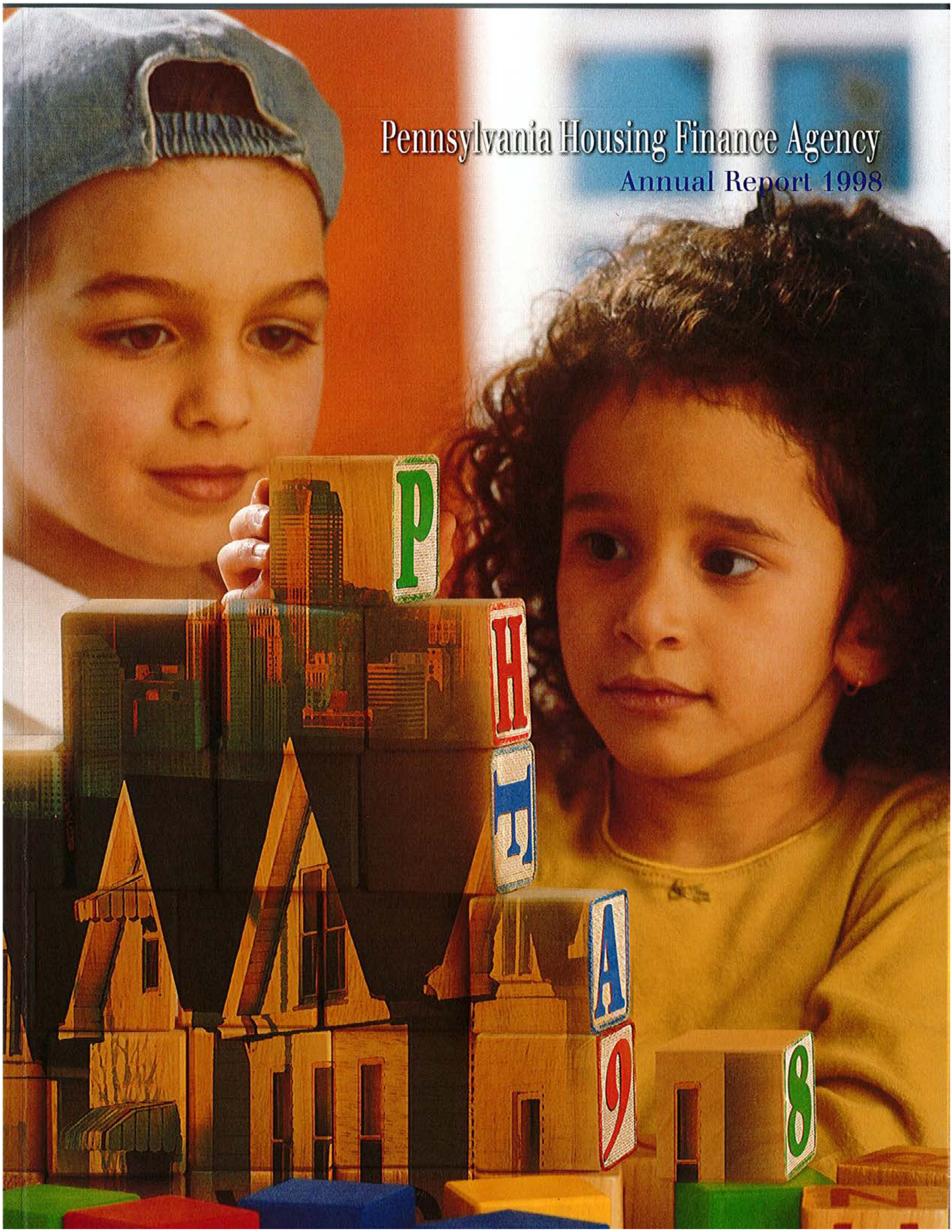
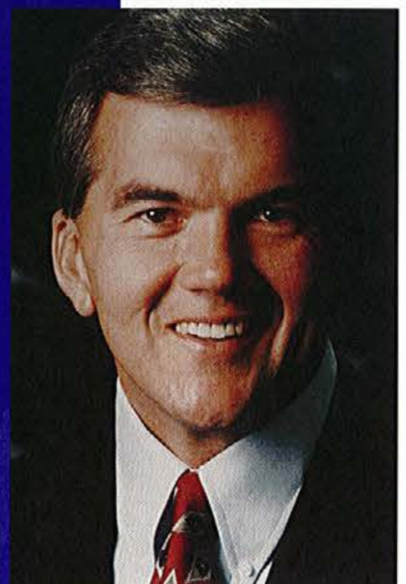
Pennsylvania Housing Finance Agency

Annual Report 1998



Good Housing

is Important to Pennsylvania's Economic Growth



Tom Ridge
Tom Ridge
Governor

It is particularly rewarding to be part of something that not only provides concrete benefits to citizens of the Commonwealth, but also reinforces those intangibles that knit our society into a whole. The work of the Pennsylvania Housing Finance Agency does just that.

While the range of Agency programs has expanded with time, its overall goal of making Pennsylvania a better place to live, work and raise a family is central to my Administration's efforts in improving education for our children, promoting the vitality of our businesses, strengthening our local institutions and enhancing the well-being of our communities. Good housing is important to all these measures.

I've had the good fortune to see the fruits of the Agency's work firsthand: Allequippa Terrace, a Pittsburgh public housing project dating from the late 1930s, will be rebuilt as a joint venture between a private developer and a local nonprofit residents' organization because of PHFA's allocation of tax credits and bond authority to the City; a young couple in McKean County can buy their first home using an Agency-financed rural outreach mortgage loan; the fledgling Greater Harrisburg Credit Union will be able to offer low income residents competitively priced financial services because PHFA joined twenty other organizations and individuals in pledging charter deposits. Not only are such initiatives noteworthy in themselves, they also encourage support of the Project for Community Building, so critical to the continued development of a strong society.

Pennsylvania is uncommonly blessed with spectacular natural beauty, rich farmland, thriving municipalities and a proud citizenry with a marvelous heritage. It is fortunate also to have dedicated men and women who work to fulfill the promise that all this bounty offers. PHFA's Board and staff have created programs and services that help make the Commonwealth a great place to call home.

Our Mission

In order to make the Commonwealth a better place to live while fostering community and economic development, the Pennsylvania Housing Finance Agency provides the capital for decent, safe and affordable homes and apartments for older adults, persons of modest means and those with special housing needs.

Good Housing

Benefits all Pennsylvanians

The Commonwealth's commitment to its citizens is apparent in the efforts of the Pennsylvania Housing Finance Agency.

By acting on its ability to attract investment capital, the Agency is a dynamic factor in the community and economic development of Pennsylvania. That can be measured in the Agency's accomplishments in 1998: the issuance of $287,000,000 in mortgage revenue bonds, funding home loans for 4,000 families; the initial approval of $13,100,000 for 915 rental apartments and the final commitment of $10,100,000 for 601 units through the PennHOMES program; allocation of $16,700,000 of tax credits for 2,000 affordable units; and, the commitment of $17,800,000 of Homeowners' Emergency Mortgage Assistance funds to help nearly 1,600 families avoid foreclosure.

Although its role has changed over the years in response to changing needs, PHFA's central function remains the same. Meeting new challenges to house low and moderate income citizens is an important measure of Pennsylvania's success in remaining a great place to call home.

Included in this is the reinvention of subsidized housing. In 1998, the Agency was in the national forefront of transferring rental properties insured by the United States Department of Housing and Urban Development to private ownership in the effort to maintain the availability of subsidized apartment units while reducing the cost to the nation's taxpayers. As a federally designated Participating Administrative Entity, PHFA was one of the country's leaders in this pioneering measure. This will eventually affect more than 60,000 subsidized apartments in the state.

William C. Bostic
Executive Director

Along with Housing Opportunities, Inc., of McKeesport, the Agency also developed a $400,000 statewide education program to help lower income families who want to buy homes, or for those persons who are having difficulties with their mortgage payments. Through an extensive network of counseling and referral services, persons with the sincere desire to own a share of the American dream can find expert information to guide them through the complex requirements they encounter. PHFA was selected as the recipient of a $175,000 grant from HUD to further this endeavor that involves 34 organizations statewide.

During the past two years, the Agency worked with the 181st session of the Pennsylvania General Assembly to reform the Homeowners' Emergency Mortgage Assistance Program. With the support of housing advocates, labor officials, lending institutions, credit counselors and the Administration, legislation was passed to institute needed changes on this popular program. Governor Ridge signed Act 160 into law in December. These revisions and modifications place the program in the best position to become self-sufficient and demonstrate how a state can continue to respond to help those who are in danger of losing their homes to foreclosure.

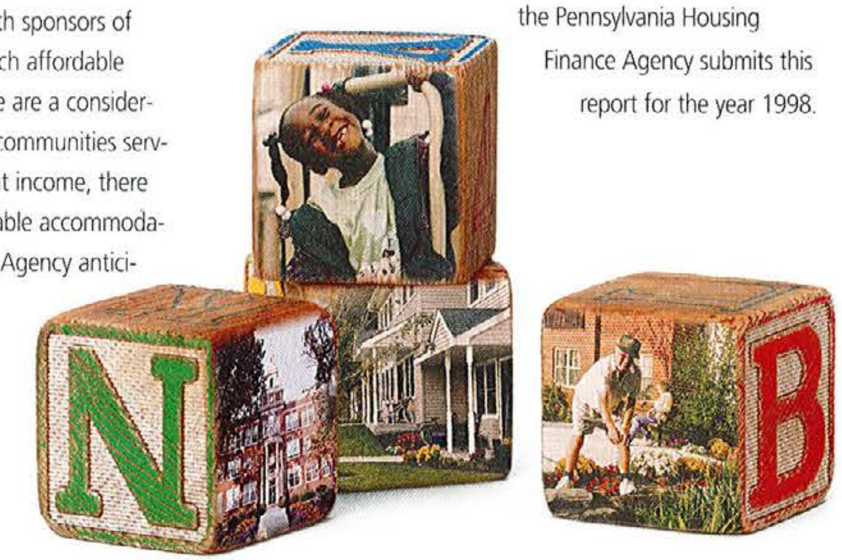
In Washington, the federal government agreed to a phased-in increase of private activity bonds beginning in 2003 that will result in a full 50 percent increase in the ability of Pennsylvania to address its housing, industrial development and education needs by the year 2007. This success was due in no small measure to the support exhibited by the state's Congressional delegation. Every member co-sponsored legislation to effect this needed change. The Agency, along with the Department of Community and Economic Development and the Pennsylvania Higher Education Assistance Agency, plans to build on this solid relationship to continue federal support of these vital issues.

To address the needs of senior citizens who require assisted housing, PHFA entered into agreements with sponsors of rental projects to design and develop six such affordable rental facilities across the state. While there are a considerable number of market-rate assisted living communities serving Commonwealth residents with sufficient income, there has previously been little done to offer suitable accommodations to those of more modest means. The Agency anticipates that the knowledge and experience gained from this initiative will allow an expansion of senior shelter with supportive services to those who most need it.

PHFA builds on success. Typical of this is the Family Services Cluster Program. The Agency instituted a program to help lower income residents achieve family self-sufficiency in 1992. Funding was made available to more than 650 rental units at PHFA-financed family properties in Philadelphia. Residents were offered the opportunity to improve the quality of their lives, with consequent improvement to building and unit maintenance, enhanced property values and reduced damage. Based on this experience, the program has matured into a larger Family Resource Center initiative, which will further strengthen the partnerships that have been established.

Throughout its existence, PHFA has counted on its strong financial position to support housing efforts. By developing relationships in the financial community, by encouraging prudent investment strategies and by marshaling the forces of the market, the Agency's economic viability is enhanced. This allows PHFA to support myriad projects that promote good housing.

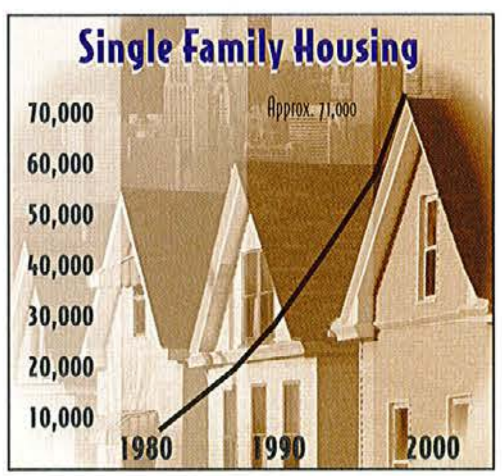
The Agency has the capability to address future challenges. Its financial strength, its ability to assume the responsibility of new programs and its desire to succeed are key elements in the state's housing efforts. On behalf of its Board and staff, the Pennsylvania Housing Finance Agency submits this report for the year 1998.



