

THE POWER OF PARTNERSHIPS

2014 ANNUAL REPORT

Many of us are more capable than some of us... but none of us is as capable as all of us!

-Tom Wilson

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.

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A message from Governor Tom Corbett

The model for how government will work in the new millennium is changing, and nowhere is that more evident than at the Pennsylvania Housing Finance Agency. Today more than ever, state government is joining with private sector business partners and non-profit organizations to provide needed public services in the most cost-effective manner. It's a model that works.

Consider, for example, how PHFA directs the construction of affordable rental housing across the Commonwealth. PHFA doesn't build apartment buildings. Instead, through its allocation of tax credits, the agency provides some of the funding needed to move these developments forward. Additional funding comes from other available resources, and the construction is done by developers with the expertise to get the work done right. PHFA plays a vital role, but it takes multiple partners to successfully build affordable housing today.

Another example is PHFA's provision of affordable home loans for low-to-moderate income Pennsylvania homebuyers. The agency is not the main point of contact when consumers are shopping for home loans. Instead, PHFA relies on its network of approved private sector lenders to educate homebuyers about its affordable mortgage products. In this way, government and the private sector each add their own specialized expertise to reduce bureaucracy and best serve the state's residents.

Examples abound for how PHFA regularly partners with outside groups to deliver housing solutions in 21st century fashion. The beneficiaries are the state's citizens, because this approach allows the agency to accomplish the most good with its available funding.

If you're looking for affordable rental housing, or hoping to buy a home in the months ahead, I encourage you to explore the helpful resources available at the Pennsylvania Housing Finance Agency. PHFA should be your first stop anytime you or a family member need help with housing.

Sincerely,

A handwritten signature in black ink that reads "Tom Corbett". The signature is written in a cursive, flowing style.

Tom Corbett
Governor

Board of Directors

2013-2014



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The Honorable Glenn E. Moyer



Vice Chairman
Thomas B. Hagen



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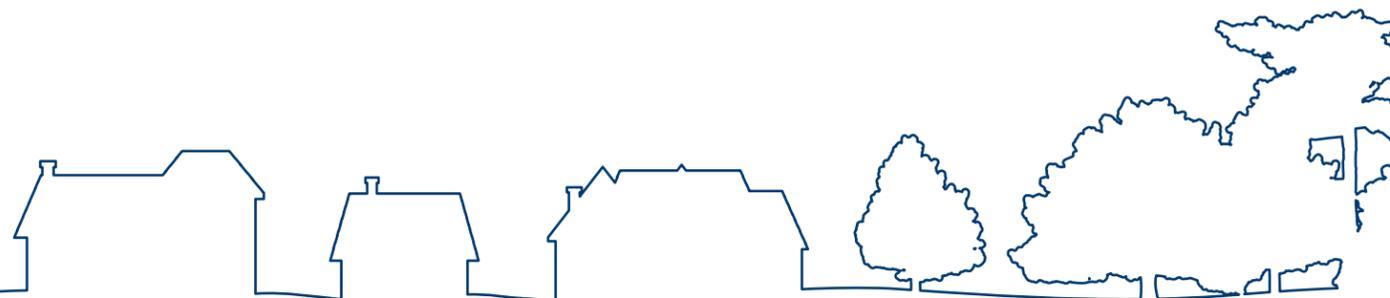


The Honorable C. Alan Walker

A message from our chairman

The PHFA Board of Directors is a diverse group of individuals. It includes members with expertise in homebuilding, real estate, law, manufacturing, health care, private sector enterprise, and local and state government operations. Just as our business partners bring different perspectives that help the agency better pursue its mission, the diverse backgrounds of our board members are a tremendous resource upon which we frequently draw to make more informed decisions. Both on our board and through our broad-based partnerships, our wealth of diversity produces results that help us better serve Pennsylvania communities and residents.

The Honorable Glenn E. Moyer
Chairman of the Board



THE POWER OF PARTNERSHIPS:

A message from our executive director

Every challenge presents an opportunity. The staff at the Pennsylvania Housing Finance Agency witnesses this truth every day. In fact, when challenges arise, our first instinct is to ask, "How can we turn this potential negative into a positive."

Let me give an example. Decades ago, when PHFA was in its infancy, it often could act independently moving programs forward. On its own, or with little support from outside groups, it could initiate and fund housing programs for the state's residents.



Photos courtesy of Jeffrey Toriano 2013

The Paseo Verde development in Philadelphia is not only visually stunning but supports a healthy living environment and model green community.

Today, the situation has changed dramatically. Funding is harder to find, and when we do identify sources of financial support, they may be smaller than they were in the past. Consolidating the funding necessary to build affordable rental housing now is similar to piecing together a puzzle – time consuming and sometimes frustrating.

Seeking opportunity in challenges

There is a silver lining in this reality. Groups that see the value in affordable housing for our communities have come together to support these efforts. Each brings financial assistance or community connections that rally support for new housing developments. In the process, these groups share ideas and perspectives that make these developments better.

Is it more work? Sure. But the dialog that occurs produces housing that better reflects the needs and desires of the communities where it's being constructed. The townhomes and apartments that arise are more thoughtfully conceived because different organizations now have a say in their creation.

An example of the results produced by this 21st century partnering model is the Paseo Verde building in Philadelphia. I single it out because it illustrates so well the point I want to make about the power of partnerships.

Asociación Puertorriqueños en Marcha led the development of this building. But it would not have been possible without a variety of funding sources and expert input that helped the project move forward, including involvement by PHFA. The end result is a stunning and award-winning building serving the housing needs of people in the Temple University neighborhood of Philadelphia. Not only is it a green building constructed to be energy efficient, but its location along a SEPTA regional rail line makes it transit-smart, as well.

PHFA: Powered by partnerships

PHFA's housing programs and services illustrate this power of partnerships at work in government today. Some of our business partners bring funding, some bring vital expertise, and others share community insights. All are equally valuable, and all are essential pieces of the puzzle that help us complete the housing mission we have been pursuing for 42 years: To expand affordable housing options for Pennsylvanians.

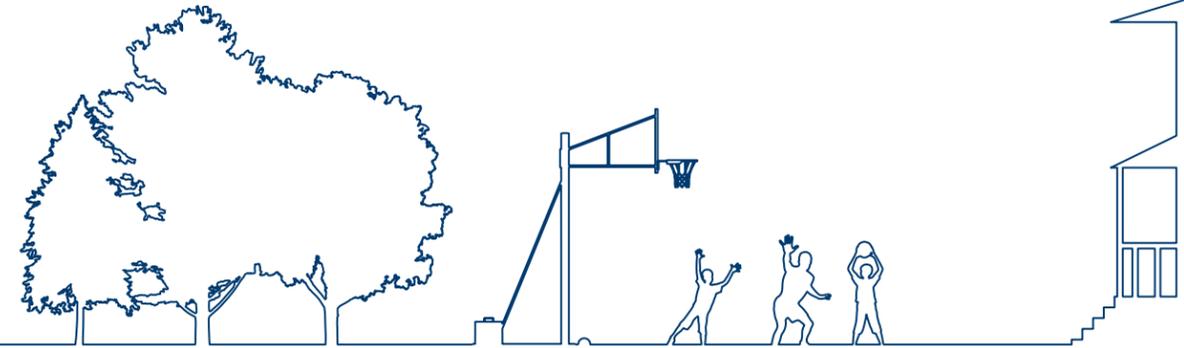
I'd like to take this opportunity to thank our many partners from across the Commonwealth who help us with this important work. We are a better agency thanks to their involvement, and the state's residents benefit from the public-private partnerships that today energize our efforts.

Brian A. Hudson

Brian A. Hudson Sr.
Executive Director and CEO



A sampling of our housing programs and support services



Home loans



The agency offers a number of competitively priced mortgage products for homebuyers. PHFA's home loans have features specifically tailored to address the needs of first-time buyers and people with limited income and savings. Fairly new to the agency is the ability to offer refinancing, too.

Mortgage Credit Certificates



MCCs have proven to be extremely popular because they allow qualified homebuyers to claim a tax credit of up to \$2,000 annually on their federal income tax return for the life of their PHFA mortgage.

Renovation and energy efficiency loans



These loan products are provided for homeowners – to help them make their current homes more accessible for an aging parent, for instance, or to add insulation in the attic.

Closing cost & down payment assistance



We know it's a challenge for first-time homebuyers to save the money to cover closing costs and the down payment. We offer a low-interest loan to help them meet these expenses.

Loan servicing



All PHFA mortgages are serviced for the life of the loan by our staff in Harrisburg. The agency has a portfolio of more than 54,000 single-family mortgages that it services.

