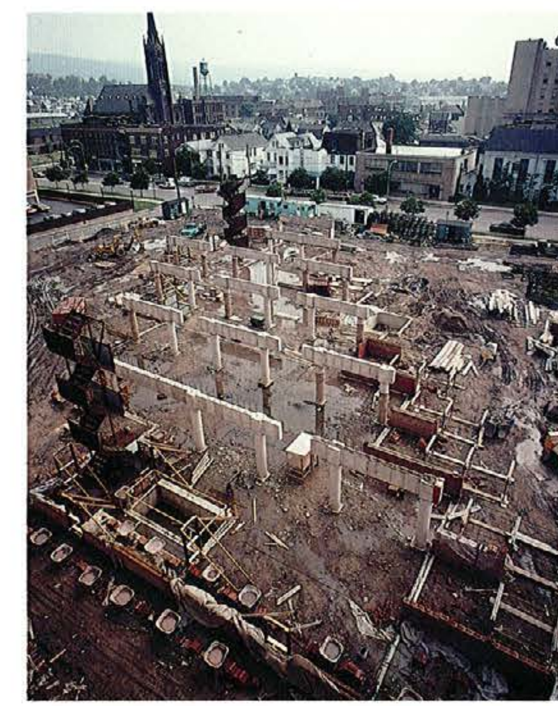
The future of mortgage revenue bond financing is uncertain. Nevertheless, the Agency, through judicious planning, has reserved sufficient authority to operate the program an additional two years, even if the resource is lost. This capability will allow the Agency to fully examine single family program options.

Homeowners' Emergency Mortgage Assistance

The Homeowners' Emergency Mortgage Assistance Program (HEMAP) was established by Act 91 of 1983. It is designed to protect citizens who, through no fault of their own, are in danger of losing their homes to foreclosure. Eligible applicants receive assistance in an amount sufficient to bring mortgage payments current, and may also be eligible for continuing monthly payment assistance for up to thirty-six months. HEMAP is a loan program. Repayment begins and interest starts to accrue when the home owner is financially able.

The first cycle of loans from 1984 and 1985 is now in the repayment phase. Repaid loans are reinvested in the program so that other citizens facing foreclosure can be assisted. More than five million dollars of repayments have already been received.

This program is supported by funds provided by an annual appropriation from the state.



The Future

As the housing needs of Commonwealth citizens change with evolving demographic patterns, the Housing Finance Agency will respond with programs to address those needs. Most important is the continued support for affordable housing. Working with private developers, non-profit development corporations, local housing production organizations and governmental entities, PHFA attempts to maintain a financial environment that will make the National Housing Act's goal of "a decent home and a suitable living environment," a reality for every Pennsylvanian.

The Pennsylvania Housing Finance Agency will continue to rely on its strong fiscal resources, its committed Board and professional staff to increase the number of good, affordable places to live for Commonwealth citizens.

PHFA FINANCES APARTMENTS

The Pennsylvania Housing Finance Agency has made multi-family mortgage loans of nearly $1,000,000,000 to finance more than 30,000 apartments across the Commonwealth.

Pennsylvania's population of older citizens is the second largest in the nation. Elderly residents of PHFA-financed apartments receive subsidies that allow them to enjoy affordable rent payments.

PERMANENTLY FINANCED PHFA RENTAL HOUSING APARTMENT PROJECTS

PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
Baldwin Towers	Allegheny	99 E/N	$4,048,475
Bellefield Dwellings	Allegheny	158 G/R	4,330,000
Bridgeville Towers	Allegheny	102 E/N	3,305,000
Carson Towers	Allegheny	133 E/R	4,210,000
Eastland Apartments	Allegheny	27 F/R	825,000
Fairfax Apartments	Allegheny	247 G/R	3,965,000
Granada Apartments	Allegheny	22 E/R	690,000
Hilltop Apartments	Allegheny	152 F/N	3,125,000
Honus Wagner Apartments	Allegheny	129 E/N	4,411,500
Hulton Arbors	Allegheny	78 F/N	3,480,000
K. Leroy Irvis Tower	Allegheny	191 E/N	6,440,000
Monroe Tower	Allegheny	101 E/N	3,680,000
Penn Arbors	Allegheny	125 E/N	5,084,295
Punta Gorda Place	Allegheny	20 G/N	189,837
Riverview Park Apartments	Allegheny	168 G/N	3,250,000
Rolling Woods	Allegheny	85 F/N	3,539,137
Shields Building	Allegheny	30 E/R	625,000
South Park Apartments	Allegheny	101 F/N	4,219,591
*Squires Manor Phase I	Allegheny	132 G/N	2,412,000
The Lyceum Et Al	Allegheny	28 F/R	1,152,700
Thomas Village Apartments	Allegheny	66 F/N	2,820,260
Towne North Tower	Allegheny	135 E/N	4,705,000
Village Green Apartments	Allegheny	100 F/N	3,991,905
William S. Moorhead Tower	Allegheny	142 E/N	5,855,000
Penn Park Apartments	Allegheny	20 G/F	801,000
Beaver Falls Plaza	Beaver	121 E/N	3,800,000
Conway Towers	Beaver	85 E/N	3,112,800
New Brighton Elderly Apartments	Beaver	101 E/N	4,532,500
PRV Manor	Beaver	35 E/N	1,550,000
Spring Run Apartments Phase I	Beaver	101 F/N	4,190,000
Valley View Apartments	Beaver	120 F/N	3,710,000
Penn Bedford Apartments	Bedford	50 E/R	2,037,745
777 Court Street	Berks	90 G/N	2,465,000
B'Nai B'rith House of Reading	Berks	175 E/N	4,910,000
Reading Elderly Housing	Berks	201 E/N	7,115,000
Sencit Townehouse	Berks	201 E/N	5,135,000
Cherry Grove Apartments	Blair	76 F/N	2,905,000
Greenfields	Blair	59 F/N	1,985,000
Spring Manor	Blair	51 E/N	1,804,035
Tyrone Elderly Housing	Blair	100 E/N	2,495,000
Tyrone Family Housing	Blair	50 F/N	1,520,000
Chemung View	Bradford	101 E/N	3,157,900
Galilee Village	Bucks	120 E/N	2,785,000
Meadow Glen	Bucks	91 F/N	3,741,513
Woodview Apartments	Bucks	119 E/N	4,455,000
Butler Arbors	Butler	120 E/N	3,050,000
Barnesboro Family Project	Cambria	62 F/N	2,167,552
Garden Terrace Apartments	Cambria	101 E/N	3,110,000
Haida Village	Cambria	31 F/N	1,131,548
Lodge Run	Cambria	31 E/N	1,018,403
Mountview Manor	Cambria	61 E/N	1,825,000
Gardens of Gypsy Hill	Carbon	71 F/N	2,380,000
Lansford Townhouses	Carbon	51 F/N	1,814,400
Lehigh Coal & Navigation Building	Carbon	27 E/R	815,000
Philipsburg Towers	Centre	102 E/N	2,705,000
City Clock Apartments	Chester	32 E/R	751,500
Park Spring Apartments	Chester	151 F/N	4,120,000
Regency Park Apartments	Chester	126 F/N	4,870,000
Trinity House	Chester	134 E/N	4,810,000
Vincent Heights	Chester	91 E/N	3,354,100
Broadwood Tower	Clarion	66 E/N	1,920,000
Hillside Village	Columbia	51 F/N	1,720,000
Bartlett Gardens	Crawford	43 E/R	1,145,000
Forest Green Estates	Crawford	100 F/N	3,405,000
Titusville Housing for Elderly	Crawford	65 E/N	1,968,000
Orchard Apartments	Cumberland	81 F/N	3,115,200
Susquehanna View Apartments	Cumberland	201 E/N	5,533,500
Village of Timber Hill	Cumberland	56 G/N	1,407,300
Cumberland Court Apartments	Dauphin	108 F/N	2,365,000
Edison Village	Dauphin	125 EF/R	5,385,000
Hershey Plaza	Dauphin	216 E/N	7,245,000
Interfaith Apartments	Dauphin	126 E/N	4,365,000
Pheasant Hill Estates	Dauphin	172 E/N	4,681,600
Williamsburg Estates	Dauphin	312 G/N	7,025,000
Daniel Scott Commons	Delaware	72 F/N	3,272,500
Palmerhouse	Delaware	124 E/N	5,564,859
Robert H. Stinson Tower	Delaware	150 E/N	4,840,000
Barnabas Court	Erie	57 E/N	1,820,000
Covington Valley Estates	Erie	43 F/N	1,662,959
Girard Towers	Erie	51 E/N	1,875,038
Glenwood Manor Apartments	Erie	224 G/R	4,341,760
Independence House	Erie	12 E/N	400,000
Pennsylvanian	Erie	112 E/R	2,655,000
Richford Arms	Erie	100 E/R	3,150,000
Tandem Townhouses	Erie	48 F/N	1,880,000
Union City Estates	Erie	51 F/N	1,907,808
Simpson Manor	Fayette	126 F/N	3,510,000
Union Gardens	Fayette	95 F/N	3,947,849
Barclay Village	Franklin	86 F/N	2,335,000
Waynesboro Trinity House	Franklin	76 E/N	3,315,000
Blairsville House	Indiana	87 E/N	1,550,000
Mahoning Towers	Jefferson	101 E/N	2,450,000
Allied Terrace	Lackawanna	121 E/N	4,200,000
Olyphant Apartments	Lackawanna	90 E/N	3,581,407
Village Park Apartments	Lackawanna	160 F/N	5,655,000
Lancaster Arms	Lancaster	74 F/N	3,376,419
Market House Apartments	Lancaster	51 E/R	1,920,000
Millersville Manor	Lancaster	121 E/R	2,875,000
Oak Hollow South	Lancaster	67 F/N	2,295,000
Old North Mansion Apartments	Lancaster	18 G/R	300,742
Plum Tree Apartments	Lancaster	15 F/R	605,000
Prince Street Towers	Lancaster	201 E/N	5,640,000
Rothsville School Apartments	Lancaster	15 G/R	535,565
Dennis Schill Manor	Lawrence	71 E/N	2,835,000
Hileman Apartments	Lawrence	41 F/R	1,120,000
Highland Glen	Lebanon	96 F/N	3,805,000
Plaza Apartments	Lebanon	128 G/N	2,250,000
Allentown NSA I	Lehigh	21 F/R	524,397
South 6th Street Rehab	Lehigh	49 F/R	1,750,000
Towne House Apartments	Lehigh	160 E/N	4,195,000
Woodland Manor	Lehigh	70 F/N	2,620,000
Daniel J. Flood Tower	Luzerne	211 E/N	6,500,000
Edwardsville Village	Luzerne	252 F/N	4,950,000
Hazlewood	Luzerne	100 E/N	2,520,000
Marion Terrace	Luzerne	200 F/N	5,800,000
Marlboro Place	Luzerne	76 G/N	1,345,000
Ten East South	Luzerne	130 G/N	4,370,000
Berkshire Manor	Lycoming	20 E/R	625,000
Emery Towers	McKean	102 E/N	4,411,208
Connelly Manor	Mercer	127 E/N	3,768,000
Greenville House	Mercer	101 E/N	3,501,900
Reynolds West Estates	Mercer	101 F/N	3,935,000
Wade D. Mertz Towers	Mercer	103 E/N	3,095,000