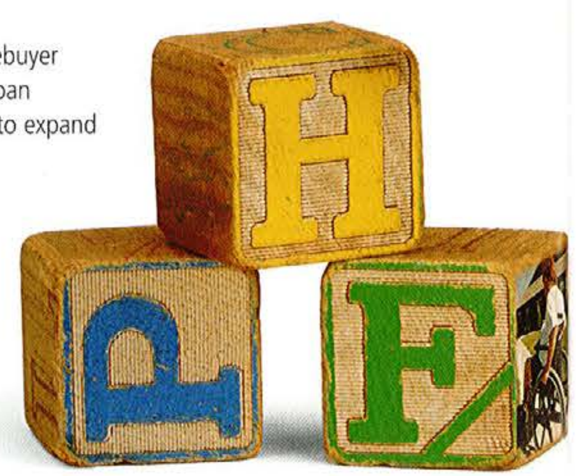
1998 Highlights

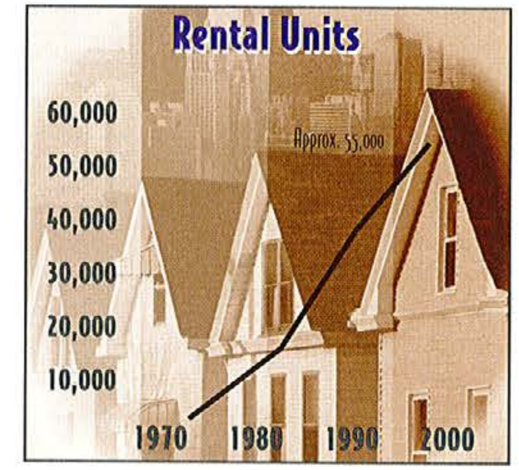
In 1998, the Pennsylvania Housing Finance Agency:

- Received a "AAA" rating from Standard & Poor's Rating Services for $441,540,000 of PHFA's multifamily bond issues and an "AA+" for $2,186,000,000 of its single family home mortgage bonds.
- Sold $287 million of single family housing bonds to provide home mortgage loans for 4,000 Pennsylvania families, and $18 million of taxable multifamily bonds to the Federal Home Loan Bank of Pittsburgh to finance 23 rental developments.
- Approved $13.1 million for initial feasibility processing of 915 new rental units through the PennHOMES program.
- Granted final commitment of $10.1 million to 601 multifamily affordable apartments.
- Allocated $16.7 million of housing tax credits for 2,000 apartment units around the state.
- Committed $17.8 of Homeowners' Emergency Mortgage Assistance funds to help nearly 1,600 families avoid foreclosure.
- Worked with the Pennsylvania General Assembly to reform the Homeowners' Emergency Mortgage Assistance Program. Signed into law by Governor Ridge as Act 160, the new revisions better enable this program to become self-sustaining.
- Worked with Pennsylvania's Congressional Delegation to support newly passed federal legislation which, beginning in 2003, will increase the amount of private activity bonds available. This will mean more needed funds for affordable housing.
- Conducted seven public hearings throughout Pennsylvania on behalf of the Governor's Disability Agenda to examine housing-related problems faced by persons with disabilities and learn about local programs that successfully address those issues. This will help form the basis of recommendations which will be made to the Governor.

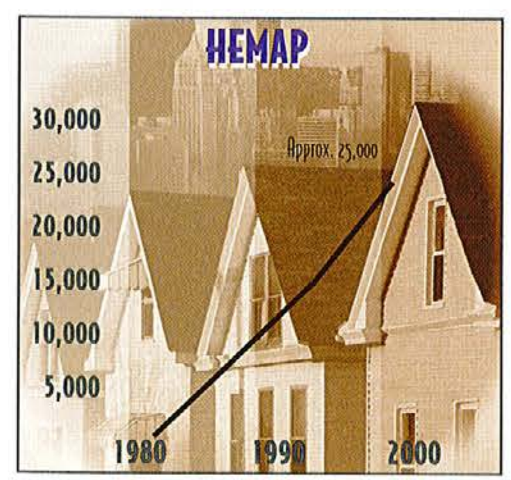


- Was selected as a Participating Administrative Entity (PAE) under the HUD Multifamily Housing Mortgage and Housing Restructuring Program, designed to save American taxpayers millions of dollars while maintaining the stock of affordable housing.
- Along with the Pennsylvania Mortgage Bankers Association and the Pennsylvania Partnership for Economic Education, established a homebuyer education program and began distributing materials and making presentations in selected schools across the Commonwealth.
- Neared completion of the conversion of all Agency computer programs to address Year 2000 concerns.
- Allocated $400,000 to Housing Opportunities, Inc., to develop a statewide homebuyer education and counseling program for borrowers who are behind in mortgage loan payments. An additional $175,000 grant from HUD subsequently was received to expand the program.
- Offered historic low interest rates for all Agency home mortgage loan programs.





- Established an accessible apartment referral service, employing the Agency's Web site and toll-free telephone line, to help persons with disabilities find currently available accessible apartments to rent.
- Sponsored fair housing training workshops for apartment owners, housing management agents and property managers; additionally, conducted numerous workshops to help novice developers in preparing applications for PHFA's multifamily rental program.
- Published the sixth edition of the *Inventory of Assisted Rental Housing* to help renters find decent, affordable apartments throughout the state.
- Hosted a supportive services conference that recognized ten years of successful efforts in providing services to build communities and improve the lives of rental housing residents.
- Issued a *Report on the Implementation of Pennsylvania's County Housing Trust Fund Legislation* to the state's policy makers, housing advocates and citizens to examine how this legislation is utilized to promote development of affordable housing in their communities.
- Published *Pathway to Senior Activities*, a new resource guide for supportive service coordinators, rental housing site managers and others responsible for wellness programs and social activities at multifamily rental developments for senior Pennsylvanians.
- Instituted a "Green Plan" focusing on significantly reducing paper and energy consumption as part of the Commonwealth's commitment to continuous environmental improvement.



- Issued new brochures to provide information on homeownership opportunities available through the Agency for persons with disabilities.

We Fill a Basic Need

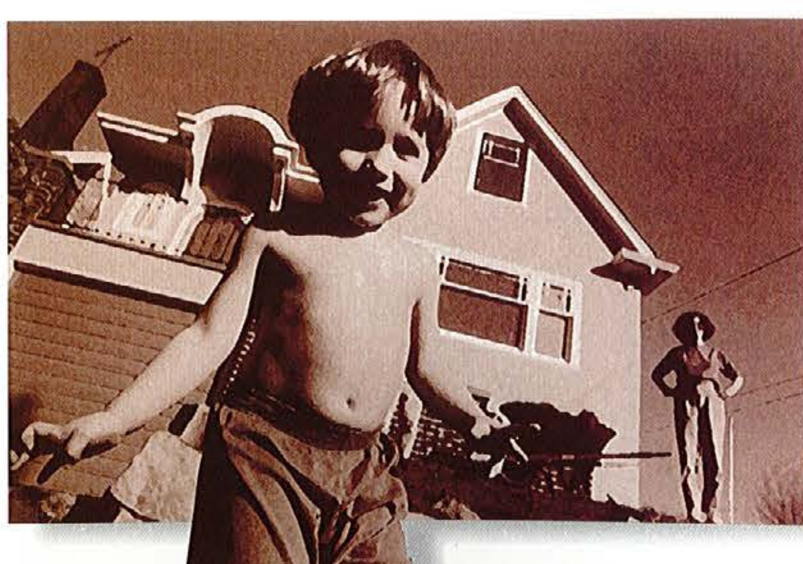
For 26 years, the Pennsylvania Housing Finance Agency has been helping low- and moderate-income families, older adults, persons with disabilities and others who are frequently underserved fulfill their need for high quality, safe and affordable housing.

The Agency has accomplished this by using its proven financial strength to sell securities to investors nationwide in order to make mortgage loans to sponsors of affordable multifamily rental units and to enable first-time homebuyers to acquire their piece of the American dream. In addition, the Homeowners' Emergency Mortgage Assistance Program has created the only significant initiative in the country that allows creditworthy families who are facing the nightmare of foreclosure to remain in their homes while they secure new employment and seek educational opportunities.

PHFA programs have made better housing a reality for tens of thousands of families.

But, this wasn't accomplished by the Agency working alone. PHFA is fortunate to enjoy support from a wide spectrum of individuals and organizations interested in offering the benefits of good homes and apartments to the citizens of the Commonwealth. These include Governor Ridge and his Administration, State Senators and Representatives, the Pennsylvania Congressional Delegation, the Department of Community and Economic Development, HUD, lenders, builders, real estate professionals, nonprofit housing organizations, counseling agencies, multifamily developers, low income housing advocates and ordinary citizens cooperating to help the Agency fill a basic need: the need for a home.

Fulfilling the need for high quality, safe and affordable housing.



We Build Communities

By helping families purchase homes and by providing capital for apartments with affordable rents, PHFA is helping communities prosper. Such assistance allows families to start laying roots, add to the economy and become involved with the growth of the community. And that's good for everyone.

To make residential mortgage loans available to as many families as possible, local lenders throughout Pennsylvania participate in Agency programs. They understand how important such efforts are to their communities. Through them, PHFA offers programs that help low- and moderate-income families buy houses.

With below-market mortgage interest rates, and consumer education and credit counseling where necessary, PHFA's programs make homeownership possible for borrowers who might not otherwise qualify for loans. For those who are eligible the Agency offers assistance in paying closing costs.

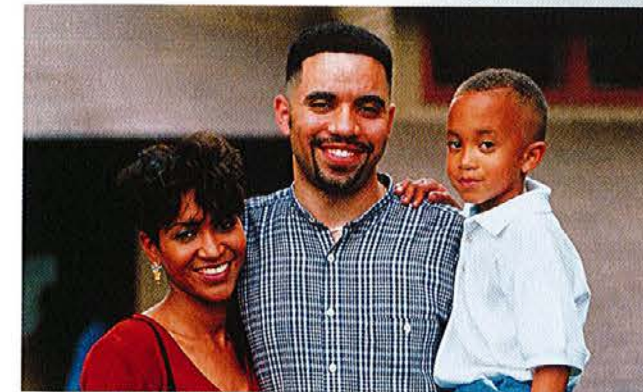
Recently instituted procedures also help persons with disabilities own homes with needed accessibility features.

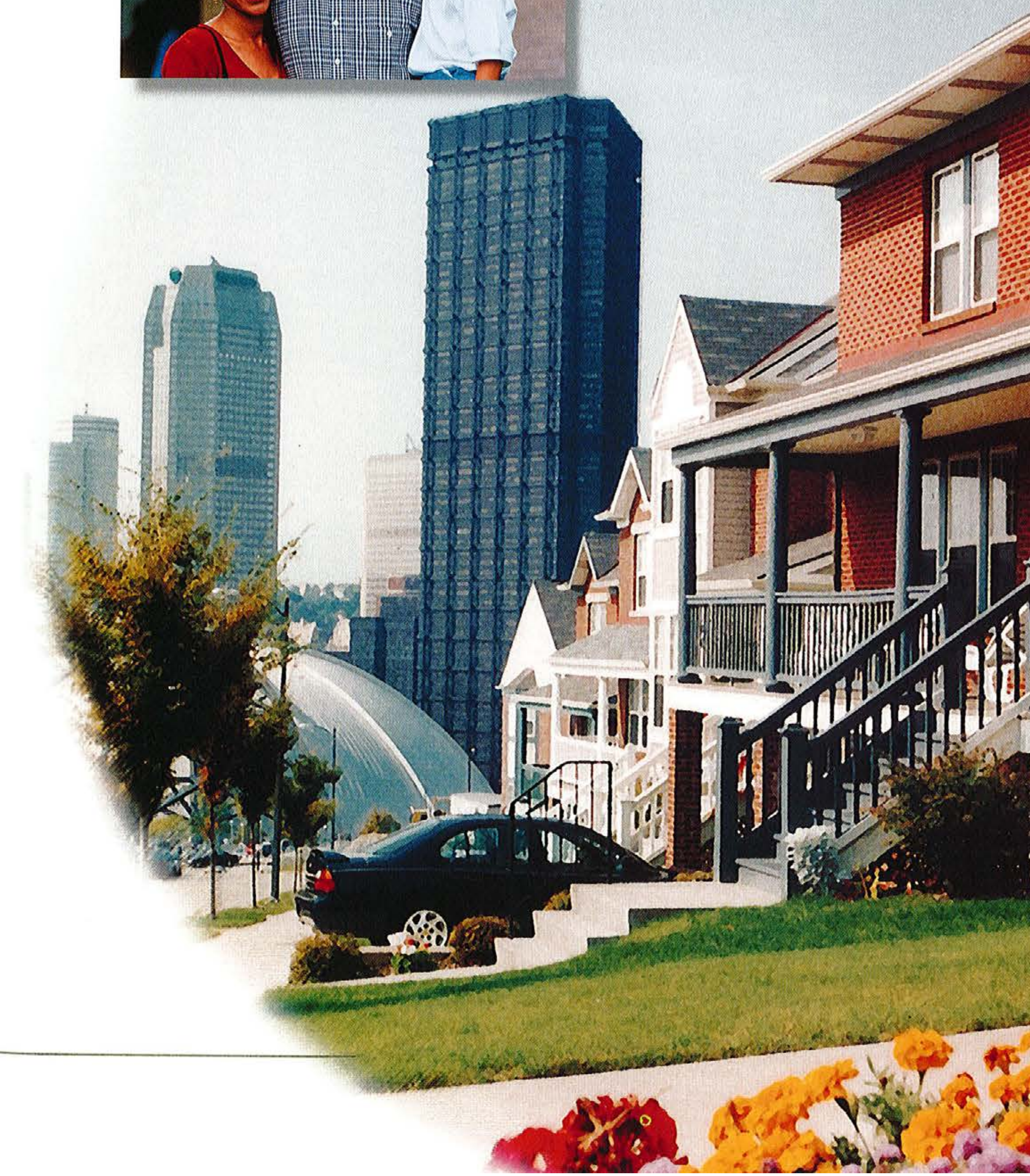
Another way the Agency helps people have good places to live is through its PennHOMES program. This measure subsidizes affordable multifamily apartments through interest-free deferred payment loans. Originally started as a means of developing shelter for the homeless, PennHOMES funding has helped to create attractive, well-managed rental dwellings in communities throughout the state. As its effectiveness has grown, support for affordable rental housing has increased among other public and private funding sources.