Rental housing construction



Funding from PHFA helps developers of rental housing raise the needed capital to build affordable rental apartments and townhomes. In exchange, developers agree to keep rents at affordable levels for a set time, usually 30 years.

Rental housing preservation



PHFA has a program to help the owners of older rental housing funded by the agency keep their operating costs manageable. This program funds energy efficiency improvements so that current affordable housing stock can continue to offer lower rents for years to come.

Housing services



The goal of housing services is to help seniors, people with disabilities, and others continue to live independent and productive lives. These services for people in rental housing funded by PHFA include such things as transportation to the doctor or shopping, health and wellness programs, social activities, and more.

Rental housing search



Searching for an apartment used to be cumbersome and time consuming. But PHFA and its partners fund an online apartment search tool at PaHousingSearch.com that makes the hunt for rental housing quick, easy and free. Pictures let you decide which units are best for you, saving unnecessary travel.

Consumer education



Informed consumers will make smarter housing choices and are more likely to avoid such problems as a default on their mortgage and foreclosure. That's why PHFA helps fund a network of housing counselors conveniently located around the state who provide no-cost education to homebuyers and homeowners.

Foreclosure prevention



The agency offers a foreclosure prevention program for Pennsylvania residents who have had an unexpected loss of income that leaves them unable to make their mortgage payment. Financial assistance is in the form of a low-interest loan that homeowners pay back once their financial situation improves.

Contact center support



Not finding a PHFA housing program on our website? The agency now offers a Customer Solutions Center providing fast and friendly telephone assistance from our knowledgeable staff.

Social media



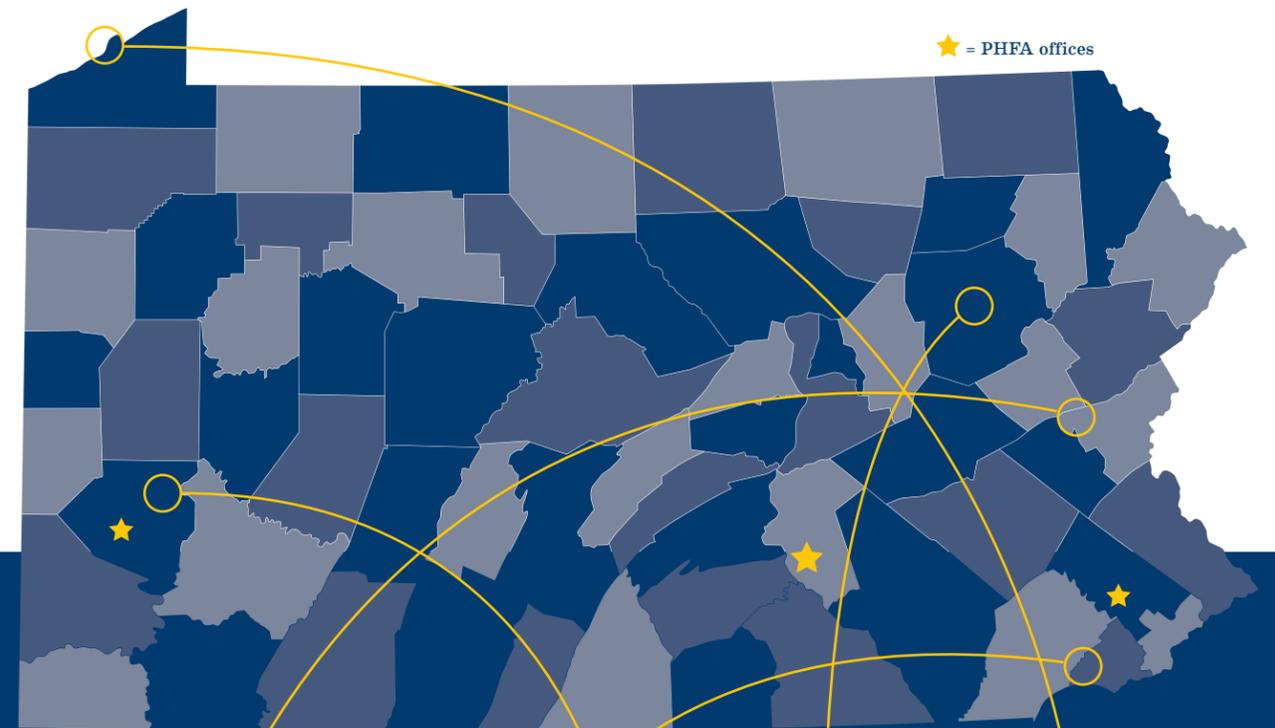
More of our customers are turning to social media for information to help them in their daily lives. That's why PHFA has a strong presence on Facebook, Twitter and YouTube.

This is a partial overview of the many housing programs and services provided by PHFA. Please visit our website at www.PHFA.org to learn more.

Helping people with housing statewide

From our main office in Harrisburg, and two satellite offices in Norristown and Pittsburgh, our staff of nearly 300 employees works with various groups to expand affordable housing options and respond to daily inquiries from housing consumers. Consider the stories of five people and organizations helped by PHFA, illustrating how our housing initiatives improve the quality of life in Pennsylvania.

Read their stories on the pages that follow.



Community development

Tax credits provided by PHFA's community development arm supported a revitalization project critical to a city's rebirth



Consumer education

When a family fell behind on its home loans, a housing counselor helped them organize their financial records and negotiate more affordable mortgages



Rental housing

After raising four children on her own, a woman sought safe and comfortable housing for her senior years



Foreclosure prevention

Job losses twice threatened a family's home, but assistance from PHFA each time saved the house while the father found new employment



Homeownership

A PHFA home mortgage made homeownership affordable for a young woman starting her career

HOMEOWNERSHIP

Starting out on her own

It's said that one's life can change in an instant. Holly Petro knows that's true because she's lived it. But the car accident that left her paralyzed hasn't defined her. She wouldn't let it.

While recuperating at home, her parents wanted to remodel the home they'd built just 5 months earlier to now accommodate Holly's wheelchair. But she'd have nothing of

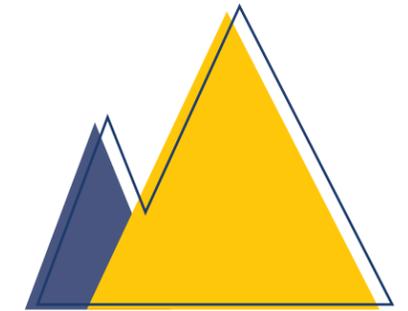
it. Holly is a fiercely independent young woman, and, in the situation she found herself now, that character trait was a strength she would draw upon.

She would, she decided, purchase a home so she could live her own life. Her previous employer had held her job for her, so her professional career was back on track. But housing remained a challenge.



Holly's kitchen sink, counters and cabinets are all easily accessible.

THE IMPACT OF EACH HOME LOAN IS MULTIPLIED BY THE NUMBER OF PEOPLE HOUSED



▲ 3,498 home loans in 2014

▲ 8,154 adults and children housed in 2014

Holly's neighborhood is perfect for walks with Levi.



Her housing solution

Working with Susan Mendygral of Honesdale National Bank, Holly started exploring her options. Her housing solution was a townhome community that was under construction in Hanover Township, Luzerne County. The builder would work with Holly to customize the home with features like lower countertops and roll-under sinks so that she could be self-sufficient.

Her financing solution was provided by PHFA. Honesdale National Bank is a PHFA-approved participating lender. Her 30-year, fixed-rate mortgage offered a highly attractive interest rate. So she could buy that townhome without worrying that her paycheck wouldn't cover all her monthly bills. PHFA made homeownership affordable.

"When Susan gave me my loan options, PHFA had the best rate for me," Holly shares. "When she worked out what my payments would be, it was something I was able to afford."

In March of 2013, Holly, and her border collie Levi, moved into their new home.

"I absolutely love it," Holly beams. "It's wonderful. I can now cook, clean, wash dishes, and do my laundry – a few things many others wouldn't be excited to do. But when you physically can't do them for yourself, it's terrible. It's just wonderful to be on my own and have my independence back."



RENTAL HOUSING

Senior housing takes away the worries

After her husband died many years ago, Yvonne Moody had to find a way to pay the rent and put food on the table.

"I had four daughters to raise on my own," Yvonne recalls. "I've done many jobs, you know, to feed my family and pay the bills. I've been a receptionist. I've worked for the elderly, taking care of them. I babysat people's children."

Today, her little girls are all grown up with children of their own – seven in all, and two great-grandchildren.

In 2003, she moved back to Erie, where she had lived for many years, hoping the lower cost of living there would help stretch her budget. Fortunately, she came across Villa Maria Apartments.