*No longer in Agency's portfolio

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

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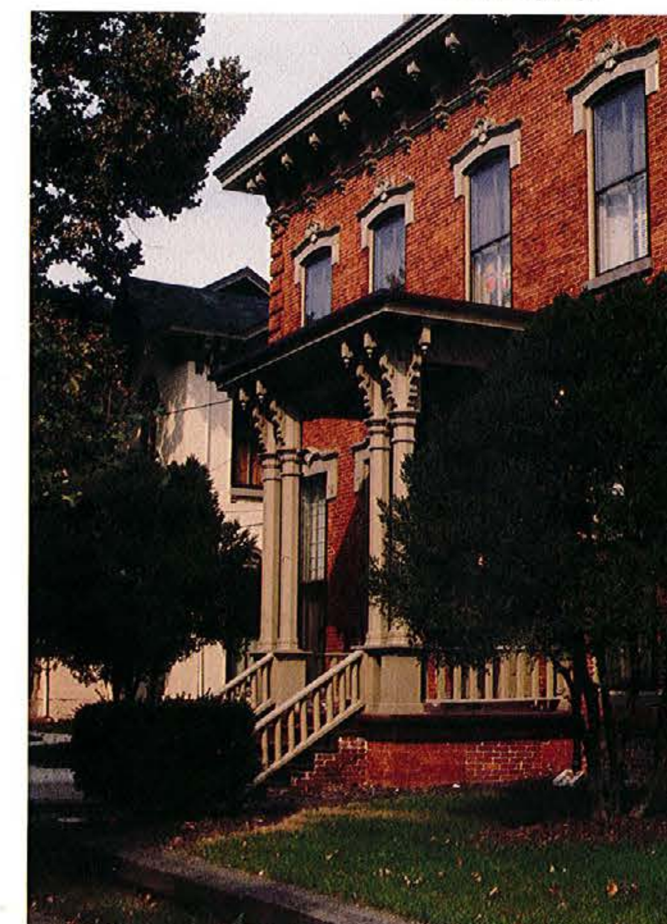
PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
Kish Apartments	Mifflin	141 E/N	3,725,000
Pocono Creek Apartments	Monroe	100 G/N	2,265,000
Dock Village	Montgomery	100 F/N	4,275,000
*Meadowick Village	Montgomery	273 G/N	7,050,000
Norristown Elderly Housing	Montgomery	175 E/N	6,560,000
Norriswood Apartments	Montgomery	42 G/R	814,319
Oakwood Gardens	Montgomery	48 F/R	1,430,000
Rolling Hills	Montgomery	232 F/N	6,250,000
Telford Gardens Apartments	Montgomery	49 F/R	1,765,000
55 Broadway Apartments	Northampton	26 G/R	465,500
Bangor Elderly	Northampton	101 E/N	3,825,000
Easton Senior Citizens Housing	Northampton	98 E/N	1,776,000
Coal Township Elderly Housing	Northumberland	101 E/N	2,860,000
Milton Apartments	Northumberland	80 F/N	3,165,000
Mt. Carmel Elderly Housing	Northumberland	100 E/N	2,700,000
Riverfront Apartments	Northumberland	200 E/N	5,492,700
Perry Manor	Perry	50 F/N	1,970,000
Allen Lane Apartments	Philadelphia	17 F/R	755,900
Breslyn Apartments	Philadelphia	60 F/R	3,235,100
Crafts House	Philadelphia	55 G/R	3,250,000
Delaire Landing	Philadelphia	180 G/N	3,845,000
Dorado Village	Philadelphia	81 F/N	4,134,700
Franklin Park Apartments	Philadelphia	125 F/R	5,934,600
15th and Jefferson	Philadelphia	39 F/N	1,805,100
Haddington Elderly Apartments	Philadelphia	136 E/N	5,920,000
Haddington Townhouses	Philadelphia	126 F/N	6,495,700
Harbor View Towers Retirement Center	Philadelphia	196 E/N	10,967,000
Kensington Townhouses	Philadelphia	71 F/N	3,400,300
Larchwood Gardens	Philadelphia	180 G/R	2,665,623
Levering Court	Philadelphia	20 G/R	650,000
Monte Vista Apartments	Philadelphia	159 EF/R	7,606,500
Oak Lane/Chelten Court	Philadelphia	62 G/R	1,519,000
*One Buttonwood Square	Philadelphia	304 G/N	10,220,000
Parkside Apartments	Philadelphia	65 F/R	2,206,000
Park Tower Apartments	Philadelphia	157 E/N	7,155,000
*Queen Village II	Philadelphia	51 G/R	1,180,000
Susquehanna Townhouses	Philadelphia	37 F/R	1,807,900
*Temple University Student Housing	Philadelphia	82 G/R	2,000,000
Trinity Place Apartments	Philadelphia	44 G/R	535,000
Venango House	Philadelphia	106 E/N	4,820,000
Mahanoy Elderly Housing	Schuylkill	125 E/N	3,940,000
Majestic House	Schuylkill	74 E/R	2,520,000
Stayman Park	Snyder	77 E/N	2,470,000
Pine Meadow	Snyder	100 F/N	3,715,000
Coleman Towers	Somerset	51 E/N	2,007,847
Laurel Village II	Somerset	48 F/N	1,570,000
Village at Somerset	Somerset	101 F/N	4,772,967
Montrose Square	Susquehanna	81 E/N	2,750,000
Mansfield Village	Tioga	51 F/N	1,883,130
Kelly Apartments	Union	80 E/N	2,130,000
Franklin Arbors	Venango	88 E/N	2,365,000
Bentleyville Apartments	Washington	102 F/N	3,925,000
Canon House	Washington	104 E/N	3,165,000
Char House	Washington	104 E/N	3,430,000
Liberty Tower	Washington	104 E/N	3,730,000
Penn Park	Washington	25 F/R	801,000
Thomas Campbell North	Washington	75 E/N	2,255,000
Filbern Manor	Westmoreland	127 E/N	3,800,000
Huntingdon Village	Westmoreland	96 F/N	3,960,000
Maple Hill Apartments	Westmoreland	72 F/N	2,869,500
Markvue Apartments	Westmoreland	35 G/N	563,000
Nu-Ken Tower	Westmoreland	101 E/N	4,175,000
Pershing Square	Westmoreland	111 E/N	4,285,000
Rostraver Apartments	Westmoreland	96 F/N	3,583,400
Sandalwood	Westmoreland	86 F/N	3,512,269
Wimmerton Apartments	Westmoreland	100 G/N	1,820,000
Cable House	York	83 F/R	3,565,000
Delphia House	York	104 E/N	3,050,000
TOTAL PROJECTS: 190		**18928**	**614,257,762**