Even during strong economic times, some people can face adversity that threatens to force them out of their homes. In Pennsylvania, those persons can turn to the Homeowners' Emergency Mortgage Assistance Program. It's designed to protect homeowners from foreclosure when they're facing financial difficulties through no fault of their own. By providing a temporary, predictable source of steady mortgage payments for a reasonable period of time, HEMAP allows homeowners to pursue job training, education or employment.

It's another way PHFA makes communities stronger.

PHFA helps communities prosper so families can enjoy the benefits of safe homes, stable jobs and good schools for children.



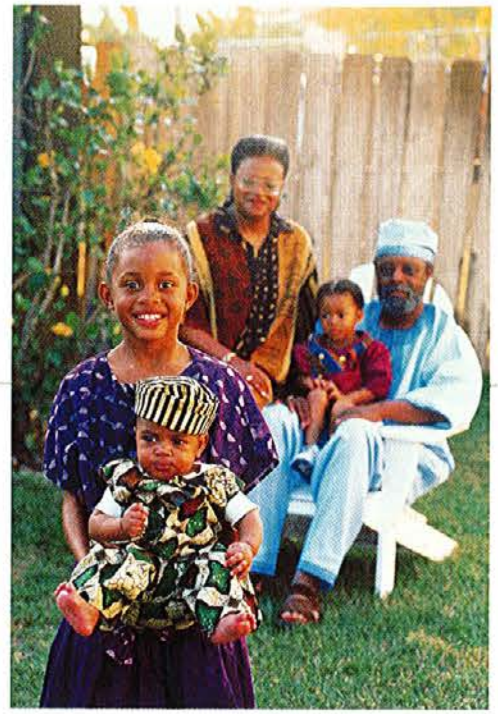


Building relationships with, and receiving the support of many individuals and organizations is how PHFA makes a world of difference all over Pennsylvania.

Together Creating Possibilities

The success of PHFA has been as much about the relationships it has developed as it has been about the success of its programs. Without the support of many organizations and individuals, the Agency could not have helped as many Pennsylvanians as it has. *Together Creating Possibilities* is more than just a slogan. It's how the Pennsylvania Housing Finance Agency gets things done.

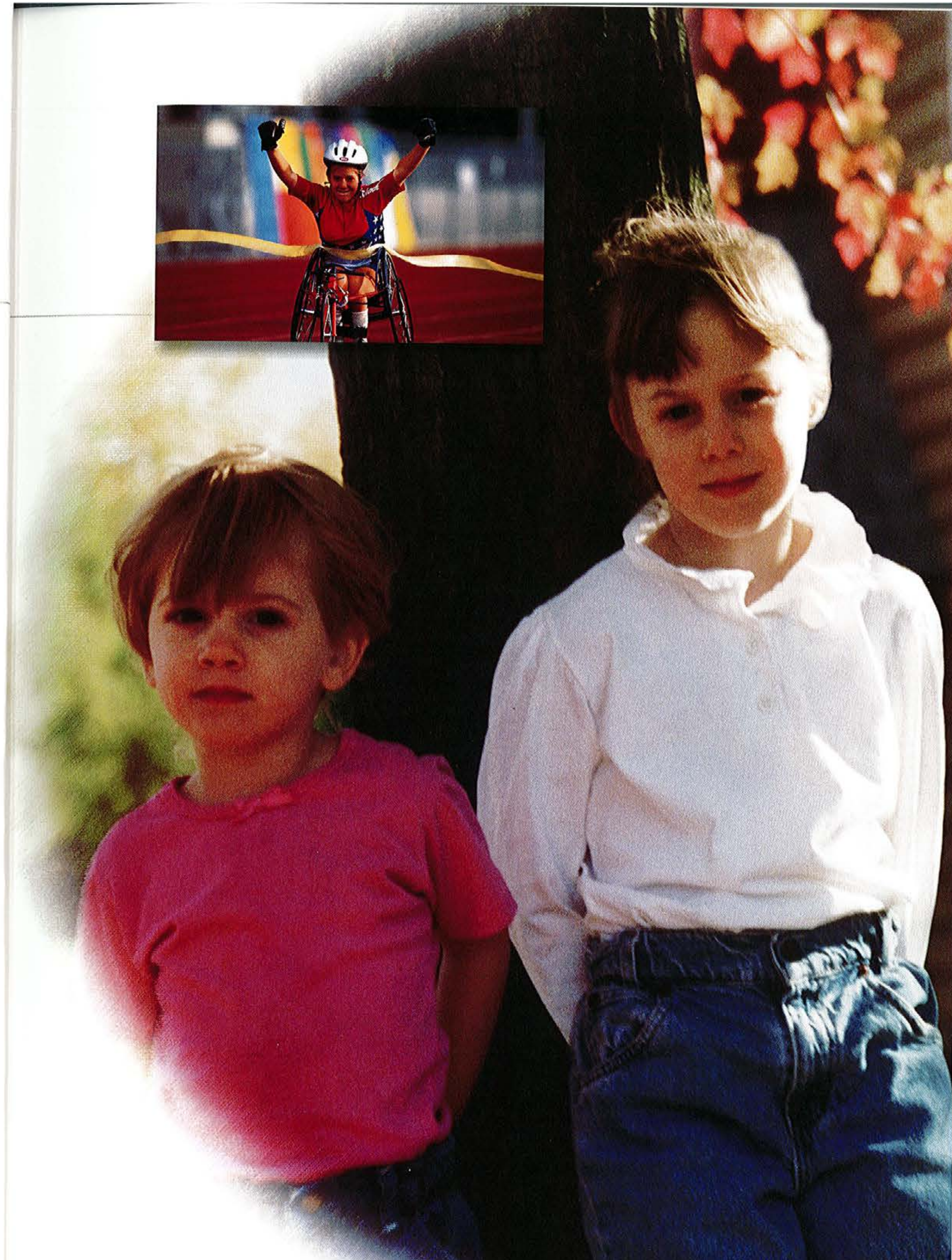
PHFA will be in their future, to provide affordable housing.



The Future Looks Bright

The need for good, affordable housing will always exist. To meet that need, new rental developments are being built with PHFA funds. And families all over the Commonwealth are buying homes of their own because of the Agency's low-interest mortgage programs. With support from both public and private sources, PHFA can continue to provide safe, affordable homes and apartments to low- and moderate-income families, the elderly and persons with disabilities.

Thanks to PHFA, the future of Pennsylvania housing is bright.



PHFA Rental Housing Activity in 1998

Developments at commitment:

DEVELOPMENT	COUNTY	PHFA SUPPORT	UNITS
Munhall Road Apartments	Allegheny	$ 240,000	12
Eagleview Senior Apartments	Chester	703,515	49
New Visions–Shippensburg	Cumberland	241,935	10
Willow Ridge	Dauphin	1,257,159	60
Annville Elderly Housing	Lebanon	534,534	22
Moravian House III	Northampton	785,400	50
Wind Gap Manor	Northampton	955,749	26
Norris Square Apartments	Philadelphia	345,401	35
Reed House	Philadelphia	1,000,000	67
Sixth and Berks Street	Philadelphia	520,000	26
Universal Courts II	Philadelphia	409,500	21
Hite House	Somerset	957,600	28
The Village at Brierwood	Somerset	493,826	11
Park View at Manchester Heights	York	680,000	64
York YMCA SRO Project	York	1,000,000	120
Totals		**$ 10,124,619**	**601**

Developments at feasibility:

DEVELOPMENT	COUNTY	PHFA SUPPORT	UNITS
Kennedy Commons	Allegheny	$ 744,000	48
Penn Hills Senior Housing	Allegheny	480,000	24
Pine Ridge Heights	Allegheny	751,000	40
Sarah Street Townhomes	Allegheny	600,000	30
Sycamore Street Apartments	Allegheny	400,000	20
Womanspace East Expansion Project	Allegheny	200,000	10
Westbridge Apartments	Beaver	480,000	24
Chicora Commons	Butler	538,000	27
Oxford Village	Chester	1,000,000	50
Allison Hill II	Dauphin	600,000	30
Ecumenical Communities III	Dauphin	650,000	120
Concord Pointe	Delaware	1,000,000	64
Brandon Park Manor	Lycoming	336,000	21
Ardmore Affordable Housing	Montgomery	220,000	6
Limerick Green	Montgomery	1,448,000	80
Pennsburg Commons	Montgomery	1,000,000	50
Butz House Renovation	Perry	367,000	11
Guildhouse West II	Philadelphia	295,000	55
Hope Haven III	Philadelphia	140,000	7
Kings Highway, Phase II	Philadelphia	628,000	31
Ralston/Mercy-Douglass House	Philadelphia	385,000	55
Sharswood Apartments	Philadelphia	382,000	70
Taino Gardens Rental Development	Philadelphia	459,253	42
Totals		**$ 13,103,253**	**915**

Pennsylvania Housing Finance Agency

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENTS

for the years ended June 30, 1998 and 1997

AND REQUIRED SUPPLEMENTAL INFORMATION

FINANCIAL CONTENTS

Report of Independent Accountants

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One South Market Square
Harrisburg, PA 17101-9916
Telephone (717)231-5900
Facsimile (717) 232-5672

September 30, 1998

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

In our opinion the accompanying balance sheets and the related statements of revenues, expenses and changes in fund balances and cash flows present fairly, in all material respects, the financial position of The Pennsylvania Housing Finance Agency (Agency) at June 30, 1998 and 1997, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles. 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 audits. We did not audit the financial statements of the Homeowners Emergency Mortgage Assistance Program (HEMAP) the statements of which reflect total assets and revenues constituting 3% and 3%, respectively, of the related totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HEMAP, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note A, the financial statements present only financial information about The Pennsylvania Housing Finance Agency and are not intended to present fairly the financial position of the Commonwealth of Pennsylvania and the results of its operations and cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the Agency changed its method of accounting for investment securities during 1998.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Funding Progress and Schedule of Contributions from the Employer and Other Contributing Entities, on page 45, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

Pennsylvania Housing Finance Agency

Balance Sheets

as of June 30, 1998 and 1997

(in thousands)	1998						1997					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
ASSETS												
Deposits and investments (Note E)	$ 96,025	283,590	377,180	23,329	8,343	788,467	70,455	276,656	266,599	19,878	2,871	636,459
Mortgage loans receivable (Note F)	-	569,793	1,959,510	-	78,015	2,607,318	-	586,361	1,801,380	-	81,125	2,468,866
Construction advances (Note F)	-	23,910	-	-	-	23,910	-	13,668	-	-	-	13,668
Deferred and other assets	4,152	5,181	6,970	7	146	16,456	4,459	6,122	5,565	3	151	16,300
Due from other funds	12,060	-	-	-	-	12,060	28,773	-	-	-	-	28,773
	$ 112,237	882,474	2,343,660	23,336	86,504	3,448,211	103,687	882,807	2,073,544	19,881	84,147	3,164,066
LIABILITIES AND FUND BALANCES												
Bonds payable (Note I)	-	544,927	2,142,637	-	-	2,687,564	-	560,579	1,886,888	-	-	2,447,467
Notes payable (Note H)	-	6,049	-	-	-	6,049	-	13,056	-	-	-	13,056
Escrow and other liabilities	394	177,862	30,090	704	3,364	212,414	323	169,941	24,876	705	3,298	199,143
Accrued interest payable	-	16,015	33,267	-	-	49,282	-	16,561	34,859	-	-	51,420
Accounts payable and accrued expenses	1,399	-	56	-	203	1,658	1,187	-	11	-	211	1,409
Accrued mortgage claims	-	-	-	342	-	342	-	-	-	369	-	369
Due to other funds	-	3,576	8,021	-	463	12,060	-	2,715	26,058	-	413	29,186
Total liabilities	1,793	748,429	2,214,071	1,046	4,030	2,969,369	1,510	762,852	1,972,692	1,074	3,922	2,742,050
Fund balances (Note K):												
Reserved	-	1,960	41,540	10,000	82,474	135,974	-	1,960	33,181	10,000	80,225	125,366
Unreserved:												
Internally designated	43,000	104,840	12,205	12,290	-	172,335	62,500	75,090	10,205	8,807	-	156,602
Undesignated	67,444	27,245	75,844	-	-	170,533	39,677	42,905	57,466	-	-	140,048
Total fund balances	110,444	134,045	129,589	22,290	82,474	478,842	102,177	119,955	100,852	18,807	80,225	422,016
	$ 112,237	882,474	2,343,660	23,336	86,504	3,448,211	103,687	882,807	2,073,544	19,881	84,147	3,164,066