Yvonne's apartment offers plenty of space for fun visits with her great-grandchildren Amaura and Gianna.



The grand, old buildings of the former convent and school make Villa Maria Apartments a charming residential setting.

This beautiful and well-maintained complex of family and senior apartments was developed in the late 1990s by Pennrose working with Housing And Neighborhood Development Service, better known as HANDS. PHFA played a vital role in this project. Federal low-income housing tax credits (LIHTCs) awarded by PHFA helped the development team raise construction capital so HANDS can now keep rents lower for its residents.

Her ideal home

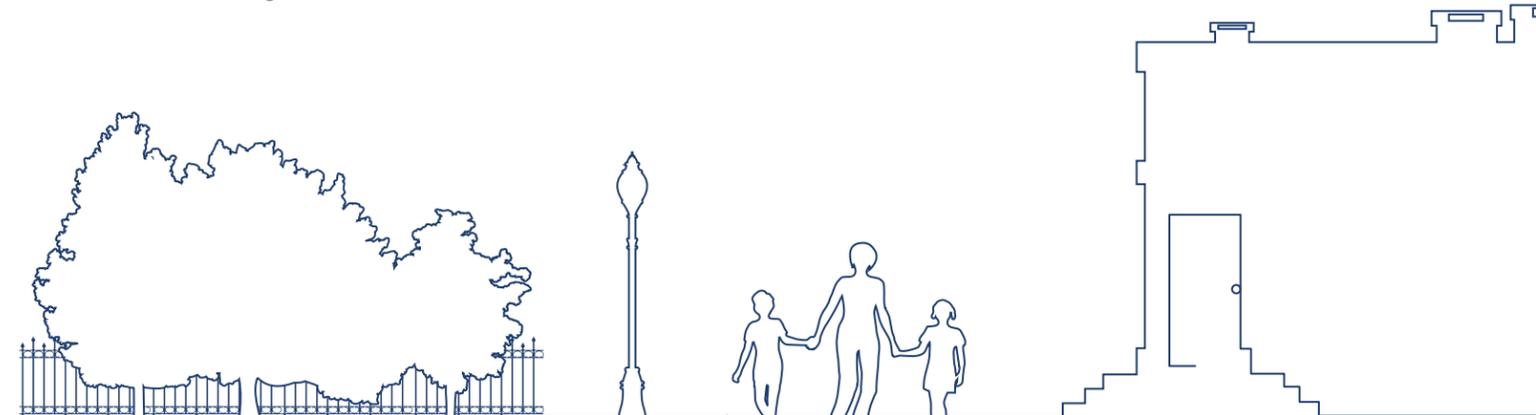
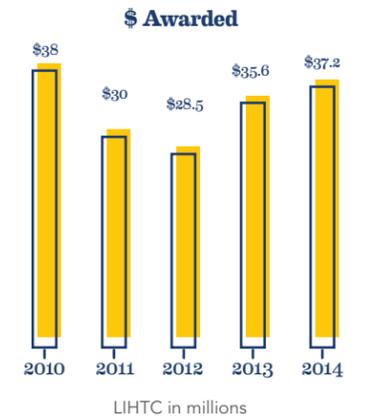
Ask Yvonne why she likes living there, and she'll enumerate all her reasons. At the top of the list, of course, is the affordable rent. Now on a fixed income, her monthly rent of \$555, including gas and electricity, is a blessing. Additionally, the security of the facility puts her at ease, and the beauty of the historical structure and grounds are always appreciated.

Then, too, there are all the helpful services coordinated by the HANDS staff that are readily available to seniors – things like free hearing tests, weekly buses to stores and a supermarket for shopping, live music in the courtyard, assistance with annual rent rebate applications, and fast and friendly building maintenance.

For someone like Yvonne who has lived a full life, Villa Maria takes away many of the worries associated with getting older.

"I love living here...it is beautiful," Yvonne says with a big smile. "I don't plan on moving."

AFFORDABLE RENTAL UNITS MADE POSSIBLE BY TAX CREDITS AWARDED BY PHFA



CONSUMER EDUCATION

A housing counselor makes all the difference

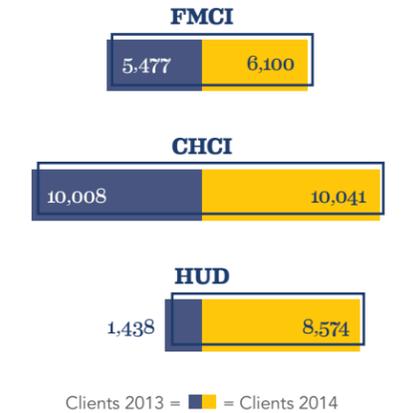
When Regis McGill lost his job as a country club chef – a position he’d held for 10 years – he was caught in a downward spiral not of his own making. In 2009, the slowdown in the economy made it nearly impossible for him to find work. Substitute employment as a limo driver and produce seller helped, but his income was cut in half.

“I’m running out of gas trying to get to my regular job,” he recalls. “I’m getting advances on my paycheck, and borrowing from my brothers and sisters, just to try to keep mobile and keep food on the table and some money in my pocket. That’s never good because then payday comes and, as much as you need to pay bills, you’ve got to pay people back.”



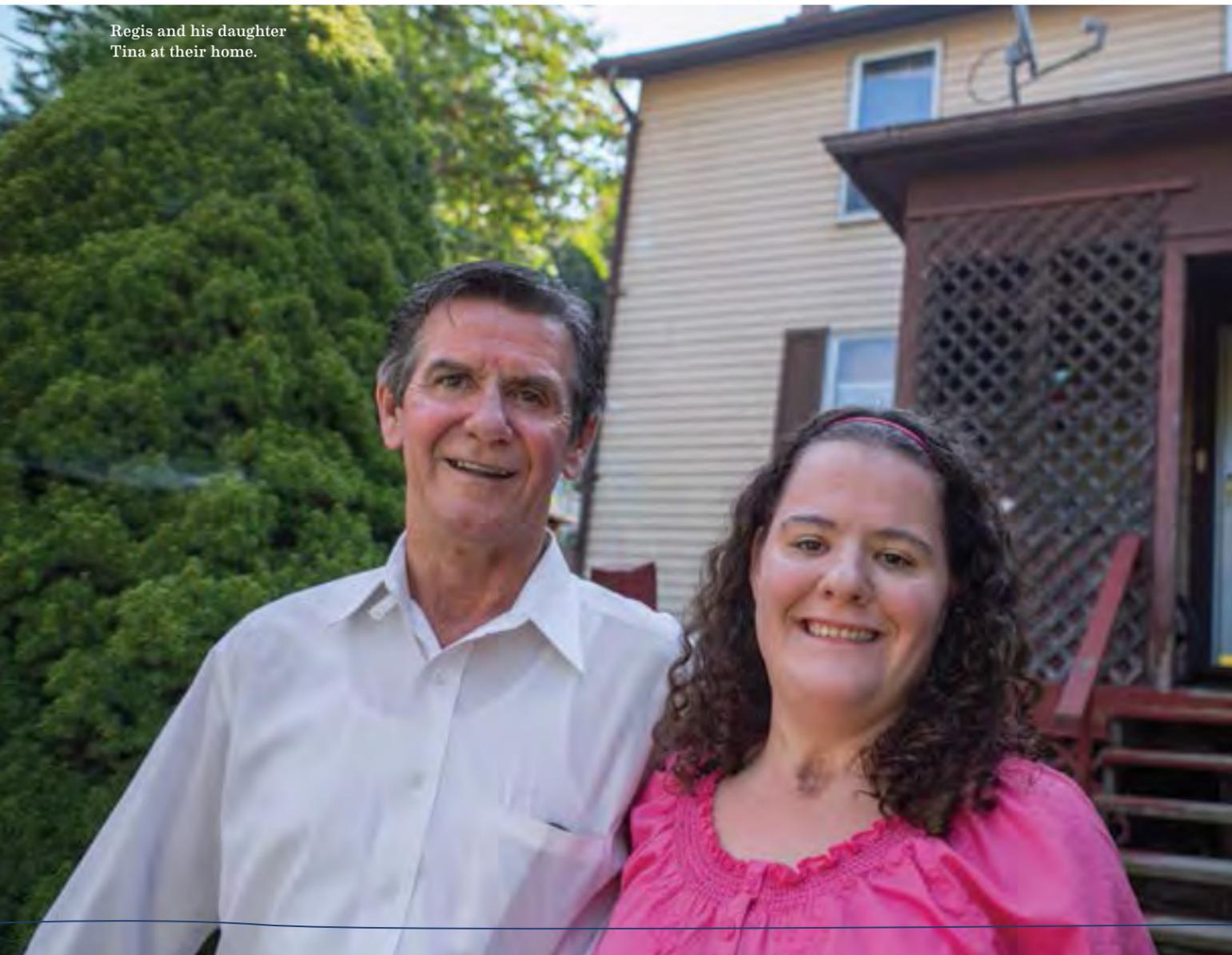
Regis at work, and, later, Regis meets with Bill Vandivier at the house.