PHFA-FINANCED CONSTRUCTION LOAN PROJECTS

PROJECT	COUNTY	UNITS/TYPE	MORTGAGE
Bower Hill III Apartments	Allegheny	135 E/N	$7,842,900
Brinton Towers	Allegheny	190 E/N	4,272,200
Heritage Park	Allegheny	108 E/N	4,171,100
Roosevelt Arms	Allegheny	191 E/R	5,290,100
Settlers Place	Allegheny	164 F/N	5,732,100
Squirrel Hill	Allegheny	117 E/R	3,648,600
Scottswood	Beaver	106 F/N	4,246,300
Wilson Townhouses	Berks	200 F/N	4,483,800
Belmondo on the Delaware	Bucks	195 G/N	5,265,000
Center Square Towers	Bucks	352 E/N	7,558,400
Downingtown Sr. Citizen Housing	Chester	40 E/N	1,216,800
Bloomsburg Elderly	Columbia	76 E/N	2,407,400
Cumberland Elderly Housing	Cumberland	101 E/N	3,009,800
Maclay Street NSA Project	Dauphin	126 F/R	6,033,500
Rutherford Park Townhouses	Dauphin	85 F/N	3,534,400
Elk Towers	Elk	103 E/N	3,517,300
Mid-City Towers	Erie	132 E/N	3,437,700
Connellsville Towers	Fayette	111 E/N	4,247,600
Carmichaels Arbors	Greene	76 E/N	2,114,500
Mountainview Gardens	Greene	120 F/N	4,229,400
Robindale Heights Apartments	Indiana	20 F/N	695,600
Mulberry Tower	Lackawanna	206 E/N	6,692,900
Webster Towers	Lackawanna	98 E/N	2,076,200
North Queen St. Apartments	Lancaster	8 F/R	517,200
Westview Terrace	Lawrence	106 F/N	2,036,705
Brookside Apartments	Lebanon	100 E/N	2,098,500
Plaza II	Lebanon	128 G/N	2,521,100
Catasaqua Apartments	Lehigh	10 F/R	397,200
Lutheran Manor	Lehigh	197 E/N	5,630,500
Anthracite Apartments	Luzerne	121 E/N	3,918,000
Center City Apartments	Luzerne	176 E/N	5,525,200
City Heights	Luzerne	151 E/N	4,658,000
Eastside Moderate Income Housing	Luzerne	76 F/N	1,478,400
Freeland II Housing	Luzerne	22 E/R	1,032,100
Hillside Apartments	Luzerne	200 F/N	4,099,900
Sherman Terrace Apartments	Luzerne	344 EF/N	7,249,300
Williamsport Elderly Housing	Lycoming	101 E/N	2,758,600
Pine Tree Village	Mercer	128 F/N	5,198,900
Riverview Manor	Mercer	123 F/N	2,512,000
Shenango Village	Mercer	100 F/N	1,877,500
Courtland Plaza	Monroe	101 E/N	2,793,300
Creekview Apartments	Monroe	80 F/N	2,288,700
Moreland Towers	Montgomery	138 E/N	2,884,700
Southside Apartments	Northampton	150 E/N	4,045,000
2400 Chestnut Street	Philadelphia	372 G/N	15,280,000
20th and South Streets	Philadelphia	61 G/R	2,055,400
American Postal Workers House	Philadelphia	300 E/N	10,465,500
Delaire Landing Phase 5	Philadelphia	216 G/N	5,204,500
Executive House	Philadelphia	301 G/N	18,634,500
Gray Manor	Philadelphia	130 E/N	5,421,000
Lutheran Elderly Housing	Philadelphia	208 E/N	6,992,400
Mount Vernon Apartments	Philadelphia	124 F/N	2,428,800
Shalom Apartments	Philadelphia	155 E/N	4,833,400
Stenton Arms Apartments	Philadelphia	113 F/R	1,158,100
University City Townhouses	Philadelphia	70 F/N	3,807,400
University Plaza Apartments	Philadelphia	442 E/N	15,500,800
Verona Apartments	Philadelphia	117 G/R	2,614,800
West Poplar Apartments	Philadelphia	140 F/N	4,939,800
Wister Townhouses	Philadelphia	200 F/N	7,308,700
Lewisburg Elderly Housing	Union	80 E/N	2,698,900
Oak Hill Apartments	Venango	120 F/N	2,313,100
Pin Oak Village	Venango	100 F/R	1,752,700
Belvedere Acres	Washington	96 F/N	3,799,000
Washington Arbors	Washington	101 E/N	2,587,200
TOTAL PROJECTS: 64		**9058**	**281,040,405**

Preserving and increasing the supply of affordable apartments is a priority of the Pennsylvania Housing Finance Agency.