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, 1998 and 1997

(in thousands)		1998 General Fund	1998 Multi-Family Program	1998 Single Family Program	1998 Insurance Fund	1998 HEMAP	1998 Totals (Memorandum Only)	1997 General Fund	1997 Multi-Family Program	1997 Single Family Program	1997 Insurance Fund	1997 HEMAP	1997 Totals (Memorandum Only)
REVENUES:													
Interest income:													
Investments	$	5,062	7,744	19,188	1,581	422	33,997	6,022	7,653	17,952	1,347	346	33,320
Mortgage loans receivable (Note F)		134	52,226	134,459	-	1,267	188,086	43	52,412	118,245	-	1,488	172,188
Construction advances (Note F)		-	158	-	-	-	158	-	245	-	-	-	245
Total interest income		5,196	60,128	153,647	1,581	1,689	222,241	6,065	60,310	136,197	1,347	1,834	205,753
Fees and charges		11,958	-	1,884	1,843	285	15,970	10,101	-	1,615	1,326	275	13,317
Amortization of deferred gain		-	585	-	-	-	585	-	594	-	-	-	594
Gain on sale of investments		-	-	12	-	-	12	204	-	-	-	-	204
Unrealized gain on investments		374	1,506	2,249	141	-	4,270	-	-	-	-	-	-
Grant revenue		-	-	-	-	10,000	10,000	-	1,152	-	-	3,000	4,152
Pass-through grants (Note C)		-	117,810	-	-	-	117,810	-	122,319	-	-	-	122,319
Residual receipts		-	4,574	-	-	-	4,574	-	1,712	-	-	-	1,712
Nonrecurring income		189	-	-	-	-	189	4	-	-	-	-	4
Total operating revenue		17,717	184,603	157,792	3,565	11,974	375,651	16,374	186,087	137,812	2,673	5,109	348,055
EXPENSES:													
Interest on notes (Note H)		-	235	-	-	-	235	-	1,862	-	-	-	1,862
Interest on bonds (Note I)		-	35,644	136,624	-	-	172,268	-	36,033	121,956	-	-	157,989
Salaries and related benefits		8,882	-	-	-	1,421	10,303	8,285	-	-	-	1,394	9,679
General and administrative		3,688	2,840	-	-	1,613	8,141	3,503	2,514	-	-	1,617	7,634
Pass-through grants (Note C)		-	117,810	-	-	-	117,810	-	122,319	-	-	-	122,319
Loan loss provision		-	18,000	600	-	6,691	25,291	-	15,000	600	-	7,533	23,133
Mortgage insurance		-	-	-	317	-	317	-	-	-	347	-	347
Mortgage claims		-	-	-	300	-	300	-	-	-	300	-	300
Total operating expenses		12,570	174,529	137,224	617	9,725	334,665	11,788	177,728	122,556	647	10,544	323,263
Income before extraordinary item and cumulative effect of accounting change		5,147	10,074	20,568	2,948	2,249	40,986	4,586	8,359	15,256	2,026	(5,435)	24,792
Extraordinary loss and accounting change:													
Cumulative effect of accounting change, valuing investments at fair value		1,423	5,728	8,550	535	-	16,236	-	-	-	-	-	-
Early extinguishment of debt (Note I)		-	(15)	(381)	-	-	(396)	-	(19)	(770)	-	-	(789)
Net income (loss)		6,570	15,787	28,737	3,483	2,249	56,826	4,586	8,340	14,486	2,026	(5,435)	24,003
Fund balances at beginning of year		102,177	119,955	100,852	18,807	80,225	422,016	117,280	88,821	89,471	16,781	85,660	398,013
Fund balance transfers, net (Note D)		1,697	(1,697)	-	-	-	-	(19,689)	22,794	(3,105)	-	-	-
Fund balances at end of year	$	110,444	134,045	129,589	22,290	82,474	478,842	102,177	119,955	100,852	18,807	80,225	422,016

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

Pennsylvania Housing Finance Agency

Statements of Cash Flows

for the years ended June 30, 1998 and 1997

(in thousands)

	1998						1997					
	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)	General Fund	Multi-Family Program	Single Family Program	Insurance Fund	HEMAP	Totals (Memorandum Only)
Cash flows from operating activities:												
Net income (loss)	$ 6,570	15,787	28,737	3,483	2,249	56,826	4,586	8,340	14,486	2,026	(5,435)	24,003
Adjustments to reconcile net income to net cash provided by (used in) operating activities:												
Depreciation and amortization	355	704	(4,316)	-	26	(3,231)	236	714	863	-	28	1,841
Loss on early extinguishment of debt	-	15	381	-	-	396	-	19	770	-	-	789
Loan loss provision	-	18,000	600	-	6,691	25,291	-	15,000	600	-	7,532	23,132
Interest expense on notes and bonds, excluding amortization accretion and accretion	-	36,874	145,329	-	-	182,203	-	37,883	125,682	-	-	163,565
Interest income on investments	(5,062)	(7,744)	(19,188)	(1,581)	(422)	(33,997)	(6,022)	(7,653)	(17,952)	(1,347)	(346)	(33,320)
Cumulative effect of accounting change, valuing investments at fair value	(1,423)	(5,728)	(8,550)	(535)	-	(16,236)	-	-	-	-	-	-
Unrealized gain on investments	(374)	(1,506)	(2,249)	(141)	-	(4,270)	-	-	-	-	-	-
Gain on sale of investments	-	-	(12)	-	-	(12)	(204)	-	-	-	-	(204)
Amortization of deferred gain	-	(585)	-	-	-	(585)	-	(594)	-	-	-	(594)
Increase (decrease) due to changes in operating assets and liabilities:												
Mortgage loans receivable	-	(1,432)	(158,730)	-	(4,066)	(164,228)	20	(14,106)	(320,363)	-	(5,680)	(340,129)
Construction advances	-	(10,242)	-	-	-	(10,242)	-	5,717	-	-	-	5,717
Deferred and other assets	(511)	498	(1,849)	(4)	(1)	(1,867)	(520)	4	(1,328)	99	(3)	(1,748)
Escrow and other liabilities	71	7,921	5,214	(1)	67	13,272	(23)	17,341	5,197	39	121	22,675
Accounts payable and accrued expenses	212	-	46	-	(8)	250	43	-	(5)	-	2	40
Accrued mortgage claims	-	-	-	(27)	-	(27)	-	-	-	35	-	35
Net cash provided by (used in) operating activities	(162)	52,562	(14,587)	1,194	4,536	43,543	(1,884)	62,665	(192,050)	852	(3,781)	(134,198)
Cash flows from noncapital financing activities:												
Due (from) to other funds	17,176	861	(18,037)	-	50	50	(12,703)	(20)	12,723	-	(70)	(70)
Fund balance transfers from (to) other funds	1,697	(1,697)	-	-	-	-	(19,689)	22,794	(3,105)	-	-	-
Proceeds from sale of bonds and notes	-	-	375,855	-	-	375,855	-	13,846	330,415	-	-	344,261
Redemptions and maturities of bonds and notes	-	(23,363)	(124,422)	-	-	(147,785)	-	(48,384)	(160,388)	-	-	(208,772)
Interest paid on bonds and notes	-	(36,426)	(138,215)	-	-	(174,641)	-	(37,978)	(120,028)	-	-	(158,006)
Net cash provided by (used in) noncapital financing activities	18,873	(60,525)	95,181	-	50	53,479	(32,392)	(49,742)	59,617	-	(70)	(22,587)
Cash flows from investing activities:												
Purchase of investments	(155,728)	(180,529)	(97,018)	-	(13,308)	(446,583)	(127,809)	(168,750)	(96,543)	-	(6,284)	(399,386)
Interest received on investments	5,062	7,744	19,188	1,581	422	33,997	6,022	7,653	17,952	1,347	346	33,320
Proceeds from sales and maturities of investments	131,955	166,888	52,673	-	9,303	360,819	156,063	163,310	252,582	-	8,024	579,979
Net cash provided by (used in) investing activities	(18,711)	(5,897)	(25,157)	1,581	(3,583)	(51,767)	34,276	2,213	173,991	1,347	2,086	213,913
Net increase (decrease) in cash and cash equivalents	-	(13,960)	55,437	2,775	1,003	45,255	-	15,136	41,558	2,199	(1,765)	57,128
Cash and cash equivalents at beginning of year	-	199,434	116,759	9,878	(1,970)	324,101	-	184,298	75,201	7,679	(205)	266,973
Cash and cash equivalents at end of year	$ -	185,474	172,196	12,653	(967)	369,356	-	199,434	116,759	9,878	(1,970)	324,101
Reconciliation of cash and cash equivalents to the balance sheets:												
Total deposits and investments per the balance sheets:	96,025	283,590	377,180	23,329	8,343	788,467	70,455	276,656	266,599	19,878	2,871	636,459
Less:												
Investments not meeting the definition of cash equivalents at fair value at June 30, 1998	96,025	98,116	204,984	10,676	9,310	419,111	70,455	77,222	149,840	10,000	4,841	312,358
Cash and cash equivalents at end of year	$ -	185,474	172,196	12,653	(967)	369,356	-	199,434	116,759	9,878	(1,970)	324,101
Supplemental schedule of noncash operating activities:												
Mortgage loan receivable charge offs	$ -	-	(598)	-	(5,549)	(6,147)	-	(424)	(375)	-	(6,048)	(6,847)

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

Pennsylvania Housing Finance Agency

Notes to Financial Statements

(dollar amounts in thousands)

for the years ended June 30, 1998 and 1997

A. Authorizing Legislation:

The Pennsylvania Housing Finance Agency (Agency) is a corporate and political body 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 to authorize the Agency to make or purchase loans to finance the purchase, construction, improvement or rehabilitation of owner-occupied single family residences, and to finance the construction and rehabilitation of housing units without requiring the housing units to be subsidized or assisted by a federal government program.

The Act was further amended to authorize the Agency to furnish emergency mortgage assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans.

The Agency has been determined to be a component unit of the Commonwealth of Pennsylvania for financial reporting purposes and thus, the financial results of the Agency will be included in the Commonwealth's June 30, 1998 financial statements.

B. Fund Accounting:

The accounts of the Agency are organized on the basis of separate enterprise 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 balance, and 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. The Multi-Family Program also provides funds for the bridge loan program. This program provides funds to multi-family construction projects, to be used as owner's equity. These funds assist the construction project to finance pre construction costs.

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. Borrowers participating in the Single Family Program have the option of obtaining primary mortgage insurance through the Pennsylvania Housing Insurance Fund.

Insurance Fund:

Through the Insurance Fund, the Agency provides primary mortgage insurance coverage for single family mortgage loans and charges the participants a premium for this coverage.

HEMAP:

The Homeowners Emergency Mortgage Assistance Program (HEMAP) was created by Act 91 of the General Assembly as a separate fund within the Agency. Transactions relate to the furnishing of emergency mortgage assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans, in an amount sufficient to bring the mortgage current, and, if necessary, to provide continuing assistance for a period of up to 36 months. The mortgagor's obligation to repay the loan does not commence until there is the financial ability to do so. As stated in Act 91, no Agency funds are being expended on HEMAP, however, it does rely on the Agency for various administrative services, for which it pays a support services fee.

The Agency follows Governmental Accounting Standards Board (GASB) Statement No. 14, "The Reporting Entity." As a result, HEMAP has been determined to be part of the reporting entity. Accordingly, HEMAP has been included as a separate fund in the financial statements. A separately published audit report of HEMAP is available for public inspection in the Agency's Finance Department.

HEMAP received a $10,000 appropriation for the fiscal year ended June 30, 1998. This appropriation should be sufficient to maintain the program at its current level through June 30, 1999. Funding from repayments are estimated to continue to be sufficient to meet continuing loan program obligations and administrative costs.

HEMAP is currently reviewing restructuring options, including legislative changes, that would make it self-sustaining or allow for a reduction of the appropriation.

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 Agency follows GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" (Statement No. 20) for reporting and disclosure purposes. As permitted by Statement No. 20, the Agency has elected to not apply Financial Accounting Standards Board pronouncements issued after November 30, 1989 unless the GASB specifically adopts the FASB Statement or Interpretation.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Agency considers all highly liquid investments with an original maturity of three months or less, when purchased, to be cash equivalents.

Investment Securities:

During 1998, the Agency implemented Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which changes the method of accounting for investment securities from the cost method to fair value. The Commonwealth has deemed it impractical to apply the provisions of Statement No. 31 retroactively, the preferred method of implementation and therefore has elected to apply its provisions cumulatively through July 1, 1997. Due to the component unit relationship between the Commonwealth and the Authority, the Authority has followed the implementation methodology of the Commonwealth with regards to this statement.

The fair value of the Authority's investment securities are based upon values provided by external investment managers and quoted market prices.

The cumulative effect as of July 1, 1997 of adopting Statement No. 31, representing unrealized gains on investment securities is to increase the fund balance by $16,236.

Mortgage Loans Receivable and Construction Advances:

Mortgage loans receivable and construction advances are carried at amounts disbursed plus accrued interest and fees, less collections, mortgage loan discounts 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 and construction advances. Factors considered by management include the estimated fair market values of the properties that represent collateral, the amount of mortgage insurance to be received, if any, and the past experience and financial condition of the borrowers. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additions to the allowance are provided by charges to expense.

Mortgage Real Estate Owned:

During the normal course of business, the Agency purchases single family properties at foreclosure proceedings to avoid or minimize losses on mortgage loans. These properties are recorded at cost and are held and managed by the Agency until purchasers are located. Subsequent costs directly related to the sale or improvement of the real estate are capitalized, as they are recoverable as part of the insurance claim. Losses arising from the properties are charged to the allowance for potential loan losses when incurred.