NUMBER OF PENNSYLVANIANS HELPED BY HOUSING COUNSELING



* FMCI, CHCI and HUD are three sources of funding

Regis and his daughter Tina at their home.



Fortunately, Regis saw some PHFA advertisements for people facing foreclosure. When he called, he was put in touch with a housing counseling agency nearby. Bill Vandivier, the director of Nazareth Housing Services in Pittsburgh, provided Regis the caring reassurance and expert guidance he needed. Nazareth Housing Services is one of 81 housing counseling agencies statewide that is supported with training and funding from PHFA.

A little luck, a lot of hard work

In another stroke of good fortune for Regis, Court of Common Pleas judges Joseph James and Michael McCarthy had launched a mortgage mediation program in Allegheny County, modeled after a court initiative in Philadelphia. Their program provided the venue in which Bill could advocate for Regis with his lenders to achieve a mortgage modification that would save his house.

“It was just phenomenal,” Regis smiles. “The help, and [Bill] meeting me, and going to the judges with me. The court system and the way he worked with the judges and the attorneys for the [banks] was awesome.”

Plus, there was the emotional support Bill provided during the two years of counseling.

“That was huge. It made me feel stronger, like, ‘Hey, you can get through this...If we can get you to where we can save your house, we’re gonna do it. I’m here to help you.’

“I get a little choked up over the help he gave me,” Regis shares, adding, “Things are looking good for the future.”



FORECLOSURE PREVENTION

Saving the family home – twice

The Marcellus family knows PHFA well. As Dave Marcellus puts it, the agency now is “like family.” That’s because there were two times they were in danger of losing their home, through no fault of their own. Both times, the agency’s foreclosure prevention program helped them financially get back on their feet. So it’s no wonder they now have become PHFA “ambassadors” of sorts, helping others facing similar situations.

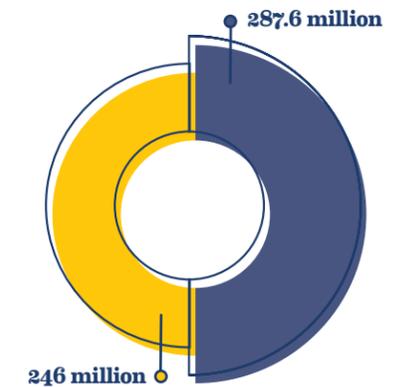
In the 1980s, engineering jobs were moving overseas. Dave felt the impact directly when he was laid off for the first time. Working whatever odd jobs he could find helped feed his family. But he couldn’t keep up with his mortgage payments.

“I was scared to death when I found out I was going to lose my house,” Dave remembers. “I thought, ‘What am I going to do? I have four little kids.’”



Dave and Estrellita have paid off their mortgage and now own their home.

REPAYMENT OF HEMAP LOANS EXPANDS THE PROGRAM'S IMPACT



● = State appropriations to HEMAP
● = Loan repayments by HEMAP recipients

Dave and Estrellita and their grandson Leonard.



Foreclosure prevention and more

A local support group told Dave about the Homeowners’ Emergency Mortgage Assistance Program, run by PHFA. HEMAP brought their mortgage current and helped with the monthly payments, letting Dave focus on his job hunt. Within seven months, Dave was working again. He quickly paid off his HEMAP loan.

The situation in 2000 was more threatening. This time when Dave lost his position, jobs were harder to find, and part-time work was scarce, too. Fortunately, Dave already knew about HEMAP, so he applied again for assistance.

His job hunt took two years. But the house was not in jeopardy because while Dave was pursuing leads, HEMAP was helping with the mortgage. As his money dwindled, HEMAP was flexible and reduced his monthly mortgage payment. As important as that was, so, too, Dave stresses, was the demeanor of PHFA staff.

“When I called up [the PHFA] office, everyone treated me with respect,” Dave says warmly. “That was more than I wanted and just what I needed. I appreciated your staff.”

Other HEMAP participants share Dave’s perspective. That’s why so many people pay back their HEMAP loans in full and on schedule.

“I paid it back completely,” Dave stresses. “And [my support group contact] told me, ‘You know what? People like this program so much, they respect it and they do repay. So they keep it going [for others].’”



COMMUNITY REVITALIZATION

Leading Bethlehem's renaissance

How do you turn rusting steel into a diamond – into the center jewel of an economic recovery strategy? A forward-thinking organization in Bethlehem has found a way, and PHFA is proud to have played a part.

In 2003, leaders at ArtsQuest were pondering the best use for a portion of land at the site of a former Bethlehem

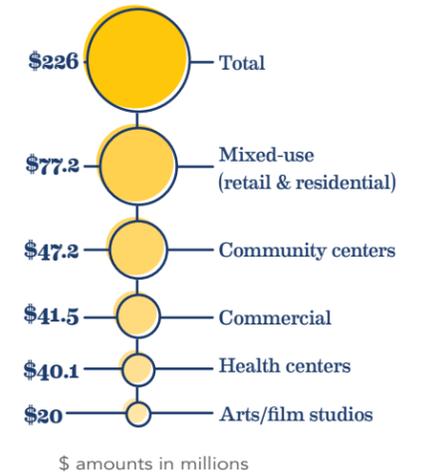
Steel foundry, the largest brownfield site in the nation. The non-profit's mission is "to energize the whole campus with an arts and cultural program 365 days a year," explains ArtsQuest's Vice President of Administration Ron Unger.

The plan was to have ArtsQuest build on the momentum created by the new Sands Casino Resort. Their close

Ron outside the building made possible, in part, by funding from Commonwealth Cornerstone Group.



PRIMARY USES OF BUILDINGS SUPPORTED WITH NEW MARKETS TAX CREDITS



With the iconic blast furnaces towering in the background, ArtsQuest events are helping to revitalize the city of Bethlehem.

proximity at the SteelStacks site, as the arts and culture area became known, would spark a powerful synergy, stimulating jobs, economic growth and a new identity for the city of Bethlehem.

The challenge was immense. How do you raise \$26 million during a severe business downturn? ArtsQuest saw promise in the use of New Markets Tax Credits – economic development funding provided by the U.S. Treasury and administered by community development entities (CDEs) located around the country.

Critical funding for a pivotal project

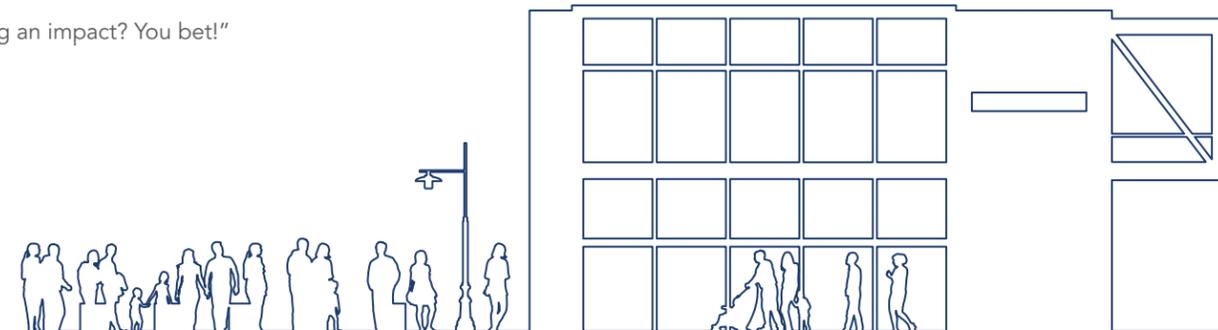
Commonwealth Cornerstone Group is PHFA's CDE, and it provided \$10 million of the tax credits needed to build ArtsQuest's new, four-story performing arts, community gathering and cinema space.

The final design of the building is inspiring. The community impact it's having is equally powerful, fulfilling its promise for promoting the arts and culture as a tool for economic recovery.