**No longer in Agency's portfolio*

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

PHFA-FINANCED TURNKEY PUBLIC HOUSING CONSTRUCTION LOAN PROJECTS

PROJECT	COUNTY	UNITS/TYPE		MORTGAGE
West View Elderly	Allegheny	100	E/N	$4,196,970
Monaca Elderly Turnkey	Beaver	100	E/N	4,583,304
Birdsboro Elderly Turnkey	Berks	16	E/N	664,938
Fleetwood Elderly Turnkey	Berks	20	E/N	710,113
Sinking Springs	Berks	25	F/N	1,319,220
Wyalusing Elderly	Bradford	30	E/N	1,186,447
Slippery Rock Turnkey	Butler	50	E/N	2,144,700
Lehighton Turnkey	Carbon	10	G/N	550,426
Oxford Elderly Turnkey	Chester	48	E/N	2,015,473
Renovo Family Turnkey	Clinton	27	F/N	1,617,248
Pomfret Street Apartments	Cumberland	25	F/N	1,188,387
Williamstown Boro Family Turnkey	Dauphin	10	F/N	469,658
Williams Township Family Turnkey	Dauphin	40	F/N	2,071,757
J. Leonard Ostrow Turnkey	Erie	80	E/N	2,742,400
Millcreek Elderly Housing	Erie	65	E/N	2,000,000
North East Elderly Turnkey	Erie	40	E/N	1,443,786
Burrell Township Turnkey	Indiana	50	EF/N	2,291,580
Saltsburg Family Turnkey	Indiana	25	F/N	1,226,070
Carbondale Elderly Turnkey	Lackawanna	45	E/R	1,750,795
Lebanon City Turnkey	Lebanon	39	F/N	1,584,798
Slatington Elderly	Lehigh	75	E/N	3,752,946
Foster Township Turnkey	McKean	42	EF/N	1,792,422
McKean County Turnkey	McKean	136	EF/N	2,437,400
Schuylkill Haven Turnkey	Schuylkill	40	F/N	1,596,695
Middleburg Family Turnkey	Snyder	40	F/N	1,757,096
Arnold Family Housing	Westmoreland	20	F/N	1,004,945
Greensburg Family	Westmoreland	20	F/N	955,533
Lower Burrell Elderly Turnkey	Westmoreland	125	F/N	4,361,280
Trafford Elderly Turnkey	Westmoreland	100	E/N	3,708,320
Fairview Township Turnkey	York	75	E/N	3,209,697
TOTAL PROJECTS: 30		1518		60,334,404

PHFA-FINANCED RURAL RENTAL HOUSING PROJECTS

PROJECT	COUNTY	UNITS/TYPE		MORTGAGE
Rayburn Manor	Armstrong	46	F/N	$1,415,367
Washington Glen	Bucks	42	F/N	1,475,418
Emerald Estates	Cambria	35	E/N	1,373,000
McAteer Village	Clearfield	35	F/N	1,231,580
Titusville Manor	Crawford	47	F/N	1,421,055
Hummelstown Manor	Dauphin	51	E/N	1,672,105
Strathemeade Square	Franklin	23	F/N	846,000
Nathan Village Apartments	Lancaster	51	E/N	1,322,622
Oak Bottom Village	Lancaster	24	F/N	795,800
Oak Hollow	Lancaster	56	F/N	947,900
Hillcrest Village	Montgomery	72	F/N	2,223,900
Valley Manor	Montgomery	40	F/N	1,279,125
Valley Vista	Montgomery	101	E/N	2,311,000
Avonmore Housing for the Elderly	Westmoreland	36	E/N	1,357,578
Derry Area Senior Citizens Housing	Westmoreland	18	E/N	342,000
TOTAL PROJECTS: 15		677		20,014,450

E = Elderly F = Family G = General Occupancy H = Handicapped N = New Construction R = Rehabilitated Dwelling

FINANCIAL STATEMENTS

PENNSYLVANIA HOUSING FINANCE AGENCY
REPORT ON AUDITS OF FINANCIAL STATEMENTS
for the years ended June 30, 1988 and 1987

Coopers &Lybrand

certified public accountants

To the Members of the
Pennsylvania Housing Finance Agency
Harrisburg, Pennsylvania

We have audited the accompanying balance sheet of the Pennsylvania Housing Finance Agency (Agency) as of June 30, 1988, and the related statements of revenues, expenses and changes in fund balances, and changes in financial position for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Agency as of June 30, 1987, were examined by other auditors whose report dated September 24, 1987, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1988 financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 1988, and the results of its operations and its changes in financial position for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedules, Required Pension Information: Analysis of Funding Process and Revenues by Source and Expenses by Type, on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand

5 North Fifth Street
Harrisburg, Pennsylvania
September 29, 1988

Balance Sheets

June 30, 1988 and 1987

	1988				1987			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
Assets								
Cash and Investments (Notes E and I)	$68,565,547	239,589,418	360,449,310	668,604,275	$73,134,037	212,739,193	391,524,250	677,397,480
Mortgage loans receivable (Note F)	444,600	544,723,764	653,583,376	1,198,751,740	496,386	537,834,977	580,653,111	1,118,984,474
Construction advances (Note F)	—	3,767,463	—	3,767,463	—	12,720,112	—	12,720,112
Deferred and other assets	1,459,803	8,883,643	2,702,569	13,046,015	1,717,138	9,268,303	2,473,727	13,459,168
Due from other funds	—	—	6,294,191	6,294,191	—	—	4,075,048	4,075,048
	$70,469,950	**796,964,288**	**1,023,029,446**	**1,890,463,684**	**$75,347,561**	**772,562,585**	**978,726,136**	**1,826,636,282**
Liabilities and Fund Balances								
Notes payable (Note G)	$ —	2,000,000	—	2,000,000	$ —	—	2,611,626	2,611,626
Accrued interest payable	—	20,349,989	34,446,801	54,796,790	—	20,349,613	24,931,476	45,281,089
Accounts payable and accrued expenses	677,954	—	—	677,954	373,038	—	—	373,038
Escrow and other liabilities	902,865	66,928,032	7,746,857	75,577,754	954,442	56,200,218	3,253,814	60,408,474
Bonds payable (Note H)	—	658,091,594	945,686,576	1,603,778,170	—	660,633,381	918,947,825	1,579,581,206
Due to other funds	5,302,158	992,033	—	6,294,191	3,271,869	803,179	—	4,075,048
Total liabilities	6,882,977	748,361,648	987,880,234	1,743,124,859	4,599,349	737,986,391	949,744,741	1,692,330,481
Fund balances (Note I)								
Reserved and designated	33,257,350	18,202,925	16,017,743	67,478,018	26,517,145	3,360,000	11,364,728	41,241,873
Unreserved	30,329,623	30,399,715	19,131,469	79,860,807	44,231,067	31,216,194	17,616,667	93,063,928
Total fund balances	63,586,973	48,602,640	35,149,212	147,338,825	70,748,212	34,576,194	28,981,395	134,305,801
	$70,469,950	**796,964,288**	**1,023,029,446**	**1,890,463,684**	**$75,347,561**	**772,562,585**	**978,726,136**	**1,826,636,282**

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Changes in Fund Balances

for the years ended June 30, 1988 and 1987

	1988				1987			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
REVENUES:								
Interest income:								
Investments	$ 5,532,034	13,453,457	24,150,995	43,136,486	$ 5,190,052	12,735,815	16,912,644	34,838,511
Mortgage loans receivable (Note F)	29,217	51,010,564	61,189,248	112,229,029	33,474	51,307,357	66,868,031	118,208,862
Construction advances (Note F)	—	651,580	—	651,580	—	1,040,644	—	1,040,644
Total interest income	5,561,251	65,115,601	85,340,243	156,017,095	5,223,526	65,083,816	83,780,675	154,088,017
Fees and charges	3,310,180	—	—	3,310,180	3,263,265	—	—	3,263,265
Gain on sale of investments	179,591	5,000	2,344	186,935	99,013	206,854	865,963	1,171,830
Total revenue	9,051,022	65,120,601	85,342,587	159,514,210	8,585,804	65,290,670	84,646,638	158,523,112
EXPENSES:								
Interest on notes (Note G)	—	11,666	97,336	109,002	—	207,305	221,573	428,878
Interest on bonds (Note H)	—	57,652,112	80,856,233	138,508,345	—	58,312,018	78,312,773	136,624,791
Salaries and related benefits	4,532,886	—	—	4,532,886	4,163,346	—	—	4,163,346
General and administrative	2,214,455	—	—	2,214,455	2,179,759	—	—	2,179,759
Total expenses	6,747,341	57,663,778	80,953,569	145,364,688	6,343,105	58,519,323	78,534,346	143,396,774
Excess of revenues over expenses before extraordinary items	2,303,681	7,456,823	4,389,018	14,149,522	2,242,699	6,771,347	6,112,292	15,126,338
Extraordinary gain (loss) from early extinguishment of debt (Note H)	—	18,953	(1,135,451)	(1,116,498)	—	270,022	(4,623,539)	(4,353,517)
Excess of revenues over expenses	2,303,681	7,475,776	3,253,567	13,033,024	2,242,699	7,041,369	1,488,753	10,772,821
Interfund transfers – Net (Note D)	(9,464,920)	6,550,670	2,914,250	—	(652,119)	(3,267,159)	3,919,278	—
Fund balances at beginning of year	70,748,212	34,576,194	28,981,395	134,305,801	69,157,632	30,801,984	23,573,364	123,532,980
Fund balances at end of year	**$63,586,973**	**48,602,640**	**35,149,212**	**147,338,825**	**$70,748,212**	**34,576,194**	**28,981,395**	**134,305,801**