Nonaccrual Loans:

The Agency's policy is not to place a loan on nonaccrual status. For those mortgage loans fully insured, the accrued interest is recoverable as part of the mortgage insurance claim. In management's opinion, there is adequate reserve in the allowance for potential loan losses for any unrecovered accrued interest for mortgages which are self-insured by the Agency.

Mortgage Loan Interest:

Interest income is recognized over the life of construction advances and mortgage loans receivable based upon the constant yield method.

Mortgage Loan Origination Fees and Costs:

Loan origination fees range from 1% to 2.5% of the loan commitment for the Multi-Family Program and from 0% to 1% of the mortgage amount for the Single Family Program. The Single Family loan origination fees are retained by the financial institutions which originate Agency loans.

Loan origination costs relate to investigations, surveys, appraisals and other matters pertaining to the evaluation of mortgage loan proposals and construction advances.

The net difference between the loan origination fee and the related direct loan origination cost is deferred and amortized using the interest method over the life of the loan.

Amortization of Notes and Bonds Payable Discounts:

Underwriter discounts relating to notes and bonds payable, including original issue discounts, are amortized over the lives of the related debt using the interest method.

Deferred Gain:

In prior years, in an effort to maintain the low-income status of various multi-family projects, the Agency acquired these projects, at below market value, from the original owners. The Agency in turn sold these properties, at market price, to the current owners with the condition that they would retain their low-income status.

The deferred gain (the excess of the selling price over the Agency's acquisition price) is included in escrow and other liabilities and is being amortized over the lives of the current owners' mortgage loans using the installment method.

Deferred Costs of Refunding:

The Agency follows GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," which requires that the difference between the reacquisition price and the net carrying amount of defeased debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. On the balance sheet, the amount of the unamortized deferred costs of refunding is reported as a deduction from or addition to the new debt. During the years ended June 30, 1998 and 1997, the Agency deferred losses of $2,461 and $2,277, respectively, on refunding Single Family Mortgage Revenue Bonds. As of June 30, 1998 and 1997, the unamortized deferred costs of refunding are $7,543 and $5,511, respectively.

Pass-through Grants:

The Agency has implemented GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." GASB Statement No. 24 requires that all cash pass-through grants received by a governmental entity be reported in its financial statements. The provisions of this statement have been applied retroactively restating the financial statements for the prior period presented. The effect of applying these provisions is to increase both operating revenues and operating expenses by $117,810 and $122,319 for the years ended June 30, 1998 and 1997, respectively. This change has no effect on net income.

Total Columns on Financial Statements:

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Such data is not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

D. Fund Balance Transfers:

The Agency is permitted to make fund balance transfers to the extent that such fund balances and the related assets are not required to meet the Agency's debt obligations and provided that such transfers are not in violation of the terms of bond resolutions or indentures.

E. Deposits, Investments and Securities Lending:

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 collateralized 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; noncollateralized 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 and investments consist of the following at June 30, 1998 and 1997:

		1998	1997
Deposits	$	2,760	(537)
Investments		785,707	636,996
Total deposits and investments	$	788,467	636,459

Management is not aware of any violations of statutory authority or contractual provisions for deposits and investments during the years ended June 30, 1998 and 1997.

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 or those collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Agency's name (Category 3):

		Bank Balance				
June 30, 1998		Category 1	Category 2	Category 3	Total	Carrying Amount
Demand deposits	$	100	-	7,355	7,455	2,760
June 30, 1997						
Demand deposits	$	161	-	9,197	9,358	(537)

Deposits classified as Category 3 are collateralized by pooled collateral in accordance with Act 72 of the Commonwealth of Pennsylvania. The bank balances in excess of the carrying amount represent checks which have not cleared the bank, net of deposits in transit or other transactions not recorded by the bank until after year end.

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 represent the Agency's ownership interests in investment agreements, mutual funds and investment in the State Treasurer's investment pool. 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			
June 30, 1998		Category 1	Category 2	Total Carrying Value	Total Carrying Amount/Fair Value
Corporate bonds	$	38	-	38	44
Repurchase agreements		63,615	-	63,615	63,615
U.S. Government and agency securities:					
Not on securities loan		273,738	-	273,738	287,084
On securities loan		58,925	-	58,925	66,079
Short-term investments		181,892	9,310	191,202	191,202
Totals	$	578,208	9,310		
Add amounts not categorized because securities are not used as evidence of the investments:					
Investment agreements				102,428	102,428
Mutual funds				71,514	71,514
Investment in State Treasurer's investment pool				3,740	3,740
Total investments			$	765,202	785,707

June 30, 1997		Carrying Amount				
		Category 1	Category 2	Category 3	Total	Market Value
Corporate bonds	$	54	-	-	54	60
Repurchase agreements		72,183	-	-	72,183	72,183
U.S. Government and agency securities:						
Not on securities loan		256,714	-	-	256,714	264,882
On securities loan		34,415	-	-	34,415	42,504
Short-term investments		123,233	4,840	-	128,073	128,073
Totals	$	486,599	4,840	-	491,439	507,702
Add amounts not categorized because securities are not used as evidence of the investments:						
Investment agreements					69,682	69,682
Mutual funds					72,339	72,339
Investment in State Treasurer's investment pool					3,536	3,536
Total investments					$ 636,996	653,259

The Agency has implemented GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." Under the authority of the Agency's Board, the Agency lends securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Agency's primary custodial bank manages the securities lending program and receives cash, securities or irrevocable bank letters of credit as collateral. The collateral securities cannot be pledged or sold by the Agency unless the borrower defaults. Cash, collateral securities, and letters of credit are initially pledged at 102% of the market value of the securities lent, and additional collateral has to be provided by the next business day if its value falls to less than 100% of the market of the securities lent. Securities on loan at year-end are classified in the preceding schedule of custodial credit risk according to the category for the collateral received on the securities lent. At June 30, 1998, the Agency had no credit risk exposure to borrowers because the amounts the Agency owes the borrowers exceed the amounts the borrowers owe the Agency.

The amortized cost and estimated market values of investments in debt securities as of June 30, 1998 and 1997 are as follows:

June 30, 1998		1998			
		Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Market Value
Corporate bonds	$	38	6	-	44
Repurchase agreements		63,615	-	-	63,615
U.S. Government obligations		64,850	19,728	-	84,578
U.S. Government agency obligations		267,813	1,650	(879)	268,584
Short-term investments		191,202	-	-	191,202
Investment agreements		102,428	-	-	102,428
Mutual funds		71,516	-	-	71,516
State Treasurer's investment pool		3,740	-	-	3,740
	$	765,202	21,384	(879)	785,707

June 30, 1997		1997			
		Gross Amortized Cost	Gross Unrealized Gains	Estimated Unrealized Losses	Market Value
Corporate bonds	$	54	6	-	60
Repurchase agreements		72,183	-	-	72,183
U.S. Government obligations		74,203	16,038	-	90,241
U.S. Government agency obligations		216,926	1,078	(859)	217,145
Short-term investments		128,073	-	-	128,073
Investment agreements		69,682	-	-	69,682
Mutual funds		72,339	-	-	72,339
State Treasurer's investment pool		3,536	-	-	3,536
	$	636,996	17,122	(859)	653,259

The amortized cost and estimated market value of investments at June 30, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

		Amortized Cost	Estimated Market Value
Due in 1 year or less	$	614,064	613,964
Due after 1 year through 5 years		98,336	100,841
Due after 5 years through 10 years		13,559	16,452
Due after 10 years		39,243	54,450
	$	765,202	785,707

Proceeds from sales of investments in debt securities, prior to maturity, during 1998 and 1997, are $6,465 and $3,984, respectively. Net gains of $12 and $204, respectively, are realized on those sales.

F. Mortgage Loans Receivable and Construction Advances:

The mortgage loans receivable and construction advances are collateralized by first mortgages on the related properties. The federal government provides insurance for certain projects included in the Multi-Family Program, as well as subsidizes certain projects through its Section 8 Program. Insurance for the Single Family Program is provided by commercial companies and self-insurance through the Agency's Insurance Fund. In addition, the Agency has internally designated a portion of fund balances for self-insurance for certain multi-family and single family loans (see Note K). A summary of multi-family mortgage loans receivable and construction advances at June 30, 1998 and 1997 is as follows:

June 30, 1998	Mortgage Loans Receivable	Construction Advances
Insured and subsidized	$ 45,434	-
Insured and nonsubsidized	50,752	23,845
Uninsured and subsidized	394,696	-
Uninsured and nonsubsidized	178,832	65
	669,714	23,910
Allowance for potential loan losses	99,921	-
	$ 569,793	23,910

June 30, 1997	Mortgage Loans Receivable	Construction Advances
Insured and subsidized	$ 48,610	-
Insured and nonsubsidized	49,669	4,571
Uninsured and subsidized	461,343	-
Uninsured and nonsubsidized	108,660	9,097
	668,282	13,668
Allowance for potential loan losses	81,921	-
	$ 586,361	13,668

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.

The Agency has reimbursement agreements covering up to $288,500 in mortgage loans with various commercial mortgage insurers in order to provide mortgagors with lower premiums for primary mortgage insurance. Under these agreements, the mortgage insurers are primarily responsible to the holders of the mortgage insurance policies, and the Agency will assume a portion of the mortgage default risk. Although the Agency has internally restricted a portion of its fund balance in connection with this potential exposure, no losses have ever resulted under these agreements. The Agency discontinued originating mortgage loans under these agreements in September 1993.

The Agency provides primary mortgage insurance coverage for single family mortgage loans through the Insurance Fund which ranges from 20% to 30% (depending on the loan-to-value ratio at origination) of the unpaid principal balance. At June 30, 1998 and 1997, the total loans covered under this program are $380,322 and $357,796, respectively, and the coverage provided is estimated to be approximately $108,644 and $102,140, respectively. The participants in this program are charged an annual premium for this coverage.

In order to increase the Insurance Fund's capacity to provide primary mortgage insurance for single family mortgage loans, the Agency purchased shared risk coverage through a commercial mortgage insurer during fiscal year 1996. This coverage extends to all loans that were outstanding as of August 31, 1995 and provides that the Agency shall remain solely liable for 10% of the product of multiplying the Insurance Fund coverage percentage (20% to 30%) times the aggregate outstanding principal balance for each loan. After exhaustion of the Agency's retention, the commercial insurer is liable on a per loan basis for losses up to the limit of the Insurance Fund's coverage in each loan-to-value ratio category. Of the total loans covered under the Insurance Fund, $222,254 are covered under this shared risk contract at June 30, 1996, and the Agency's maximum potential exposure is $6,362.

The claims liability of $780 and $369 reported in the Insurance Fund as of June 30, 1998 and 1997, respectively, is based on the requirements of Governmental Accounting Standards Board Statement No. 30, which amends GASB 10 for this fiscal year. GASB 30 requires that the basis for estimating the liability for unpaid claims, including the effects of specific incremental claim adjustments expenditures/expenses, salvage, and subrogation, and whether other allocated or unallocated claim adjustment expenditures/expenses are included. Changes in the Insurance Fund's claim liability amounts are as follows:

	1998	1997
Balance, July 1	$ 369	334
Current year claims and changes in estimates	439	300
Claim payments	(28)	(265)
Balance, June 30	$ 780	369

The Agency has elected to self-insure certain losses sustained by reason of default in payments by eligible borrowers in excess of primary insurance for single family mortgage loans originating from proceeds obtained from single family bond issues Series C through 1996-51. The total principal outstanding of mortgage loans self-insured by the Agency is $1,933,609 and $1,774,731 at June 30, 1998 and 1997, respectively. As of June 30, 1998, cumulative pool losses since inception of the self-insurance program are $2,302.

The HEMAP mortgage loans receivable are collateralized by liens on the respective properties. The assistance HEMAP provides is considered a second mortgage on the property. In cases of default, there is no assurance that any equity will remain after the primary lender is satisfied. Of the total mortgage loans receivable outstanding, $49,669 and $51,368 as of June 30, 1998 and 1997, respectively, are currently required to make repayments.

Changes in the allowance for potential loan losses for the Multi-Family and Single Family Programs and HEMAP are as follows at June 30, 1998 and 1997:

	Multi-Family		Single Family		HEMAP	
	1998	1997	1998	1997	1998	1997
Balance, July 1	$ 81,921	67,345	1,402	1,177	57,653	56,291
Provision charged to income	18,000	15,000	600	600	6,691	7,533
Charge-offs	-	(424)	(598)	(375)	(4,929)	(6,171)
Balance, June 30	$ 99,921	81,921	1,404	1,402	59,415	57,653

The Agency has internally designated a portion of fund balances in both the General Fund and Single Family Program for self-insurance (see Note K).

G. Servicing Portfolio:

Included in the Single Family Program are mortgage loans serviced for investors which are not included in the financial statements. The total amount of loans serviced for others is $108,476 and $128,421 at June 30, 1998 and 1997, respectively.

H. Notes Payable:

The Agency's lines of credit, with the Department of Treasury of the Commonwealth of Pennsylvania, for the funding of Multi-Family Programs and the outstanding borrowings are as follows:

	1998	1997
$15,000 line of credit, bearing interest from the date of issuance at a rate equal to the current yield on two-year Treasury Notes plus 20 basis points, which is determined on the date of issuance, 4.47%-6.98% at June 30, 1998 and 1997, respectively.	$ 1,000	4,000
$50,000 line of credit, bearing a fixed interest rate on the date of a draw at a rate equal to the current yield on two-year Treasury Notes plus 15 basis points, which is determined on the date of issuance, 4.24%-6.13% at June 30, 1998 and 1997, respectively.	-	-
	1,000	4,000

Additionally, the Agency has the following notes payable outstanding for the funding of the Multi-Family Programs.