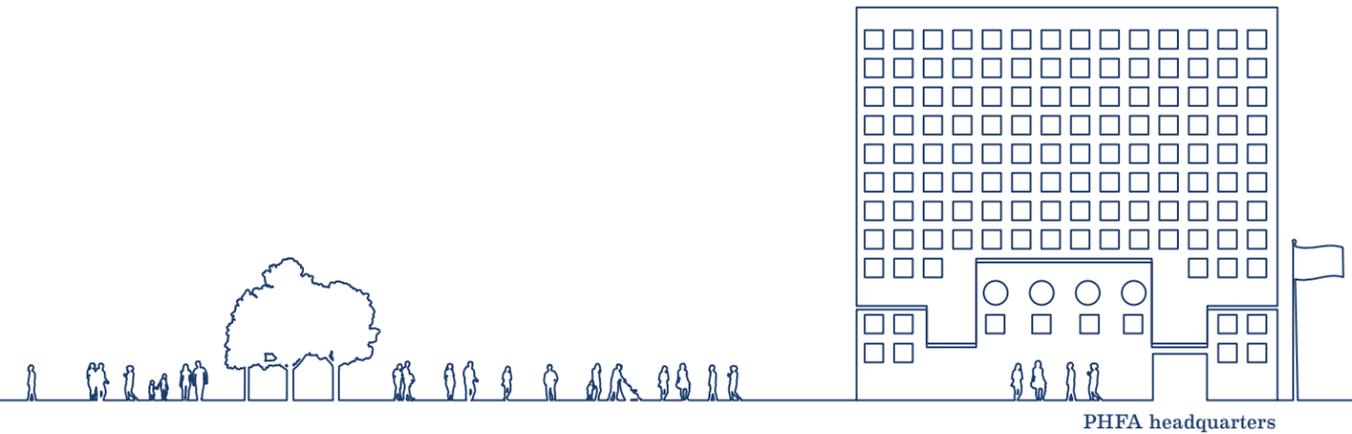
A 2012 economic impact study reveals that ArtsQuest events attracted more than 1.2 million people to the SteelStacks venue. They were drawn by a year-round schedule of live musical performances, visual arts classes, film viewings, comedy shows, art exhibitions, and cultural festivals.

"This project has been a major linchpin to the redevelopment of south-side Bethlehem," Unger smiles proudly. "This project has spawned other development, including other restaurants and retailers opening in the area.

"Is it making an impact? You bet!"

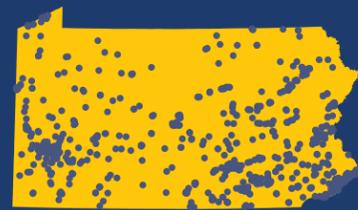


Highlights of key accomplishments and major happenings



As the economy continued to strengthen, PHFA responded to changes in the housing marketplace to stay ahead of evolving customer needs and explore new business opportunities and partnerships.

Low-Income Housing Tax Credits awarded annually by PHFA help developers fund the construction of affordable rental housing across the Commonwealth. In exchange for the tax credits, owners agree to keep rents at agreed-upon lower levels for an extended period, usually 30 years. In 2014, PHFA announced the allocation of \$37.2 million in Low-Income Housing Tax Credits, which are providing approximately \$353 million in construction equity for the creation or rehabilitation of 2,115 affordable rental units.



Locations of affordable rental housing supported with PHFA funding

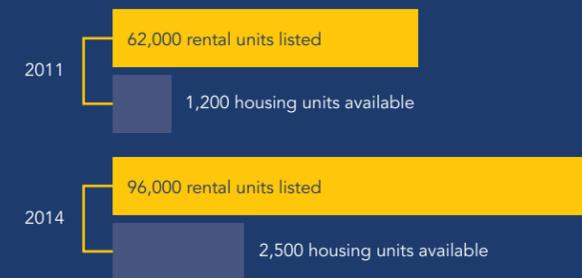
Another funding source administered by PHFA is **New Markets Tax Credits**. These are federal tax credits provided by the U.S. Department of the Treasury. They are intended to fund the construction of projects that can spur economic revitalization in low-income areas and preserve buildings of historical or cultural significance. PHFA has a community development entity called Commonwealth Cornerstone Group that was created to administer these tax credits. In 2014, CCG awarded New Markets Tax Credits totaling \$37 million to six projects located in Philadelphia, Pittsburgh, Williamsport and Reading.

New Markets Tax Credits allocated



PHFA leads an effort, along with five other government and private partners, to fund and direct an online search tool that makes apartment hunting easier. Available 24/7 at www.PaHousingSearch.com, this Web resource lets users enter key features they want in their next apartment and then returns a list of the best available rental options. A call center helps people who don't have convenient Internet access. In 2014, PaHousingSearch celebrated its three-year anniversary. On average, more than 9,600 searches a week are conducted on the site, and more than 96,000 housing units have been listed. Most days, 2,500 of those listed units are vacant and available for renters.

Growth of PAHousingSearch.com



PHFA made a total of **3,498 home loans** in 2014. Those loans had a total value of more than **\$451 million**. The agency's affordable mortgage programs help people pursuing their dream of homeownership by providing them with home loan options that fit their budgets.

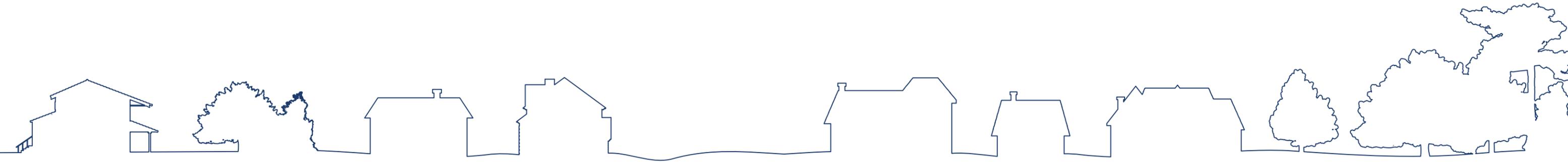


In 2014, PHFA attracted the attention of homebuyers by launching its highly successful **Mortgage Credit Certificate** program. This program lets qualified homebuyers claim a tax credit on their federal income tax return for the life of their mortgage – up to \$2,000 annually. In 2014, 864 homebuyers took advantage of this new program.



Continued...

2014 Highlights



Natural gas drillers in Pennsylvania are required to pay impact fees. A portion of these fees is directed to the **Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) Fund**, which is overseen by PHFA. This fund distributes the money to local governments to help them address housing shortages caused by the influx of natural gas workers. The money is used in a variety of ways as specified in funding proposals submitted by local leaders, ensuring the program is flexible to address varying housing needs in different jurisdictions. In fiscal year 2014, \$8.45 million in PHARE funding was awarded to groups in 22 counties.



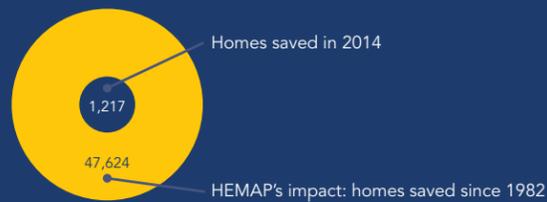
Counties in yellow received PHARE funding to improve housing

Home foreclosure rates continued to be high in some regions of the state. To address that issue, PHFA led **mortgage modification events** through which housing counselors negotiated meetings between financially troubled homeowners and their lenders to explore whether loan modifications were possible. Continuing this program from the previous fiscal year, modification events were held in Erie and Westmoreland County.



Since 1982, the **Homeowners' Emergency Mortgage Assistance Program (HEMAP)** at PHFA has become a national model for successfully reducing home foreclosures and preserving community vitality. During this fiscal year, HEMAP disbursed nearly \$17 million in assistance loans to prevent the foreclosure of 1,217 homes. HEMAP assistance is in the form of a loan that homeowners pay back when their financial situation improves.

HEMAP continues saving homes from foreclosure



Housing services are critical for seniors, people with disabilities, and others trying to live independent, self-sufficient lives. These services include such things as transportation to food stores and health and wellness activities – offerings that can have a huge impact for residents in rental housing funded by the agency. PHFA leads an annual Housing Services Conference to provide educational and networking opportunities for professionals working in the housing services field. This year's conference in Scranton attracted more than 400 attendees.

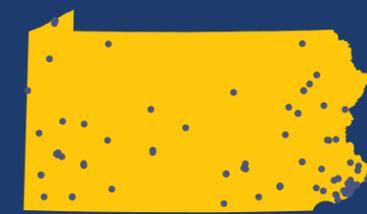


The affordable home loans that PHFA makes to Pennsylvania homebuyers are actually originated by **our lending partners** located across the state. They are educated about the various mortgage products offered by the agency, and they work with consumers to find the PHFA home loan that best fits their needs. Recognizing the vital role these lenders play as our affordable housing partners, PHFA honored the 10 most productive loan originators with awards in 2014 during an event in Harrisburg. Mortgage America was cited as the top lender for the year.



PHFA honored the 10 most productive loan originators with awards in 2014

PHFA provides training and financial support to **81 housing counseling agencies** located conveniently across the state. In 2014, these agencies provided more than 24,700 Pennsylvanians with free and accurate information and guidance to help them make better informed housing decisions.