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Financial Position

for the years ended June 30, 1988 and 1987

	1988				1987			
	General Fund	Multi-Family Program	Single Family Program	Combined Total	General Fund	Multi-Family Program	Single Family Program	Combined Total
SOURCES OF CASH AND INVESTMENTS:								
From operations:								
Excess of revenues over expenses	$ 2,303,681	7,475,776	3,253,567	13,033,024	$ 2,242,699	7,041,369	1,488,753	10,772,821
Items not using (providing) cash:								
Amortization of discounts on notes and bonds payable		1,326,831	817,402	2,144,233	—	1,518,627	786,243	2,304,870
Other amortization and depreciation	401,538	484,420	(467,086)	418,872	529,857	1,009,079	(3,108,642)	(1,569,706)
Cash provided by (used for) operations before extraordinary items	2,705,219	9,287,027	3,603,883	15,596,129	2,772,556	9,569,075	(833,646)	11,507,985
Extraordinary items – loss (gain) on early extinguishment of debt	—	(18,953)	1,135,451	1,116,498	—	(270,022)	4,623,539	4,353,517
Cash provided by operations	2,705,219	9,268,074	4,739,334	16,712,627	2,772,556	9,299,053	3,789,893	15,861,502
Interfund transfers – net	(9,464,920)	6,550,670	2,914,250	—	(652,119)	(3,267,159)	3,919,278	—
Bond and note proceeds – net of discount	—	4,246,000	258,981,136	263,227,136	—	750,000	493,462,287	494,212,287
Mortgage principal payments received	51,786	4,695,733	71,621,384	76,368,903	66,301	21,947,731	158,753,428	180,767,460
Mortgages permanently financed	—	16,234,197	—	16,234,197	—	21,275,163	—	21,275,163
Increase in due to other funds	2,030,289	188,854	—	2,219,143	3,395,673	200,704	—	3,596,377
Increase in accrued interest payable	—	376	9,515,325	9,515,701	—	—	634,922	634,922
Decrease in other assets, net of other liabilities	109,136	10,708,405	4,027,001	14,844,542	81,887	—	788,644	870,531
Total sources (uses) of cash and investments	(4,568,490)	51,892,309	351,798,430	399,122,249	5,664,298	50,205,492	661,348,452	717,218,242
USES OF CASH AND INVESTMENTS:								
Increase in construction advances and mortgage loans receivable	—	18,927,466	143,977,601	162,905,067	—	34,115,518	96,683,301	130,798,819
Payment of bond principal	—	6,114,618	234,065,000	240,179,618	—	29,452,432	343,669,984	373,122,416
Payment of note principal	—	—	2,611,626	2,611,626	—	8,360,000	368,609	8,728,609
Increase in due from other funds	—	—	2,219,143	2,219,143	—	—	3,596,377	3,596,377
Decrease in accrued interest payable	—	—	—	—	—	2,093,649	—	2,093,649
Increase in other assets, net of other liabilities	—	—	—	—	—	15,385,045	—	15,385,045
Total uses of cash and investments	—	25,042,084	382,873,370	407,915,454	—	89,406,644	444,318,271	533,724,915
Increase (decrease) in cash and investments	(4,568,490)	26,850,225	(31,074,940)	(8,793,205)	5,664,298	(39,201,152)	217,030,181	183,493,327
Cash and investments at beginning of year	73,134,037	212,739,193	391,524,250	677,397,480	67,469,739	251,940,345	174,494,069	493,904,153
Cash and investments at end of year	**$68,565,547**	**239,589,418**	**360,449,310**	**668,604,275**	**$73,134,037**	**212,739,193**	**391,524,250**	**677,397,480**

The accompanying notes are an integral part of the financial statements.

Notes To Financial Statements

for the years ended June 30, 1988 and 1987

A. Authorizing Legislation:

The Pennsylvania Housing Finance Agency (Agency) is a body corporate and politic created by the Housing Finance Agency Law, Act of December 3, 1959, P.L. 1688 (Act), 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 persons and families of low and moderate income 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 political 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.

In December, 1986, legislation was enacted by the Pennsylvania General Assembly to extend the operations of the Agency through December 31, 1995.

B. Fund Accounting:

The accounts of the Agency are organized on the basis of funds, each of which is considered to be a separate accounting entity with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenses. The funds used by the Agency are described below.

General Fund:
The General Fund is utilized to record certain loan origination fees, service fees and revenue from investments not specifically pledged for the repayment of notes or bonds in the other funds. All Agency expenses are recorded in this fund except interest and provisions for potential loan losses which are charged to the loan related funds.

Multi-Family Program:
The Multi-Family Program transactions relate to the construction, rehabilitation and permanent financing of multi-family rental housing developments generally designed for persons and families of low and moderate income or the elderly.

Single Family Program:
The Single Family Program transactions relate to the purchase of mortgage loans for owner-occupied single family residences for persons and families of low and moderate income.

C. Summary of Significant Accounting Policies:

The financial statements have been prepared on the accrual basis. On this basis, revenues are recognized in the year in which they are earned and become measurable, and expenses are recognized in the year they are incurred.

The basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. The basis of accounting refers to the timing of the measurements made, regardless of the measurement focus applied.

Cash and Investments:
Investment securities are carried at the lower of amortized cost or market, plus accrued interest. Deposits are carried at cost, plus accrued interest. Premiums and discounts on investments are amortized on a straight-line basis over the term of the investment.

Mortgage Loans Receivable and Construction Advances:
Mortgage loans receivable 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 mortgage loans receivable & construction advances. Additions to the allowance are made by charges to expense.

Loan Interest and Fees:
For the Multi-Family Program, interest income is recognized over the life of construction advances and mortgage loans. Loan origination fees, which range from .75% to 1.5% of the loan commitment, are recognized as income at the date of the initial mortgage closing. Other financing fees in excess of the loan origination fees are generally capitalized and recognized on a straight-line basis over the estimated construction period.

For the Single Family Program, interest income is recognized over the life of the mortgage. The Agency also charges a fee ranging from 0% – 2% of the mortgage amount when it purchases a loan, this fee is recognized as income using the 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 mortgagors.

Amortization of Note and Bond Discounts:
Note and Bond underwriter discounts and costs of issuance, including original issue discounts, are amortized over the lives of the issues using the interest method.

D. Interfund Transfers:

The Agency is permitted to make interfund 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 also 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.

In accordance with certain bond resolutions, the Agency has transferred prescribed amounts from the General Fund to the Single Family Program. Such transfers are primarily for the purpose of meeting Capital Reserve and Self-Insurance Fund requirements for Single Family Mortgage Revenue Bonds. The Agency transferred net amounts of $2,914,250 and $3,919,278 from the General Fund to the Single Family Program during the years ended June 30, 1988 and 1987, respectively.