	1998	1997
Regional Housing Development Corporation Bridge Loan Note bearing a fixed interest rate of 3%	4,819	2,596
Redevelopment Authority of the City of Philadelphia Bridge Loan Note bearing a fixed interest rate of 0%	230	6,460
	5,049	9,056
Total notes payable	$ 6,049	13,056

I. Bonds Payable:

Bonds have been issued to provide financing of mortgage loans under the Multi-Family and Single Family Programs. The full faith and credit of the Agency are 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 investment 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.

The most restrictive covenants require minimum capital reserve requirements for the Multi-Family and Single Family Programs. The capital reserve fund has been established by the Agency to meet these requirements.

The capital reserve requirement for certain Multi-Family bonds requires that a one-year debt service minimum balance be maintaned at all times. The capital reserve fund at June 30, 1998 and 1997, amounts to $18,106 and $17,995, respectively, including amounts funded by bond proceeds. Such amounts are $6,996 and $7,273, respectively, in excess of the requirement.

The capital reserve requirement for Single Family bonds must be 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, 1998 and 1997 amounts to $71,665 and $61,972, respectively, including amounts funded by bond-proceeds. Such amounts are $5,609 and $3,676, respectively, in excess of the requirement.

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

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amounts Outstanding June 30, 1998	1997
Residential Development Bonds:				
Issue 1991A (refunding)	6.65-7.60 %	2013	$ 37,205	38,425
Issue 1992A (refunding)	7.950 %	2025	22,420	23,090
Issue 1992 (refunding)	3.65-6.5 %	2023	152,930	157,820
Issue 1993 (refunding)	3.5-5.8 %	2022	191,060	196,195
State Workers' Insurance Fund:				
Issue 1994	6.990 %	2019	33,180	34,115
Multi-Family Housing Bonds:				
Issue 1982B	9.50-10.875 %	2024	4,875	4,875
Issue 1985A	6.75-9.375 %	2028	2,233	2,996
Issue 1987A	7.00-8.500 %	2002	300	345
Issue 1988A	11.000 %	2008	1,108	1,169
Issue FHA-1992	7.75-8.200 %	2024	36,055	36,465
Moderate Rehabilitation Bonds:				
Issue 1984A	6.50-10.375 %	2001	655	935
Issue 1985B	5.25-9.000 %	2017	2,475	2,770
Multi-Family Development Bonds:				
Issue 1989B	8.250 %	2015	515	525
Issue 1993A (refunding)	5.380 %	2022	32,335	33,050
Issue 1993F	6.530 %	2019	11,570	11,825
Issue 1997G	7.630 %	2027	10,900	11,000
Federal National Mortgage Association:				
Issue 1990A	7.500 %	2023	3,588	3,632
Subordinate Limited Obligation Bonds:				
Issue 1995	5.50-6.15 %	2021	4,483	4,568
			547,887	563,800
Unamortized bond discount			(2,960)	(3,221)
			$ 544,927	560,579

During the year ended June 30, 1998, the Agency redeemed prior to maturity $730 of Multi-Family Housing Bonds, Issue 1985A. An extraordinary loss of $15 resulted from the redemptions.

During the year ended June 30, 1997, the Agency redeemed prior to maturity $2,900 of Multi-Family Development Bonds, Issue 1993A (refunding) and $800 of State Workers' Insurance Fund, Issue 1994. An extraordinary loss of $19 resulted from the redemptions.

The Agency defeased Multi-Family Residential Development Bonds, Issues H and M in prior years by depositing sufficient funds in an irrevocable trust with an escrow agency to provide for all future debt service payments. The funds were invested in U.S. Treasury strips. The defeased principal outstanding on these bonds is $7,120 at June 30, 1998 and 1997.

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

Issue	Interest Rate Range At Issuance	Final Maturity Date	Amounts Outstanding June 30, 1998	1997
Single Family Mortgage Revenue Bonds:				
Series J	4.50-9.000 %	2013	$ 1,040	7,520
Series K	4.50-7.900 %	2013	-	2,037
Series N	4.60-8.250 %	2014	1,420	16,305
Series O	5.75-8.200 %	2018	1,490	14,125
Series P	4.75-8.000 %	2016	780	22,745
Series Q	6.00-8.375 %	2018	3,100	6,075
Series R	6.20-8.125 %	2019	3,220	24,005
Series S	6.70-7.600 %	2016	22,085	22,625
Series T	7.00-7.875 %	2020	6,915	23,400
Series U	6.15-7.800 %	2020	63,125	73,155
Series V	6.00-7.800 %	2016	22,950	23,300
Series W	6.30-7.800 %	2020	45,715	46,435
Series X	6.80-8.150 %	2024	2,045	2,765
Series Y	6.20-7.450 %	2016	25,495	27,520
Series Z	6.00-7.550 %	2016	16,145	17,525
Series 1990 - 27	6.50-8.150 %	2021	2,570	14,070
Series 1990 - 28	6.30-7.650 %	2023	59,485	63,755
Series 1990 - 29	6.10-7.375 %	2016	21,070	22,600
Series 1991 - 30	5.30-7.300 %	2017	17,675	18,930
Series 1991 - 31	5.40-8.950 %	2023	74,670	78,925
Series 1991 - 32	7.150 %	2015	30,420	30,420
Series 1992 - 33	4.50-6.900 %	2017	38,210	41,585
Series 1992 - 34	4.50-7.000 %	2024	71,360	72,343
Series 1992 - 35	2.88-9.480 %	2016	90,980	92,390
Series 1993 - 36	3.40-5.450 %	2014	50,425	51,545
Series 1993 - 37	5.45-5.600 %	2025	75,000	75,000
Series 1994 - 38	3.50-6.125 %	2024	27,185	28,190
Series 1994 - 39	3.90-6.875 %	2024	38,235	38,770
Series 1994 - 40	4.00-6.900 %	2025	38,245	38,780
Series 1994 - 41	4.00-6.650 %	2025	47,990	48,690
Series 1994 - 42	5.50-6.850 %	2025	60,000	60,000
Series 1994 - 43	4.75-7.500 %	2025	48,370	48,945
Series 1995 - 44	6.30-8.400 %	2027	48,965	49,405
Series 1995 - 45	5.00-7.550 %	2026	48,170	49,340
Series 1995 - 46	3.95-6.300 %	2027	48,745	49,385
Series 1996 - 47	4.20-6.750 %	2027	50,000	50,000
Series 1996 - 48	4.00-6.150 %	2028	49,060	49,705
Series 1996 - 49	4.60-6.450 %	2027	50,000	50,000
Series 1996 - 50	3.64-6.350 %	2027	45,365	49,155
Series 1996 - 51	4.55-6.375 %	2028	74,365	75,000
Series 1996 - 52	4.40-7.000 %	2027	73,590	75,000
Series 1996 - 53	4.20-6.150 %	2027	73,455	75,000
Series 1997 - 54	5.375-7.22 %	2028	48,585	50,000
Series 1997 - 55	3.70-5.750 %	2013	33,055	33,385
Series 1997 - 56	4.00-6.150 %	2028	92,875	50,000
Series 1997 - 57	4.30-6.150 %	2029	50,000	50,000
Series 1997 - 58	4.30-5.450 %	2009	74,855	-
Series 1997 - 59	4.00-5.150 %	2029	75,000	-
Series 1997 - 60	4.00-5.100 %	2009	75,000	-
Series 1997 - 61	4.00-4.900 %	2008	75,000	-
Series 1997 - 62	4.25-5.200 %	2011	75,000	-
			2,168,500	1,909,850
Unamortized bond discount			(18,320)	(17,451)
Unamortized deferred costs of refunding			(7,543)	(5,511)
			$ 2,142,637	1,886,888

During the year ended June 30, 1998, the Agency redeemed prior to maturity $22,390 of Single Family Mortgage Revenue Bonds Series N, O, Y, Z, 1997-58, 1997-56, 1997-54, 1996-53, 1996-52, 1996-51, 1996-50, 1996-48, 1995-45, 1994-38, 1992-33, 1991-31, 1991-30, 1990-29, 1990-28, using mortgage prepayments. Extraordinary losses of $381 resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 1998, the Agency redeemed prior to maturity $28,752 of Single Family Mortgage Revenue Bonds, Series J, K, T, and U, using bond proceeds. Although a deferred loss of $638 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $6,622 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $10,087 over the succeeding 22 years from the current refundings.

During the year ended June 30, 1997, the Agency redeemed prior to maturity $48,305 of Single Family Mortgage Revenue Bonds Series N, O, Y, 1990-28, 1990-29, 1991-30, 1991-32, 1992-33, 1994-38, and 1995-45, using mortgage prepayments. Extraordinary losses of $770 resulted from the redemptions as unamortized bond discount and related costs of issuance for the bonds redeemed were expensed. Additionally, during the year ended June 30, 1997, the Agency redeemed prior to maturity $88,385 of Single Family Mortgage Revenue Bonds, Series L, O, R, and X, using bond proceeds. Although a deferred loss of $2,277 resulted from the refundings, the Agency in effect obtained an economic gain (difference between the present value of the old and new debt service payments) of $29,417 and was able to reduce its aggregate debt service payments as a result of these transactions by a total of $69,815 over the succeeding 25 years from the current refundings.

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 if they are from undisbursed bond proceeds. A provision of the bonds includes mandatory annual sinking fund payments to provide for redemption of the term bonds.

Required principal and interest payments related to bonds payable are as follows at June 30, 1998:

Year ending June 30,	Multi-Family Program Principal	Multi-Family Program Interest	Single Family Program Principal	Single Family Program Interest	Total Principal and Interest Maturities
1999	$ 15,878	34,446	38,560	136,587	225,471
2000	16,610	33,540	40,575	134,916	225,641
2001	17,604	32,585	42,450	132,131	224,770
2002	18,295	31,524	42,880	129,910	222,609
2003	19,717	30,405	44,530	127,002	221,654
Thereafter	459,783	283,903	1,959,505	1,718,601	4,421,792
	$ 547,887	446,403	2,168,500	2,379,147	5,541,937

J. Operating Leases:

The Agency is obligated under noncancelable operating leases for its buildings. Future minimum payments under these leases at June 30, 1998 are:

1999	$	665
2000		662
2001		636
2002		640
2003		609
Thereafter		1,293
	$	4,505

Total rental expense is $717 and $698 for the years ended June 30, 1998 and 1997, respectively.

K. Reserved and Internally Designated Fund Balances:

General Fund:

The fund balance of the General Fund is 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 a portion of the General Fund balance as follows:

	June 30, 1998	June 30, 1997
Single Family Self-Insurance Fund	$ 16,500	16,500
Multi-Family Self-Insurance Fund	10,000	10,000
PennHOMES Program	15,000	35,000
Housing initiatives	1,000	1,000
Home buyer counseling	500	-
	$ 43,000	62,500

The designation for the Single Family Self-Insurance Fund has been established 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 C and subsequent issues. The Single Family Self-Insurance Fund has been established at not less than 1% of anticipated mortgages to be originated on Issues I and subsequent issues. The Single Family Series I resolution requires that a Self-Insurance Fund be held by the trustee. This is funded by the General Fund and is included in the Single Family Program's restricted fund balance.

The designation for the Multi-Family Self-Insurance Fund has been established in the event a loss occurs on any of the multi-family projects for which the Agency acts as an insurer or coinsurer.

The designation for the PennHOMES Program has been established to provide below market and deferred interest financing to lower development costs for apartment projects financed by the Agency.

The designation for housing initiatives has been established to provide below market financing for multi-family and single family special projects financed by the Agency.

Multi-Family Program:

Restrictions on the Multi-Family Program fund balance are as follows:

	June 30, 1998	June 30, 1997
Capital Reserve not funded by bond proceeds	$ 1,960	1,960

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

The Agency has internally designated a portion of the Multi-Family Program fund balance as follows:

	June 30, 1998	June 30, 1997
PennHOMES Program	$ 99,900	74,365
Assisted living	4,000	-
Supportive services	850	725
	$ 104,840	75,090

The designation for the PennHOMES Program, which is funded from unrestricted multi-family proceeds, has been established to lower development costs for apartment projects financed by the Agency.

The designation for supportive services has been established to provide multi-family projects with funds for resident services.

Single Family Program:

Restrictions on the Single Family Program fund balance are as follows:

	June 30, 1998	June 30, 1997
Capital Reserve not funded by bond proceeds	$ 20,147	12,388
Self-Insurance Fund held by trustee	21,393	20,793
	$ 41,540	33,181

The Capital Reserve not funded by bond proceeds represents funding provided by the Agency to meet the capital reserve required under bond indentures in excess of amounts funded by bond proceeds.

The Self-Insurance Fund held by trustee represents amounts to self-insure the pool insurance for single family mortgage loans to meet self-insurance requirements under the bond indentures.

The Agency has internally designated a portion of the Single Family Program fund balance as follows:

	June 30, 1998	June 30, 1997
Closing Cost Subsidy Program	$ 9,750	7,750
Additional Single Family Insurance Program	2,455	2,455
	$ 12,205	10,205

The Closing Cost Subsidy is a program established to assist qualified single family home buyers with the initial costs incurred at the inception of a mortgage.