Across Pennsylvania, 81 agencies provide housing counseling through 105 local offices



George Perry is an assistant final documents officer in the Homeownership Division. He makes sure that the legal documents from each loan closing are in order before PHFA funds the mortgage.

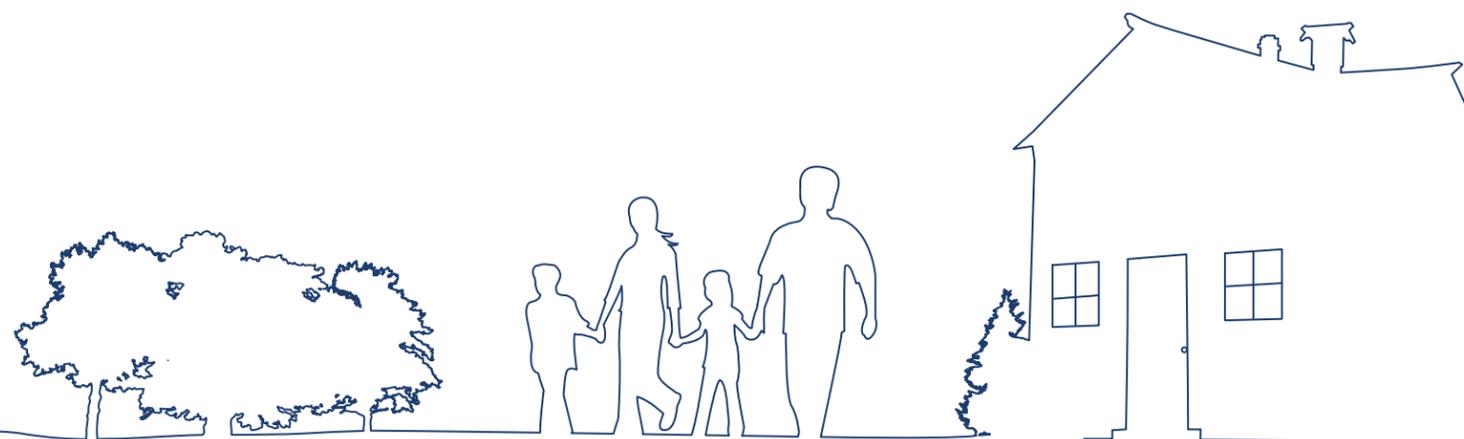
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Financial Statements June 30, 2014

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PHFA's complete basic financial statements and required supplementary information are available on our website at www.PHFA.org. For readers who don't have convenient Internet access, please call our Customer Solutions Center at 1-800-822-1174 to request a copy.



Independent Auditors' Report



Management and Members of the Board of Directors
Pennsylvania Housing Finance Agency

Report on the Financial Statements

We have audited the accompanying financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund, and the Homeowners' Emergency Mortgage Assistance Program (HEMAP) of the Pennsylvania Housing Finance Agency (the Agency), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Homeowners' Emergency Mortgage Assistance Program. Those financial 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund, and Homeowners' Emergency Mortgage Assistance Program of the Pennsylvania Housing Finance Agency as of June 30, 2014, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 3 to the financial statements, in 2014, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Restatement of Net Position

As part of our audit of the 2014 financial statements, we also audited the adjustments described in Note 3 that were applied to restate net position of the General Fund, Multifamily Housing Program, and Single Family Mortgage Loan Program as of July 1, 2013. The Agency's previously issued financial statements were audited by other auditors. In our opinion, such adjustments are appropriate and have been properly applied.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan, and the Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan on pages 3–8, 54, and 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated November 19, 2014 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control over financial reporting and compliance.

Harrisburg, Pennsylvania

November 19, 2014



Jada Greenhowe is assistant counsel in the agency's Legal Division. She started at PHFA in 2014.

Management's Discussion and Analysis

Introduction

The discussion and analysis provided herein are designed to furnish an objective and easily understandable review of the financial activities of the Pennsylvania Housing Finance Agency ("Agency"). Readers are encouraged to consider the information presented in conjunction with the basic financial statements as a whole, which follow this section.

Understanding the Basic Financial Statements

The basic financial statements are designed to provide a broad overview of the Agency's finances, and include three required statements: The Balance Sheet, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows.

The Balance Sheet presents financial information respective of all of the Agency's assets, liabilities and deferred inflows and outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position reflects revenue and expenses within a given period in order to measure the success of the Agency's operations during that period and to illustrate how the Agency has funded its costs of operations.

The Statement of Cash Flows is presented using the direct method, which reports cash receipts and cash payments in three major classes of activities: Operating, Investing and Financing. Cash receipts and disbursements are presented within these statements in order to illustrate the net increase or decrease in cash and cash equivalents within a given period.

The basic financial statements are accompanied by a set of notes. The notes to the basic financial statements provide additional information necessary to acquire a full understanding of the data presented in the basic financial statements and a means to obtain a more comprehensive assessment of factors affecting the Agency's financial condition.

Condensed Summary Balance Sheet (In thousands)

	2014	2013* (as restated)	Increase/ (Decrease)	(Decrease)
Assets:				
Mortgage loans receivable	\$3,694,888	\$3,972,663	\$(277,775)	(7.0%)
Capital assets	31,216	30,879	337	1.1%
Other assets	909,419	940,044	(30,625)	(3.3%)
Total Assets	4,635,523	4,943,586	(308,063)	(6.2%)
Deferred Outflow of Resources	42,108	63,033	(20,925)	(33.2%)
Total Assets and Deferred Outflow of Resources	\$4,677,631	\$5,006,619	\$(328,988)	(6.6%)
Liabilities:				
Current liabilities	204,148	241,332	(37,184)	(15.4%)
Noncurrent liabilities	3,723,210	4,052,826	(329,616)	(8.1%)
Total Liabilities	3,927,358	4,294,158	(366,800)	(8.5%)
Net Position				
Net Investment in Capital Assets	11,216	10,879	337	3.1%
Restricted	165,564	178,906	(13,342)	(7.5%)
Unrestricted	573,493	522,676	50,817	9.7%
Total Net Position	750,273	712,461	37,812	5.3%
Total Liabilities and Net Position	\$4,677,631	\$5,006,619	\$(328,988)	(6.6%)

Condensed Summary of Revenues, Expenses and Changes in Net Position (In thousands)

	2014	2013* (as restated)	Increase/ (Decrease)	(Decrease)
Revenues:				
Mortgage loan interest	\$158,203	\$175,240	\$(17,037)	(9.7%)
Other Operating Revenues	90,968	76,190	14,778	19.4%
Federal program awards	405,638	405,153	485	0.1%
Total Revenues	654,809	656,583	(1,774)	(0.3%)
Expenses:				
Interest and financing expenses	144,007	156,124	(12,117)	(7.8%)
Other Operating Expenses	67,352	65,306	2,046	3.1%
Federal program expenses	405,638	405,153	485	0.1%
Total Expenses	616,997	626,583	(9,586)	(1.5%)
Change in Net Position	37,812	30,000	7,812	26.0%
Net Position - Beginning of Year, restated*	712,461	682,461	30,000	4.4%
Net Position - End of Year	\$750,273	\$712,461	\$37,812	5.3%

* - See Note 3 to the financial statements for details of restatement of Net Position.

Analysis of Overall Financial Position and Results of Operations

The following reclassifications have been made to the June 30, 2013 Condensed Summary Balance Sheet in order to conform to the June 30, 2014 presentation:

- \$12.6 million attributable to unamortized losses on bond refundings was previously reported within Current and Noncurrent Liabilities. This amount is now reported within Deferred Outflows of Resources. This reclassification comes as a result of the adoption of Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities ("GASB 65") during the 2014 fiscal year.
- \$20 million attributable to a general obligation note payable was previously reported within Current and Noncurrent Liabilities in the General Fund. This amount is now reported in the Single Family Program.

Overall, net position of the Agency experienced an increase of \$37.8 million. Despite a decrease in mortgage loan interest revenue, caused primarily by the decrease in balances of existing Single Family Mortgage Loan Program ("Single Family Program") and Multifamily Housing Program ("Multifamily Program") mortgage loans receivable over time, the increase in overall net position was enabled by a notable increase in other operating revenues and a decrease in interest and financing expenses. The increase in other operating revenues is primarily attributable to an increase in the fair values of the Agency's investments equaling approximately \$2.4 million at year end, compared to an overall decrease experienced in the prior year equaling approximately \$20 million. The decrease in interest and financing expenses was enabled by the Agency's ongoing practice of redeeming bonds payable using prepayments received from borrowers and available cash.