E. Cash and Investments:

Authority for Agency Deposits and Investments:
The deposit and investment policies of the agency are governed by statutes and contractual provisions contained in the bond trust indentures. Agency deposits must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Permissible investments include direct obligations of or guaranteed by the U.S. Treasury and U.S. Government Agencies; any other obligation of the U.S. Treasury or any other U.S. Government Agencies which are legal investments for Savings Banks, Savings Associations, or Savings and Loan Associations in the Commonwealth of Pennsylvania; fully secured Public Housing Bonds, Temporary notes, Preliminary Loan notes or Project notes issued by public agencies or municipalities; direct and general obligations of or obligations guaranteed by the Commonwealth of Pennsylvania; direct and general obligations of any state of the United States, guaranteed by such state, provided that at the time of purchase the obligations maintain a satisfactory investment rating; fully collateralized Repurchase Agreements; Reverse Repurchase Agreements; mutual or Money Market Funds; Commercial Paper or Finance Company Paper; non-collateralized certificates of deposit and various investment agreements that maintain a satisfactory investment rating; and interest-bearing time or demand deposits and certificates of deposit.

Deposits:
The following summary presents the Agency's deposits which are fully insured or collateralized with securities held by the Agency's agent in the Agency's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the Agency's name (Category 2) and those deposits which are not collateralized (Category 3) at June 30, 1988:

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Demand deposits (Overdrafts)	$ 893,535	—	—	893,535	(1,175,015)
Certificate of deposit	5,240,000	580,000	—	5,820,000	5,829,467
	$6,133,535	580,000	—	6,713,535	4,654,452

The bank balance in excess of carrying amount represents checks which have not cleared the bank, net of deposits in transits or other transactions not recorded by the bank until after June 30, 1988.

Investments:
Investments: The Agency categorizes investments according to the level of credit risk assumed by the Agency. Category 1 includes investments that are insured, registered or held by the Agency's Agent in the Agency's name. Category 2 includes uninsured and unregistered investments held by the Counterparty's trust Department or Agent in the Agency's name. Category 3 includes uninsured and unregistered investments held by the Counterparty, its trust department or its Agent, but not in the Agency's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interests in mutual funds and investment agreements. The summary below identifies the level of credit risk assumed by the Agency and the total carrying amount and market value of the Agency's investments.

	Carrying Amount				Market Value
	Category 1	Category 2	Category 3	Total	
Corporate Bonds	$ 8,754,914	—	—	8,754,914	8,552,507
Repurchase Agreements	252,547,294	12,953,012	—	265,500,306	265,500,306
U.S. Government obligations	134,828,126	—	—	134,828,126	150,704,121
U.S. Government Agency obligations	214,776,508	—	—	214,776,508	212,537,901
Other	11,892,010	—	—	11,892,010	11,892,010
Totals	$622,798,852	12,953,012	—	635,751,864	649,186,845
Add amounts not categorized because securities are not used as evidence of the investments:					
Citicorp Investment Agreement				24,141,479	24,141,479
Mutual Funds				4,056,480	4,056,480
Total investments				663,949,823	677,384,804

The following provides a reconciliation between the carrying amounts disclosed above and the carrying amount presented in the balance sheets at June 30, 1988:

Deposits	$ 4,654,452
Investments	663,949,823
Total investments and cash	$668,604,275

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the year ended June 30, 1988.

The amortized cost and market values of cash and investments at June 30, 1987 are as follows:

	June 30, 1987	
Securities	Amortized Value	Market Value
Cash	$ 2,071,628	2,051,628
Bank Certificates of Deposit (Collateralized by Government Securities)	8,025,000	8,025,000
Repurchase Agreements (Collateralized by Government Securities)	269,674,000	269,674,000
U.S. Government Agency Obligations	169,021,991	169,447,483
U.S. Government Obligations	124,108,807	141,860,578
Investment Agreement	80,335,000	80,335,000
Money Market and Savings Accounts	15,409,127	15,409,127
Accrued Interest on Investments	8,751,927	8,751,927
Total	$677,397,480	695,554,743

F. Mortgage Loans Receivable and Construction Advances:

The mortgage loans receivable and construction advances receivable are secured by first mortgages on the related properties. 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. In addition, the Agency has established its own self-insurance funds for certain Multi-Family and Single Family loans (see note I). A summary of Multi-Family construction advances and mortgages loans receivable as of June 30, 1988 and 1987 is as follows:

	Mortgage Loans Receivable	Construction Advances
June 30, 1988:		
Insured and subsidized	$ 45,294,578	157,075
Insured and non-subsidized	14,276,466	1,093,712
Uninsured and subsidized	462,160,553	2,516,676
Uninsured and non-subsidized	30,592,167	—
	552,323,764	3,767,463
Allowance for potential loan losses	7,600,000	—
	$544,723,764	**3,767,463**
Interest rate range	**7.4% – 14.0%**	**1.0% – 10.6%**
June 30, 1987:		
Insured and subsidized	$ 46,046,857	—
Insured and non-subsidized	—	11,759,285
Uninsured and subsidized	468,946,989	1,560,827
Uninsured and non-subsidized	29,841,131	—
	544,834,977	13,320,112
Allowance for potential loan losses	7,000,000	600,000
	$537,834,977	**12,720,112**
Interest rate range	**7.4% – 14.0%**	**1.0% – 10.8%**

There has been no increase in the Agency's aggregate allowance for potential loan losses during the years ended June 30, 1988 and 1987.

Substantially all single family mortgage loans are subject to two levels of insurance, primary insurance and pool insurance. Primary insurance is required on all Single Family mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property. The amount of primary insurance coverage required, as defined in the bond resolutions, is the amount by which the loan exceeds 66.5% – 72.0% (depending on Single Family Bond issue) of the lesser of the appraised value or sales price of the residence. It is the eligible borrowers responsibility to bear the cost of primary insurance.

Pool insurance covers certain losses sustained by reason of default in payments by eligible borrowers in excess of primary insurance. The Agency has elected to self-insure the pool insurance for Single Family mortgage loans originating from proceeds obtained from Single Family bond issues Series I through R. The total principal outstanding of mortgage loans self-insured by the Agency was $207,627,132 and $81,654,693 at June 30, 1988 and 1987, respectively.

The Agency has placed restrictions on fund balances in both the General Fund and Single Family Program for self-insurance as identified on pages 30 through 32.

On July 6, 1988, the Agency has assumed the pool insurance coverage for Single Family mortgage loans originating from proceeds obtained from Single Family bond issues Series C through H. The total principal outstanding of these mortgage loans was $408,313,342 at June 30, 1988. As a result of this transaction, the Agency has placed additional restrictions on fund balances subsequent to June 30, 1988 in the Single Family Program of $1,325,000.

G. Notes Payable

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

In December 1987, the Agency paid in full all amounts relating to the outstanding notes payable as of June 30, 1987.

During the year ended June 30, 1988, the Agency established a line of credit agreement with the Department of Treasury of the Commonwealth of Pennsylvania. Under the Agreement, the Agency may draw down an amount up to $20,000,000 at an interest rate equal to 2 points below prime rate listed by Morgan Guaranty Trust of New York. These funds may be used for any and all of the purposes for which the Agency is lawfully established. As of June 30, 1988, the Agency borrowed $2,000,000 bearing interest at a rate of 7%.

H. Bonds Payable:

Bonds have been issued to provide financing of mortgage loans under the Multi-Family Program and Single Family Program. The full faith and credit of the Agency is pledged for repayment of most of the bonds issued. The bonds are collateralized by:

(1) The mortgage loans made on the related properties;

(2) Most revenues, mortgage advance amortization payments and recovery payments received by the Agency from mortgage loans; and

(3) Certain funds and accounts established pursuant to the bond indentures including investments of the bond proceeds.