The designation for the Additional Single Family Insurance Program has been established to cover risk sharing agreement primary mortgage insurance losses in the event of default on single family mortgage loans.

Insurance Fund:

Restrictions on the Insurance Fund fund balance are as follows:

	June 30, 1998	June 30, 1997
Risk retention	$ 10,000	10,000

The risk retention reserve was established as an alternative to private single family mortgage insurance. Through the risk retention program, the Agency retains the risk of mortgage default for mortgage loans.

The Agency has internally designated a portion of the Insurance Fund fund balance as follows:

	June 30, 1998	June 30, 1997
Additional risk retention	$ 12,290	8,807

The designation for the additional risk retention reserve has been established to provide additional private single family mortgage insurance.

HEMAP:

Restrictions on the HEMAP fund balance are as follows:

	June 30, 1998	June 30, 1997
Emergency Mortgage Assistance Program	$ 82,474	80,225

The designation for the emergency mortgage assistance program has been established to provide assistance to mortgagors facing foreclosure because of circumstances beyond their control, through the form of loans.

L. Pension Plan:

During 1997, the Agency implemented GASB Statement Nos. 25 and 27, "Financial Reporting for Defined Benefit Pension Plans," and "Accounting for Pensions by State and Local Governmental Employers." GASB Statement No. 25 requires that the statements on plan assets be presented and certain note disclosures be reported in the notes to the financial statements. GASB Statement No. 27 requires that pension plan costs and net pension plan obligations be reported in the financial statement notes.

The statements of plan net assets as of June 30, 1998 and 1997 are as follows:

Pennsylvania Housing Finance Agency
EMPLOYEES' RETIREMENT PLAN

Statement of Plan Net Assets
(in thousands)
as of June 30, 1998 and 1997

ASSETS	1998	1997
Short-term investments:		
Money markets	$ 437	291
Mutual funds	10,734	9,034
Total short-term investments	11,171	9,325
Receivables:		
Employer	75	39
Interest and dividends	47	46
Total receivables	122	85
Investments, at fair value:		
U.S. Government obligations	2,913	2,630
Domestic corporate bonds	581	100
Domestic stocks	2,178	1,607
Total investments	5,672	4,337
Total assets	$ 16,965	13,747
NET ASSETS		
Net assets held in trust for pension benefits (a schedule of funding progress for each plan is presented on page 45)	$ 16,965	13,747

Pennsylvania Housing Finance Agency

EMPLOYEES' RETIREMENT PLAN

Statements of Changes in Plan Net Assets
(in thousands)
for the years ended June 30, 1998 and 1997

		1998	1997
Additions:			
Contributions:			
Employer	$	368	320
Plan members		1	4
Total contributions		369	324
Investment income			
Interest and dividends		1,464	1,133
Net appreciation in fair value of investments		1,667	778
Total additions		3,500	2,235
Deductions:			
Benefits		282	158
Net increase		3,218	2,077
Net assets held in trust for pension benefits:			
Beginning of year		13,747	11,670
End of year	$	16,965	13,747

Summary of Significant Accounting Policies:

Basis of Accounting:

Pennsylvania Housing Finance Agency Employees' Retirement Plan financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and are payable in accordance with the terms of each plan.

Method Used to Value Investments:

Investments are reported at market value which approximates fair value as determined by the investment trustee. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated market value, which approximates fair value.

Plan Descriptions and Funding Policy:

Membership of the plan consists of the following at January 1, 1998 and January 1, 1997:

	1998	1997
Retirees and beneficiaries receiving benefits	28	25
Terminated plan members entitled to but not yet receiving benefits	62	61
Active plan members	185	194
Total	275	280
Number of participating employers	1	1

Plan Description:

Eligible full-time employees participate in either the Pennsylvania Housing Finance Agency Employees' Retirement Plan (Plan), a noncontributory defined benefit, single employer plan, or the Pennsylvania State Employees' Retirement System (PSERS). Participation in PSERS is limited to those employees who were active members of PSERS at the time of their employment by the Agency. As of June 30, 1998 and 1997, substantially all eligible full-time employees are participants in the Plan.

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.

The Plan was previously amended to convert it from a contributory to a noncontributory 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 from the Plan at that time.

A participant is eligible for normal retirement after attainment of age 65, or age 55 and completion of 30 years of service, or at any age after completion of 35 years of service. 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.

Funding Policy:

The contribution requirements of Plan members are established and may be amended by the Board of the Agency. The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due.

Annual Pension Cost and Net Pension Obligation:

The Agency's annual pension cost and net pension obligation to the Plan are as follows:

		1998	1997
Annual required contribution	$	367	320
Contributions made		(368)	(320)
Change in net pension obligation		(1)	-
Net pension obligation, beginning of year		-	-
Net pension obligation, end of year	$	(1)	-

The annual required contribution for the current year was determined as part of the January 1, 1998 actuarial valuation using the aggregate actuarial cost method. The actuarial assumptions include (a) a 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.5% per year. Both (a) and (b) include an inflation component of 4.0%. The assumptions do not include postretirement benefit increases, which are funded by State appropriation when granted. The actuarial value of assets is determined using market values determined by the trustee.

Three-Year Trend Information:

Calendar Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
January 1, 1996	$ 403	100%	-
January 1, 1997	320	100%	-
January 1, 1998	367	100%	(1)

M. Commitments and Contingencies:

Litigation:

In the normal course of business there are various claims and suits pending against the Agency. In the opinion of the Agency's management and counsel, the amount of such losses that might result from these claims and suits, if any, would not materially affect the Agency's financial position.

Grants:

The Agency administers significant financial assistance payments from the federal government in the form of low income mortgage subsidies, interest reduction payments, and rental housing rehabilitation assistance. Such federal financial assistance received during the years ended June 30, 1998 and 1997 amounts to $117,810 and $122,319, respectively. All federal financial assistance administered by the Agency is subject to audit and as such, any disallowances resulting from noncompliance or questioned costs may become liabilities of the Agency. The Agency's management believes disallowances, if any, would not materially affect the Agency's financial position.

Commitments:

Outstanding commitments by the Agency to make or acquire single family, multi-family and HEMAP mortgages aggregate approximately $193,366, $16,781 and $953, respectively, at June 30, 1998 and 1997.

N. Subsequent Events:

On September 30, 1998, the Agency issued $75,000 Single Family Mortgage Revenue Bonds, Series 1998-63. The proceeds of these bonds will be used to refund certain of the Agency's outstanding Single Family Mortgage Revenue Bonds, to fund the purchase of new Single Family Mortgage Revenue Loans, and provide funds for deposit in the Capital Reserve Fund.

On September 10, 1998, the Agency's Board approved the issuance of Single Family Mortgage Revenue Bonds, Series 1998-64, in an amount not to exceed $75,000. The proceeds of these bonds, anticipated to be issued on October 30, 1998, will be used to fund the purchase of new Single Family Mortgage Loans, and to partially redeem the Agency's Single Family Mortgage Revenue Bonds, Series U.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/1987	$ 3,731,011	$ 3,023,464	$ (707,547)	123.4 %	$ 3,442,741	(20.6) %
1/1/1988	4,010,369	4,106,360	95,991	97.7 %	3,419,003	2.8 %
1/1/1989	4,600,930	3,978,547	(622,383)	115.6 %	3,726,066	(16.7) %
1/1/1990	5,523,141	4,572,770	(950,371)	120.8 %	3,678,877	(25.8) %
1/1/1991	6,001,640	5,173,084	(828,556)	116.0 %	3,959,624	(20.9) %
1/1/1992	7,112,838	6,186,234	(926,604)	115.0 %	4,411,010	(21.0) %
1/1/1993	7,864,913	7,108,441	(756,472)	110.6 %	4,616,834	(16.4) %
1/1/1994	8,805,927	8,311,636	(494,291)	105.9 %	5,369,330	(9.2) %
1/1/1995	9,090,611	9,206,150	115,539	98.7 %	5,542,521	2.1 %
1/1/1996	11,670,289	10,483,711	(1,186,578)	111.3 %	5,940,643	(20.0) %
1/1/1997	13,747,019	12,172,812	(1,574,207)	112.9 %	6,207,591	(25.4) %
1/1/1998	16,964,790	13,519,709	(3,445,081)	125.5 %	6,260,962	(55.0) %

Schedule of Contributions from the Employer and Other Contributing Entities

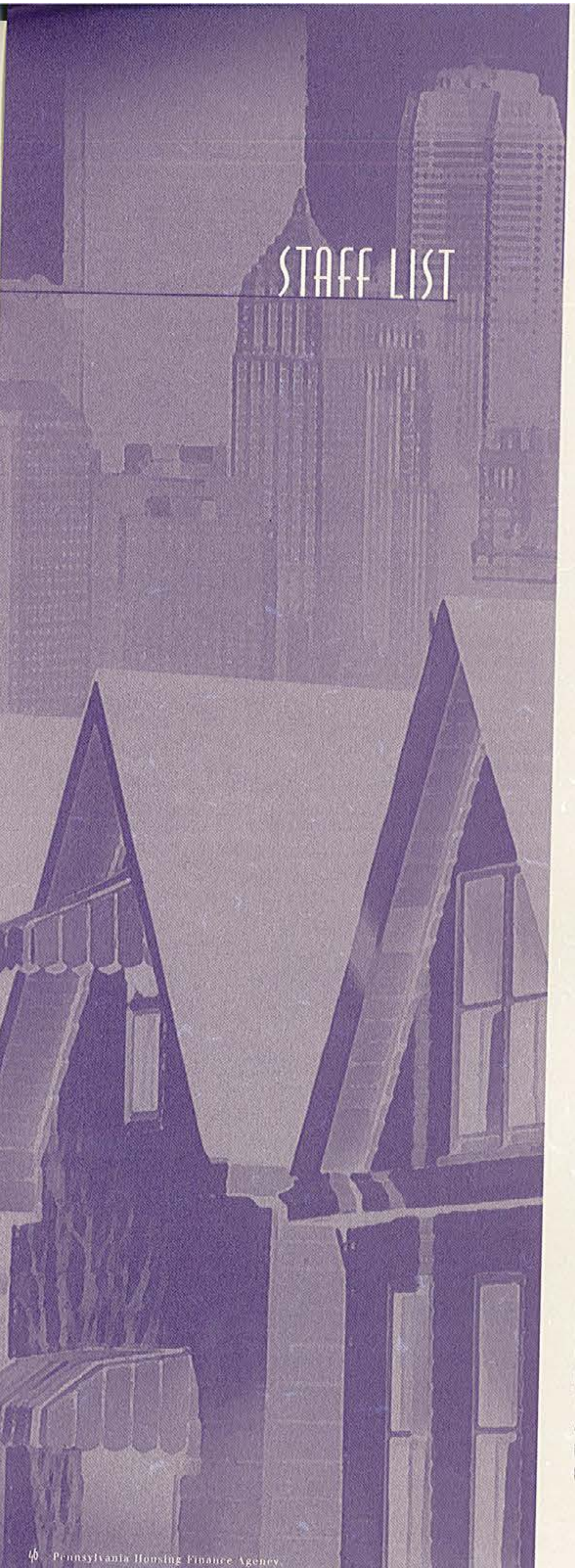
Calendar Year Ended	Annual Required Contribution	Contributions From Employer	Percentage Contributed
1988	$ 246,955	$ 246,955	100.0 %
1989	255,906	255,906	100.0 %
1990	222,719	222,719	100.0 %
1991	257,851	257,851	100.0 %
1992	296,773	296,773	100.0 %
1993	331,673	331,673	100.0 %
1994	410,807	410,807	100.0 %
1995	402,720	402,720	100.0 %
1996	319,844	319,844	100.0 %
1997	367,179	368,000	100.2 %

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.