Analysis of Significant Activity of Individual Funds

General Fund

The Agency's General Fund experienced an increase in total assets equaling \$21.1 million, attributed primarily to an increase in amounts owed to the General Fund by the Single Family Program totaling \$13.2 million and an increase in the fair value of its investments equaling \$5 million. The \$13.2 million increase in amounts owed by the Single Family Program was brought on by the ongoing need for liquidity necessary to purchase single family mortgage loans for purposes of pooling and selling mortgage backed securities (MBSs); the \$5 million increase in the fair value of investments is attributed to favorable market conditions experienced at year end.

While total liabilities of the General Fund also increased by \$3.4 million, net position of the General Fund reflected the greater corresponding increase totaling \$17.7 million. The increase in net position of the General Fund is primarily attributable to the \$5 million increase in the fair value of its investments, mentioned previously, and a \$12.2 million growth in program income and fees deriving from increases in Multifamily Program fees and charges, an increase in contract administration fees and a greater volume of Single Family Mortgage Loan Program service fees and charges.

Multifamily Housing Program

The Agency's Multifamily Program experienced a decrease in total assets equaling \$13.6 million. This was attributed primarily to a decrease in mortgage loans receivable equaling \$40.8 million offset by an increase in cash and investments equaling \$30 million. The decrease in balances of mortgage loans receivable was caused by the inherent reduction of mortgage loan balances over the course of time as a result of regularly scheduled payments, prepayments and loan forgiveness, coupled with the stalled production of new Multifamily Program loans; the increase in balances of cash and investments was the direct result of receipts of mortgage loan payments and prepayments.

Multifamily Program liabilities decreased by \$22.4 million, which can be credited primarily to a decrease in Multifamily Program bonds payable equaling \$19.4 million resulting from required debt service payments for the year and the Agency's ongoing practice of redeeming bonds payable using prepayments received from borrowers and available cash. Multifamily Program net position increased by \$8.1 million. When compared to the prior year increase in net position equaling \$3.2 million, the \$4.9 million growth in the change in net position may be attributed to no additions to the provision for loan loss being deemed necessary for the year, while the prior year provision for loan loss equaled \$4.4 million.



Autumn Summerville is a compliance officer in the Homeownership Division. She makes sure that PHFA mortgages meet loan requirements necessary for approval.

Single Family Mortgage Loan Program

The Agency's Single Family Program experienced a decrease in total assets equaling \$312.2 million. \$240 million of this decrease is attributable to the reduction in balances of mortgage loans receivable, brought by virtue of regularly scheduled payments and prepayments. Single Family Program assets also experienced an \$87.9 million reduction in cash and investments, the primary cause of which was due to the Single Family Program's use of liquidity necessary to purchase new mortgage loan production and for the redemption of bonds. Offsetting the \$240 million decrease in balances of mortgage loans receivable and the \$87.9 million decrease in cash and investments was a \$12.2 million increase in the balance of real estate owned, bringing the prior year balance of real estate owned from \$25.1 million at June 30, 2013 to \$37.3 million at June 30, 2014.

Single Family Program liabilities decreased by a total of \$342.8 million. This reduction was enabled by the Agency reducing its bonds and notes payable balances by \$356 million during the year through regularly scheduled debt service payments and by redeeming bonds payable in advance of their scheduled payment dates using prepayments received from borrowers and available cash. The most notable offset to the \$356 million decrease in bonds and notes payable was an increase in Single Family Program accounts payable and accrued expenses balances, which increased from \$1.9 million at June 30, 2013 to \$14.3 million at June 30, 2014. This increase was caused by the timing of amounts payable to the entities responsible for securitizing MBSs; amounts attributable to the month of June 2014 were disbursed in July 2014.

Single Family Program net position experienced a \$10.8 million increase, \$6.5 million of which was attributable to the net effect of interfund transfers from the Agency's General Fund used to supplement the Single Family Program's liquidity needs and \$4.3 million of which was attributable to net operating income. Operating income increased by \$5 million from the prior year, when the year-ended June 30, 2013 experienced an operating loss of \$0.7 million. The increase in operating income is primarily attributable to Single Family Program investments experiencing less of a reduction in fair value at year end than the prior year, where decreases in fair value equaled \$1.3 million at June 30, 2014 compared to \$12.8 million at June 30, 2013.

Insurance Fund

The results of the Agency's Insurance Fund remained consistent with those of the prior year. Net position increased by approximately 4% for both the years ended June 30, 2014 and 2013, which was attributable primarily to the receipt of insurance fees exceeding the costs of insurance claims.

Homeowners' Emergency Mortgage Assistance Program

Total assets of the Homeowners Emergency Mortgage Assistance Program ("HEMAP") decreased \$1.8 million and total liabilities decreased \$1.5 million. This reduction was due to HEMAP using available resources to reduce advances it owed to the Agency, thus reducing both its available assets and its liabilities. HEMAP also experienced a net operating loss for the year equal to \$0.3 million, due primarily to reduced levels of funding received from the Commonwealth of Pennsylvania compared to those of the previous year.

Analysis of Capital Asset Activity (In thousands)

	Balances at June 30		Increase/ (Decrease)
	2014	2013	
Nondepreciable Capital Assets:			
Land	\$2,454	\$2,454	\$-
Depreciable Capital Assets:			
Building	31,185	30,096	1,089
Furniture, fixtures and equipment	10,226	10,412	(186)
Less accumulated depreciation:			
Building	(6,582)	(6,004)	(578)
Furniture, fixtures and equipment	(6,067)	(6,079)	12
Total depreciable capital assets, net	28,762	28,425	337
Total Capital Assets, net	\$31,216	\$30,879	\$337

While the balances of most of the Agency's capital assets remained consistent with those of the prior year, the increase is attributable to amounts associated with the Agency's building. The Agency is currently undergoing plans and preliminary renovations in order to expand its headquarters to include the property adjacent to its headquarters; the costs of preliminary renovations have been capitalized. The adjacent property is owned by the Agency.

Analysis of Long-Term Debt Activity (In thousands)

Agency Fund/Program	Long-Term Debt at June 30		
	2014	2013	Decrease
General Fund	\$20,000	\$20,000	\$-
Multifamily Program	53,245	72,629	(19,384)
Single Family Program	3,266,768	3,622,732	(355,964)
Total Long-Term Debt	\$3,340,013	\$3,715,361	\$(375,348)

Due to continued adverse bond market conditions, the Agency issued no new debt during the year ended June 30, 2014. The Agency, instead, continued its practice of securitizing its single family loan production into MBSs and selling those securities. Required principal payments on bonds and notes payable for the year ended June 30, 2014 equaled \$81.7 million, but the Agency also redeemed additional principal amounts of certain bonds totaling \$290.5 million during the same period prior to their scheduled maturity through the use of mortgage prepayments and favorable cash flows. The redemptions of additional principal produced net gains on early extinguishment of debt totaling \$1.2 million for the year, which resulted from the recognition of bond premiums that would have otherwise been recognized over the life of the associated debt.

Additional Information

This discussion and analysis is intended to provide additional information regarding the activities of the Agency. Additional current or historical audited or unaudited financial information may be found at the Agency's website at www.phfa.org.

Balance Sheet

June 30, 2014 (In thousands)

ASSETS	General Fund	Multifamily Housing Program	Single Family/Mortgage Loan Program	Insurance Fund	HEMAP	Total
Current assets:						
Cash and cash equivalents	\$6,688	\$107,873	\$220,759	\$43,995	\$7,742	\$387,057
Restricted cash and cash equivalents	2,555	26,784	64,562	-	-	93,901
Investments	125	-	3,369	-	-	3,494
Restricted investments	105	2,378	1,554	-	-	4,037
Accrued investment interest receivable	128	291	844	84	-	1,347
Mortgage loans receivable, net	-	17,938	75,833	-	6,622	100,393
Accrued mortgage loan interest receivable	-	4,767	29,778	-	-	34,545
Other current assets	472	-	16	-	-	488
Total Current Assets	10,073	160,031	396,715	44,079	14,364	625,262
Noncurrent Assets:						
Investments	59,390	350	3,087	1,571	-	64,398
Restricted investments	910	20,420	148,257	-	-	169,587
Mortgage loans receivable, net	2,335	350,452	3,193,646	-	48,062	3,594,495
Real estate owned	-	-	37,303	-	-	37,303
Capital assets, net	31,216	-	-	-	-	31,216
Due from other funds	60,055	22,035	-	-	-	82,090
Other noncurrent assets	24,018	1,542	5,612	-	-	31,172
Total Noncurrent Assets	177,924	394,799	3,387,905	1,571	48,062	4,010,261
TOTAL ASSETS	187,997	554,830	3,784,620	45,650	62,426	4,635,523
DEFERRED OUTFLOWS OF RESOURCES						
Unamortized losses on bond refundings	-	981	9,592	-	-	10,573
Accumulated decrease in fair value of hedging derivatives	-	4,893	26,642	-	-	31,535
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	5,874	36,234	-	-	42,108
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$187,997	\$560,704	\$3,820,854	\$45,650	\$62,426	\$4,677,631