The security covenants, together with covenants in the notes 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 At Issuance	Final Maturity Date	Amount Outstanding June 30 1988	Amount Outstanding June 30 1987
Residential Development Bonds:				
Issue A	4.50 – 7.60%	2019	$ 77,640,000	78,330,000
Issue B	4.00 – 6.60%	2020	29,445,000	29,755,000
Issue 1977 (refunding)	3.60 – 6.50%	2023	85,395,000	86,120,000
Issue C	4.25 – 6.375%	2020	21,645,000	21,865,000
Issue D	4.50 – 6.75%	2021	76,360,000	77,070,000
Issue E	5.50 – 7.25%	2022	20,530,000	20,695,000
Issue F	5.80 – 7.60%	2022	56,690,000	57,330,000
Issue G	7.125%	2012	7,300,000	7,545,000
Issue H	6.00 – 7.70%	2023	51,450,000	52,035,000
Issue I	5.50 – 9.25%	2023	49,535,000	49,940,000
Issue J	9.50 – 14.50%	2013	24,260,000	24,370,000
Issue K	8.50 – 13.625%	2013	22,010,000	22,120,000
Issue L	7.75 – 12.125%	2025	28,145,000	28,355,000
Issue M	7.25 – 11.00%	2014	20,355,000	20,525,000
Issue N	9.75%	2014	3,210,000	3,235,000
Issue O	10.375%	2015	6,910,000	6,950,000
Issue P	10.375%	2015	5,550,000	5,585,000
Section 23 Assisted Bonds:				
Issue 1977A	5.75%	1995	866,000	956,000
Multi-Family Housing Bonds:				
Issue 1980	9.80 – 10.00%	2023	11,255,000	11,295,000
Issue 1982A	9.75 – 13.50%	2024	62,080,000	62,185,000
Issue 1982B	9.50 – 10.875%	2024	14,085,000	14,130,000
Issue 1985A	6.75 – 9.375%	2028	15,258,767	15,268,385
Issue 1985B	8.875%	2028	1,740,000	1,740,000
Issue 1987A	7.00 – 8.50%	2002	750,000	—
Issue 1988A	10.65%	2008	1,496,000	—
Limited Obligation Residential Development Bonds:				
Issue 1984A	6.50 – 11.25%	2006	1,572,242	1,637,242
Issue 1985B	6.50 – 9.50%	2005	1,730,000	1,780,000
Moderate Rehabilitation Bonds:				
Issue 1984A	6.50 – 10.375%	2001	3,865,000	4,005,000
Issue 1984	5.25 – 9.00%	2017	5,320,000	5,495,000
			706,448,009	710,316,627
Unamortized bond discount			(48,356,415)	(49,683,246)
			$658,091,594	**660,633,381**

During the year ended June 30, 1988, the Agency redeemed prior to maturity $250,000 of Residential Development Bonds, Issue G and Limited Obligation Bonds, Issue 1985 B. An extraordinary gain of $18,953 resulted from the redemptions.

For the year ended June 30, 1987, the Agency redeemed, prior to maturity, $23,367,989 of Limited Obligation Bonds, Issue 1984A and 1985A and Residential Developments Bonds, Issue G. An extraordinary gain of $270,022 resulted from the redemptions.

For the year ended June 30, 1987 the Limited Obligations Bonds, Issue 1985B was collateralized by bank letters of credit approximating $1,900,000 and expiring in the year 2000.

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

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amount Outstanding June 30 1988	Amount Outstanding June 30 1987
Single Family Mortgage Revenue Bonds:				
Series C	6.00 – 9.375%	2014	$ 62,269,325	62,999,325
Series D	5.75 – 9.75%	2014	65,417,774	66,842,774
Series E	6.00 – 10.25%	2015	38,344,838	39,569,838
Series F	7.50 – 11.625%	2015	113,910,000	152,815,000
Series G	6.00 – 9.625%	2016	148,245,000	149,430,000
Series H	5.50 – 9.875%	2016	80,253,488	82,108,488
Series I	6.00 – 10.00%	2016	24,855,321	25,535,321
Series J	4.50 – 9.0%	2013	43,916,666	44,961,666
Series K	4.50 – 7.9%	2013	54,496,868	54,996,868
Series L	4.00 – 7.125%	2014	39,755,000	40,000,000
Series M	4.25%	2017	—	80,335,000
Series N	4.60 – 8.25%	2014	54,995,000	54,995,000
Series O	5.75 – 8.20%	2018	80,335,000	80,335,000
Series P	4.75 – 8.00%	2016	25,600,000	—
Series Q	6.65%	2018	50,000,000	—
Series R	7.00%	2019	80,000,000	—
			962,394,280	934,924,280
Unamortized Bond discount			(16,707,704)	(15,976,455)
			$945,686,576	**918,947,825**

During the years ended June 30, 1988 and 1987, $37,700,000 and $194,804,984 respectively, of a Single Family Mortgage Revenue Bonds, 1982 Series F and 1982 Series A, B, E, and F, respectively, were redeemed prior to maturity by the Agency using mortgage prepayments and undisbursed bond proceeds. Extraordinary losses of $1,135,451 and $4,623,539, respectively, resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed.

Single Family Mortgage Revenue Bonds Series L and Series M were issued on December 23, 1986 as convertible option bonds with the first mandatory tender dates of March 3, 1987 and April 2, 1987, respectively. The Series L Bonds were converted to term bonds. The Series M Bonds were remarketed as convertible option bonds with a second tender date of July 2, 1987 and bearing a short-term interest rate of 4.25%. The proceeds from the Series M Bonds were deposited under an investment agreement with an investment bank. On July 2, 1987, the Agency retired the entire outstanding Series M issue through refunding and the use of the Series O 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 bonds payable are as follows:

	June 30, 1988	
Year ending:	Multi-Family Program	Single Family Program
1989	$ 6,436,110	13,790,000
1990	7,023,271	14,675,000
1991	7,518,434	16,450,000
1992	8,038,117	16,470,000
1993	8,598,346	17,765,000
Thereafter	620,477,316	866,536,576
	$658,091,594	**945,686,576**

I. Reserved and Designated Fund Balances:

General Fund:

The fund balances of the General Fund are not restricted under the terms of the various bond resolutions and can be used by the Agency for any purpose authorized by the Act. The Agency has, internally designated certain restrictions of the General Fund balances, as follows:

	June 30	
	1988	1987
Single Family Self Insurance Fund	$10,793,375	9,171,282
Multi-Family Self Insurance Fund	10,000,000	10,000,000
Additional Single Family Insurance Reserve	6,250,000	—
Rental Housing Demonstration Program	4,868,112	6,000,000
Single Family Closing Cost Subsidies	1,000,000	1,000,000
Deferred Fees on Multi-Family Housing Bond Issue 1980	345,863	345,863
	$33,257,350	**26,517,145**

The Single Family Self Insurance Fund is to be used for any special hazard losses on Single Family Mortgages not covered by other insurance, and losses arising out of default on mortgage loans funded with the proceeds of the Series I through R issues. The Single Family Self Insurance Fund has been established at not less than 1% of anticipated mortgages to be originated on Issues I through R. The Single Family Series I resolution required that a Self Insurance Fund be held by the trustee. This was funded by the General Fund and is included in the Single Family Program's reserved and designated fund balances.

The Multi-Family Self Insurance Fund has been established to set funds aside in the event a loss occurs on any of the Multi-Family projects which the Agency acts as an insurer or co-insurer.

The Additional Single Family Insurance Reserve has been established to cover losses in the event of default on single family mortgage loans.

The Rental Housing Demonstration Program Reserve has been established to provide below market rate mortgage loans for Multi-Family developments.

The Single Family Closing Cost Subsidies Reserve has been established to assist qualified Single Family home buyers with the initial costs incurred at the inception of a mortgage.

The Reserve for Deferred Fees on Multi-Family Housing Bond Issue 1980 has been established to provide funds to cover certain costs over the life of this bond issue.