Notes to Supplemental Schedules

Additional information as of the latest actuarial valuation follows:

	1998	1997
Valuation date	January 1, 1998	January 1, 1997
Actuarial cost method	Aggregate actuarial cost method	Aggregate actuarial cost method
Amortization method	Level dollar	Level dollar
Asset valuation method	Market value as determined by the trustee	Market value as determined by the trustee
Actuarial assumptions:		
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5%	4.5%
Includes inflation at cost-of-living adjustments	4.0%	None



STAFF LIST

EXECUTIVE

William C. Bostic, Executive Director

Carrie M. Barnes, Executive Assistant
Robert F. Bobincheck, Associate Director of Strategic Planning & Policy
Margaret A. Breech, Legal Assistant
Paula J. Brightbill, Public Information Assistant
Darryl Cox, Director of Strategic Planning & Policy
William W. Fogarty, Director of Government Affairs
Phillip M. Friday, Director of Information Resources
Charlotte L. Nelson, Executive Assistant to the Executive Director
Pamela R. Glass, Research Associate
Holly J. Glauser Abel, Assistant Counsel
John F. Goryl, Associate Counsel
Brenda Jack, Research Associate
Anne Johnson, Legal Administrator
Rebecca L. Peace, Chief Counsel
Barbara P. Stephens, Information Officer
JoLynn M. Stoy, Associate Counsel

FINANCE AND ADMINISTRATION

Brian A. Hudson, Deputy Executive Director and Chief Financial Officer

▪ FINANCE DIVISION ▪

George C. Bemesderfer, Jr., Manager of Insurance Fund
LaSonya E. Burhannan, Secretary
Frank T. Dorwart, Housing Manager/East (Norristown)
Agnes M. Enck, Finance Officer
Gena K. Fairfax, Administrative Assistant
Joanne H. Fitzgerald, Escrow Coordinator
Kimberly A. Foltz, Escrow Coordinator
Pamela K. Frazier, Senior Investment Officer
Dana Y. Hahn, Escrow Coordinator
Linda A. Hall, Finance Officer
Heather A. Hines, Assistant Investment Officer
Ben G. Housman, Jr., PHIF Loan Officer
Theodore F. Jackson, Compliance Officer
Anthony J. Julian, Jr., Deputy Director of Finance
April L. Karaki, Finance Coordinator
Crystal A. Kerstetter, Mortgage Servicing Accountant
F. Elise Knaub, Assistant Mortgage Servicing Representative
Joseph Knopic, Manager of Project Financing
Thresa A. Mateer, Assistant Loan Officer
Cathy A. Matter, Mortgage Servicing Representative II
Eleanor A. Matthias, Finance Officer II
Mildred N. Minter, Administrative Assistant
Penny M. Mullins, Finance Officer
Teresa W. Ortenzio, Administrative Assistant
Sue Ann Peck, Finance Officer II
Nichole L. Proctor, Assistant Finance Officer
Kathleen D. Raley, Assistant Finance Officer
John H. Richards, Senior Accountant
Constance M. Ross, Senior Accountant
Donna M. Sciortino, Senior Investment Officer
Christine M. Stewart, Staff Auditor I
JoAnn Wade, Mortgage Servicing Representative II
Melvin T. Walker, Escrow Clerk
Janet J. Wargo, Escrow Coordinator
Brenda B. Wells, Housing Manager/West, (Pittsburgh)
Priscilla Williams, Escrow Trainee (Pittsburgh)

▪ HUMAN RESOURCES DIVISION ▪

Deborah A. Zlogar, Director
Sharon D. Brooks, Receptionist
Arlene M. Frontz, Purchasing Officer
M. David Griffin, Human Resources Clerk II
Wendy K. Klinger, Human Resources Officer
Charles A. Washington, Messenger II

▪ INFORMATION TECHNOLOGY DIVISION ▪

Richard N. Nichols, Director
Brenda J. Bailey, Web/Application Developer
Kimberly A. Boal, Network Administrator
Kathleen Deitzler, Senior Computer Programmer Analyst
Deborah A. Geary, Computer Programmer Analyst II
Shane B. Gilbert, Telecommunications Specialist
Shirley A. Kirk, Senior Computer Programmer Analyst
Trudy R. Lehman, PC Specialist
Daryl G. Martin, Senior Computer Programmer Analyst
Gladiola L. Oaks, Computer Programmer Analyst II
Edward J. Raley, Manager of Information Technology
Harry N. Ramsey, III, Senior Computer Programmer Analyst
Kevin J. Wike, Senior Computer Programmer Analyst

MULTIFAMILY OPERATIONS

David L. Evans, Assistant Executive Director

▪ DEVELOPMENT DIVISION ▪

Susan M. Belles, Tax Credit Officer II
Myrna Bernstein, Administrative Assistant
Frank Bobak, Jr., Systems Analyst II
Diane B. Brodbeck, Administrative Assistant
P. David Doray, Development Officer II
Douglas S. Haughton, Jr., Development Officer II
William J. Koons, Deputy Director of Development
Suzanne E. Lanphier, Development Officer I
Ann A. Mermelstein, Development Officer II
LaVera A. Nelson, Assistant Tax Credit Officer
Brian L. Shull, Senior Development Officer
Daniel Sommerville, Development Officer I
Eileen J. Staudt, Manager of Tax Credit Program
Linda A. Stewart, Tax Credit Officer I
Brian C. Sweeney, Development Officer I

▪ HOUSING SERVICES DIVISION ▪

Lisa J. Yaffe, Director
Sandra L. Klunk, Program Coordinator
Shirley M. Stark, Multifamily Analyst II

▪ HOUSING MANAGEMENT DIVISION ▪

W. Alan Shenk, Director
Nada J. Ahearn, Financial Analyst II
Stephanie A. Bakner, Data Entry Clerk
Carol A. Carroll, Assistant Analyst
Barbara M. Conjar, Housing Management Representative I
Cheryl J. Davis, Housing Management Representative I
John J. Dotsey, Financial Analyst II
Carl R. Dudeck, Jr., Financial Analyst II
Kathy E. Esworthy, Tax Credit Analyst II
Donna J. Farnham, Insurance Officer
Kim A. Gallagher, Tax Credit Data Entry Clerk
Carolyn Harle, Manager of Project Operations
Angela M. Harris, Financial Analyst I
Stephanie L. Keich, Data Occupancy Specialist
Kathleen D. Krupa, Financial Analyst II
Nancy J. Lackey, Tax Credit Coordinator
Mary Jane Margay, Financial Analyst II
Marge A. McCutcheon, Administrative Assistant
Harry E. Neuhart, Financial Analyst II
Gary W. Paiano, Housing Management Representative I
Peggy A. Snyder, Senior Occupancy Specialist
Brenda B. Thomas, Administrative Assistant
Joseph T. Toia, Manager of Financial Operations
Sandra L. Urban, Administrative Assistant
Helene M. Yohn, Data Entry Clerk

▪ TECHNICAL SERVICES DIVISION ▪

Riitta M. Lukkari, Director
Dennis T. Baver, Staff Engineer/Energy Coordinator
J. Wylie Bradley, Manager of Architecture & Engineering
Donald F. Clarke, Staff Architect
Sherry J. Daniels, Utility Allowance Coordinator
Michael G. Kosick, Manager of Facilities & Construction Operations
William Kvaternik, Environmental/Site Specialist
Donna J. Rodgers, Construction Coordinator
Dorothy L. Shipley, Administrative Assistant
Robert A. Wochley, Technical Services Representative II

▪ Norristown Office

Peggy A. Colson, Administrative Assistant
Theodore B. Currier, Jr., Technical Services Representative I
James E. Galia, Technical Services Representative II
Dana M. Hanchin, Housing Services Representative
Jay R. Hausher, Senior Technical Services Representative
Mary I. Johnson, Norristown Office Coordinator
Charlita A. Latham-Martin, Housing Management Representative I
John S. Paczewski, Technical Services Representative I
Christine F. Ramsay, Housing Management Representative I

Elizabeth Sonneborn, Eastern Regional Supportive Services Representative
Nancy Twyman, Senior Housing Management Representative

Pittsburgh Office

Mary E. Berry, Administrative Assistant
Kristina DiPietro, Housing Management Representative II
Carrie B. Emerson, Housing Management Representative I
Carla H. Falkenstein, Western Regional Supportive Services Representative
Caroline J. Komovic, Secretary
Imelda H. Labadie, Pittsburgh Office Coordinator
Robert S. Rider, Technical Services Representative I
Mary Ann Sipos, Senior Housing Management Representative
Charles E. Swope, Technical Services Representative II
Larry B. Thorn, Senior Technical Services Representative

SINGLE FAMILY OPERATIONS

Donald J. Plunkett, Assistant Executive Director

▪ SINGLE FAMILY DIVISION ▪

Edwin A. Beam, Jr., Senior Mortgage Servicing Representative
Cheryl A. Boyanowski, Loan Counselor I
Shanta D. Briddell, Single Family Clerk I
Thomas F. Brzana, Jr., Systems Analyst II
Ruby M. Dodson, Loan Counselor IV
Juanita R. Doe, Secretary
Marguerite M. Dowling, Mortgage Collections Officer
Joan E. Duckett, Loan Officer I
Frederick W. Fegan II, Senior Loan Officer
Karen L. Fells, Mortgage Servicing Representative
Julie D. Fissel, Loan Counselor III
Tracy L. Flickinger, Single Family Loan Coordinator
Lisa R. Fulton, Loan Counselor IV
Mary L. Garcia, Loan Counselor IV
Jeanette M. Geadrities, Administrative Assistant
Thomas L. Gouker, Senior Mortgage Servicing Representative
Nichelle Heidelmark, Loan Counselor I
Norie F. Hostetler, Final Document Coordinator
Anne C. Klitsch, Loan Officer I
Vikki C. Lauer, Loan Officer I
Tammy S. Leitzel, Assistant Loan Officer
Theresa E. Lynch, Assistant Single Family Data Analyst
Jessica L. McCann, Loan Counselor II
Tammy J. Miller, Senior Underwriter
Elaine P. Morris, Loan Officer I
Clifford S. Morton, Senior Systems Analyst
Kimberley A. Moyer, Loan Counselor IV
Patricia A. Musser, Loan Officer I
Leroy K. Patton, Assistant Loan Officer
Carol E. Purdy, Purchasing Coordinator
Rosa E. Roque, Loan Counselor I
Bonita M. Russell, Mortgage Servicing Representative II
Sandra D. Sholley, Secretary
Melissa A. Simpson, Single Family Clerk I
Jennifer L. Smallwood, Mortgage Servicing Representative
Coral F. Smith, Single Family Clerk I
Ronald L. Smith, Loan Officer I
Richelle L. Strawser, Loan Counselor IV
Amanda M. Truman, Secretary
Juanita M. Underwood, Assistant Loan Officer
Penny L. Washington, Loan Counselor IV
LuAnne F. Wiest, Assistant Mortgage Servicing Representative
Allan R. Williamson, Loan Officer II
Denise L. Wolfgang, Loan Officer II
Karen L. Zapotosky, Loan Officer II
Thomas J. Zugay, Mortgage Servicing Representative

▪ HOMEOWNERS' EMERGENCY MORTGAGE ASSISTANCE PROGRAM ▪

Daryl D. Rotz, Director
Elaine M. Artz, Staff Accountant I
Tracy J. Bennett, Secretary
Lynda A. Clark, Loan Officer
Sonya L. Clemons, Secretary
Carlene D. Cook, Assistant Accountant
Michael D. Cooper, Senior Hearing Examiner
Viktoria L. Denlinger, Loan Closing Coordinator
Pamela I. Fisher, Loan Officer
Andrea R. Garced, Secretary
Barbara A. Gilbert, Data Entry Clerk
Donald K. Goss, Loan Officer
Stephanie Harvey, Administrative Assistant
Marcia M. Hess, Closing Office (Pittsburgh)
Diane M. Hoffman, Senior Accountant
Shirley J. Kembel, Secretary
Resa P. Kepner, Appeals Coordinator
Edwina M. McIntyre, Secretary
Tonya L. Moss, Administrative Services Coordinator
Lin C. Patch, Appeals Coordinator
George F. Pfeiffer, Loan Officer
Carole J. Piccolo, Loan Officer
W. Christine Rodgers, Hearing Examiner
Patricia E. Roussel, Senior Loan Officer
Lisa A. Rudy, Loan Officer
Roberta A. Sheaffer, Loan Officer II
Angela C. Smith, Loan Closing Coordinator
Carmela M. Vega, Hearing Examiner
Anne M. Tellup, Closing Officer
Lori S. Toia, Senior Loan Closing Officer
Audrey E. Zerance, Administrative Assistant

Board of Directors

Chairman
The Honorable Richard C. Rishel
Secretary of Banking

Vice Chairman
Gary E. Lenker
Vice President and Director of Operations
Donco Construction, Inc.

The Honorable Feather O. Houstoun
Secretary of Public Welfare

Brenda Maisha Jefferson Jackson
Housing Consultant

Mark Schwartz
Executive Director
Regional Housing Legal Services

Raymond S. Angeli
President
Lackawanna Junior College

The Honorable Barbara Hafer
State Treasurer

Thomas B. Hagen
Chairman
Team Pennsylvania Foundation

Kenneth L. Rall
President and Chief Executive Officer
D.S.C., Inc.

Charles W. Prine, Jr.
Former President, Action Housing, Inc.
Former Senior Vice President,
Ryan Homes, Inc.

Raymond Iacobucci
President
Iacobucci Organization

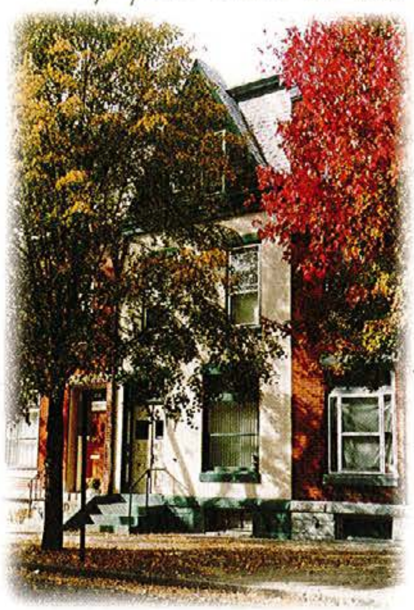
Ronald S. Mintz
Developer and Investor

Herman Silverman
Chairman
Board of Trustees
James A. Michener Art Museum

The Honorable Samuel A. McCullough
Secretary of Community and Economic Development

William C. Bostic
Executive Director

The ache for home lives in all of us, the safe place where we can go as we are and not be questioned.



—Maya Angelou

Pennsylvania Housing Finance Agency

2101 North Front Street • Harrisburg, Pennsylvania 17105-8029
(717)780-3800
TDD number (717)780-1869
www.phfa.org