Multi-Family Program:

The Agency has internally designated certain restrictions of the Multi-Family Program fund balances, as follows:

	June 30	
	1988	1987
HOMES Program	$10,000,000	—
Homeless Housing Program	4,842,925	—
Capital Reserve not funded by bond proceeds	1,960,000	1,960,000
Development Reserve	1,400,000	1,400,000
	$18,202,925	**3,360,000**

The HOMES Program Reserve, which was funded from unrestricted Multi-Family proceeds, has been established to lower development costs for apartment projects financed by the Agency.

The Homeless Housing Program Reserve, which was funded from unrestricted General Fund proceeds, has been established to encourage rehabilitation, construction or adoption of structures that offer suitable permanent accommodations for homeless families and individuals.

The Capital Reserve and Development Reserve is required under certain trust indentures in order to establish and maintain the Agency's Multi-Family Program.

Single Family Program:
The Agency has internally designated certain restrictions of the Single Family Program fund balances, as follows:

	June 30	
	1988	1987
Capital Reserve not funded by bond proceeds	$ 6,463,828	5,639,728
Self Insurance fund held by Trustee	9,198,569	5,725,000
Other	355,346	—
	$16,017,743	**11,364,728**

The Capital Reserve Fund has been established by the Agency as a reserve for the Single Family Bonds which is equal to at least 3% of the aggregate principal amount of all Single Family Bonds outstanding plus one million dollars. The Capital Reserve Fund at June 30, 1988 and 1987 was $40,948,139 and $40,311,395 which was $11,076,311 and $11,263,667 in excess of the requirement.

J. Pension Plan:

Plan Description:
The Agency gives the option to its eligible employees to participate in either the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan), a non-contributory, defined benefit, single employer Public Employee Retirement System (PERS), or the Pennsylvania State Employees' Retirement System. As of June 30, 1988 substantially all eligible full-time employees have elected to participate in the Plan. The Agency's payroll for employees covered by the Plan for the year ended June 30, 1988 was $3,419,000.

Full-time employees become eligible for participation in the Plan after completion of one year of service. A participant's benefits vest upon the completion of 5 years of service. Under the provisions of the plan, participants with prior military experience may receive credit for their time of service in the military providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service. In 1981 the Plan was amended to convert it from a contributory to a non-contributory pension plan. At the time of the amendment, participants had the option to receive a refund in the amount of their contributions, with interest, or increase their pension benefits. Substantially all employees elected to withdraw their contributions to the Plan at that time.

A participant is eligible for normal retirement after attainment of age 65. The Plan also provides early and late retirement provisions and death and disability benefits. The normal retirement pension is payable monthly during the participant's lifetime with payments ceasing upon the participant's death.

The amount of the monthly pension benefit is computed as follows:

1. New participants after December 31, 1981 and participants who elected refund of contributions with interest:

   2% of final average monthly pay multiplied by completed years and completed months of service at retirement.

2. Participants who did not elect refund of contributions with interest:
   a. 2.35% of final average monthly pay multiplied by completed years and completed months of service through December 31, 1981, plus,
   b. 2% of final average monthly pay multiplied by completed years and completed months of service beginning on or after January 1, 1982.

Average monthly pay is based upon the 5 consecutive plan years of highest pay during the last 10 years preceding retirement.
As of January 1, 1988 Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	41
Current employees:	
Vested	77
Nonvested	49
	167

Funding Status and Progress:
The amount shown below as the "pension benefit obligation" is the actuarial present value of pension benefits, a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan, on an going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the actuarial funding method used to determine contributions to the Plan.

The pension benefit obligation was computed as part of an actuarial valuation performed as of January 1, 1988. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 1% a year, attributable to seniority, and (d) no post retirement benefit increases.

Total assets in excess of pension benefit obligation at January 1, 1988, the most recent valuation date was as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 440,415
Current employees:	
Accumulated employee contributions	10,645
Employer contributions – vested	2,439,101
Employer contributions – nonvested	301,423
Total pension benefit obligation	3,191,584
Plan assets at market value	4,010,369
Assets in excess of pension benefit obligation	**$ (818,785)**

There were no changes in actuarial assumptions or benefit provisions used in calculating the pension benefit obligation during the year ended June 30, 1988.

Contributions Required and Contributions Made:
The Plan's funding policy provides for actuarial determined periodic contributions at rates that, expressed as percentages of covered payroll, are sufficient to accumulate assets to pay benefits when due. Contributions by the Agency to the Plan are determined under the aggregate actuarial cost method. Significant actuarial assumptions used to complete the actuarial determined contribution requirements are the same as those used to compute the pension benefit obligation. Contributions totaling $298,230 ($288,866 Agency and $9,364 employee) representing normal costs were made during the period January 1, 1987 through December 31, 1987.

Trend Information:
Trend information designed to provide information about the Agency's progress made in accumulating sufficient assets to pay benefits when due is presented in the following schedule. Ten year trend information is presented on pages 35 and 36.

	Year Ending December 31		
	1987	**1986**	**1985**
Net assets available for benefits expressed as a percentage of the pension benefit obligation:	125.65%	159.67%	176.81%
Assets in excess of pension benefit obligation expressed as a percentage of covered payroll:	23.95%	40.50%	46.50%
Employer contributions expressed as a percentage of covered payroll:	8.45%	4.77%	6.95%

Required Supplementary Information

Analysis of Funding Progress

Year Ending December 31	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Overfunded or (Unfunded) Pension Benefit Obligation (1) − (2)	(5) Annual Covered Payroll	(6) Overfunded or (Unfunded) Pension Benefit Obligation As a Percentage of Covered Payroll (4) ÷ (5)
1978	$ 487,520	$ 674,514	72%	$ (186,994)	$1,332,705	(14.03)%
1979	658,377	1,015,109	65	(356,732)	1,584,895	(22.51)
1980	926,151	1,506,207	61	(580,056)	2,087,829	(27.78)
1981	1,264,456	622,810	203	641,646	2,234,769	28.71
1982	1,679,565	812,505	207	867,060	2,281,596	38.00
1983	2,131,355	1,181,157	180	950,198	2,368,744	40.11
1984	2,508,568	1,464,098	171	1,044,470	2,704,789	38.62
1985	3,243,211	1,834,293	177	1,408,918	3,030,037	46.50
1986	3,731,011	2,336,633	160	1,394,378	3,442,741	40.50
1987	4,010,369	3,191,584	126	818,785	3,419,003	23.95

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Pension Plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Pension Plan.

**At market value*

Required Supplementary Information

Revenues by Source and Expenses by Type

Year Ending December 31	Revenue by Source			
	Employee Contributions	Employer Contributions	Investment Income	Total
1978	$26,932	114,641	39,923	181,496
1979	31,960	136,661	48,832	217,453
1980	38,217	200,034	84,121	322,372
1981	46,609	236,041	141,524	424,174
1982	6,149	188,791	151,458	346,398
1983	1,834	281,274	141,353	424,461
1984	1,248	229,744	216,792	447,784
1985	1,248	210,595	211,109	422,952
1986	486	164,281	233,608	398,375
1987	9,364	288,866	249,228	547,458

Year Ending December 31	Expenses by Type			
	Benefits	Administrative Expenses	Refunds	Total
1978	$ —	—	8,167	8,167
1979	5,520	—	10,828	16,348
1980	5,604	—	—	5,604
1981	18,455	—	—	18,455
1982	12,776	—	179,033	191,809
1983	9,476	51	—	9,527
1984	40,964	17	—	40,981
1985	9,577	5	—	9,582
1986	11,597	18	—	11,615
1987	18,804	—	—	18,804

Contributions were made in accordance with actuarially determined contribution requirements. In 1981 the Plan was amended to convert it from a contributory to a non-contributory pension plan. At the time of the amendment, participants had the option to receive a refund in the amount of their contributions, with interest, or increase their pension benefits. Substantially all employees elected to withdraw their contributions to the Plan at that time.

Under the provisions of the plan, participants with prior military experience may receive credit for their time of service in the military providing they contribute funds equivalent to the cost of their pension benefits accumulated during their military service.

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