Balance Sheet (Continued)

June 30, 2014 (In thousands)

	General Fund	Multifamily Housing Program	Single Family/Mortgage Loan Program	Insurance Fund	HEMAP	Total
LIABILITIES						
Current Liabilities:						
Bonds and notes payable, net	\$350	\$14,260	\$96,730	\$-	\$-	\$111,340
Accrued interest payable	1	1,708	28,746	-	-	30,455
Accounts payable and accrued expenses	2,178	-	14,264	-	165	16,607
Escrow deposits and development reserves	599	17,542	45,721	-	-	63,862
Other current liabilities	58	544	5,679	300	-	6,581
Total Current Liabilities	3,186	34,054	191,140	300	165	228,845
Noncurrent Liabilities:						
Bonds and notes payable, net	19,650	38,985	3,170,038	-	-	3,228,673
Derivative instrument - interest rate swaps	-	9,541	47,981	-	-	57,522
Development reserves	-	77,721	-	-	-	77,721
Due to other funds	-	-	82,090	-	-	82,090
Other noncurrent liabilities	30,279	178,321	21,929	2,010	19,968	252,507
Total Noncurrent Liabilities	49,929	304,568	3,322,038	2,010	19,968	3,698,513
TOTAL LIABILITIES	53,115	338,622	3,513,178	2,310	20,133	3,927,358
NET POSITION						
Net investment in capital assets	11,216	-	-	-	-	11,216
Restricted	-	619	122,652	-	42,293	165,564
Unrestricted	123,666	221,463	185,024	43,340	-	573,493
TOTAL NET POSITION	134,882	222,082	307,676	43,340	42,293	750,273
TOTAL LIABILITIES AND NET POSITION	\$187,997	\$560,704	\$3,820,854	\$45,650	\$62,426	\$4,677,631

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2014 (In thousands)

	General Fund	Multifamily Housing Program	Single Family/Mortgage Loan Program	Insurance Fund	HEMAP	Total
Operating Revenues:						
Interest income on mortgage loans	\$-	\$12,358	\$145,270	\$-	\$575	\$158,203
Program income and fees	43,961	3,551	3,323	1,879	11,359	64,073
Gain on sales of mortgage-backed securities	12,470	-	-	-	-	12,470
Investment income	662	336	8,004	417	7	9,426
Net increase (decrease) in fair value of investments	5,009	(275)	(1,282)	(1,084)	-	2,368
Net increase in fair value of swaps	-	1,314	76	-	-	1,390
Gain on early extinguishment of debt	-	1	1,240	-	-	1,241
Total Operating Revenues	62,102	17,285	156,631	1,212	11,941	249,171
Operating Expenses:						
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Salaries and related benefits	26,023	-	-	-	2,541	28,564
OPEB liability expense	3,726	-	-	-	558	4,284
Financing and program expenses	-	188	13,230	-	-	13,418
General and administrative	10,303	2,121	889	-	720	14,033
Provision for loan loss and real estate owned	-	-	12,041	-	8,430	20,471
Total Operating Expenses	40,426	6,37	152,310	-	12,249	211,359
Operating Income (Loss)	21,676	10,911	4,321	1,212	(308)	37,812
Nonoperating Revenue						
Federal program awards	-	397,241	4,642	-	3,755	405,638
Nonoperating Expense						
Federal program expense	-	397,241	4,642	-	3,755	405,638
Income (Loss) Before Transfers	21,676	10,911	4,321	1,212	(308)	37,812
Interfund transfers	(3,948)	(2,833)	6,509	272	-	-
Change in Net Position	17,728	8,078	10,830	1,484	(308)	37,812
Net Position - beginning of year, as restated (see note 3)	117,154	214,004	296,846	41,856	42,601	712,461
Net Position - end of year	\$134,882	\$222,082	\$307,676	\$43,340	\$42,293	\$750,273

Statement of Cash Flows

Year Ended June 30, 2014 (In thousands)

	General Fund	Multifamily Housing Program	Single Family/Mortgage Loan Program	Insurance Fund	HEMAP	Total
Cash Flows From Operating Activities						
Receipts of mortgage loan payments	\$-	\$53,083	\$665,213	\$-	\$7,612	\$725,908
Receipts of mortgage-backed security premiums	12,470	-	-	-	-	12,470
Receipts from fees and other income	43,961	3,551	3,323	1,879	11,359	64,073
Receipts from interest on mortgages	-	12,531	143,133	-	575	156,239
Receipts (payments) of escrow and development reserves	4,637	(764)	21,253	-	-	25,126
Payments for mortgages and purchases	-	(12,320)	(451,445)	-	(18,995)	(482,760)
Payments for salaries and related benefits	(29,749)	-	-	-	(1,070)	(30,819)
Payments for goods and services	(9,426)	(2,121)	(354)	(953)	(720)	(13,574)
Net Cash Provided By (Used In) Operating Activities	21,893	53,960	381,123	926	(1,239)	456,663
Cash Flows From Noncapital Financing Activities						
Payments for retirement of bonds and notes	-	(19,384)	(353,860)	-	-	(373,244)
Payments of bonds and notes interest	-	(4,397)	(131,035)	-	-	(135,432)
Payments of financing costs	-	(188)	(13,230)	-	-	(13,418)
Repayments of program advances	-	-	-	-	(1,664)	(1,664)
Receipts of federal program awards	-	397,241	4,642	-	3,755	405,638
Payments of federal program awards	-	(397,241)	(4,642)	-	(3,755)	(405,638)
Transfers from (to) other funds	(37,118)	(3,060)	39,906	272	-	-
Net Cash Provided By (Used In) Noncapital Financing Activities	(37,118)	(27,029)	(458,219)	272	(1,664)	(523,758)
Cash Flows From Capital Financing Activities						
Purchases of capital assets	(1,484)	-	-	-	-	(1,484)
Interest paid on capital debt	(836)	-	-	-	-	(836)
Net Cash Used In Capital Financing Activities	(2,320)	-	-	-	-	(2,320)

Statement of Cash Flows (Continued)

Year Ended June 30, 2014 (In thousands)

	General Fund	Multifamily Housing Program	Single Family/Mortgage Loan Program	Insurance Fund	HEMAP	Total
Cash Flows From Investing Activities						
Proceeds from the sale or maturity of investments	\$680	\$34,089	\$44,232	\$-	\$-	\$79,001
Investment interest receipts	630	251	7,993	404	7	9,285
Purchases of investments	(79)	(44,988)	(3,997)	(405)	-	(49,469)
Net Cash Provided By (Used In) Investing Activities	1,231	(10,648)	48,228	(1)	7	38,817
Net Increase (Decrease) In Cash and Cash Equivalents						
	(16,314)	16,283	(28,868)	1,197	(2,896)	(30,598)
Cash and cash equivalents, beginning of year	25,557	118,374	314,189	42,798	10,638	511,556
Cash and cash equivalents, end of year	\$9,243	\$134,657	\$285,321	\$43,995	\$7,742	\$480,958
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:						
Operating Income (Loss)	\$21,676	\$10,911	\$4,321	\$1,212	\$(308)	\$37,812
Investment income recognized	(630)	(251)	(7,993)	(404)	(7)	(9,285)
Net change in fair value of investments	(5,009)	275	1,282	1,084	-	(2,368)
Net change in fair value of swaps	-	(1,314)	(76)	-	-	(1,390)
Interest expense on bonds and notes	374	4,065	126,150	-	-	130,589
Financing expenses	-	188	13,230	-	-	13,418
Provision for loan loss	-	-	12,041	-	8,430	20,471
Depreciation	1,147	-	-	-	-	1,147
Early extinguishment of debt	-	(1)	(1,240)	-	-	(1,241)
Changes in Assets and Liabilities						
Mortgage loans receivable, net	-	40,763	213,768	-	(11,383)	243,148
Mortgage loans interest receivable	-	173	(2,137)	-	-	(1,964)
Accrued interest receivable on investments	(32)	(85)	(11)	(13)	-	(141)
Other assets	(9)	-	599	-	1,827	2,417
Accounts payable and accrued expenses	(261)	-	12,318	-	(304)	11,753
Escrow deposits and development reserves	52	(4,842)	2,154	(953)	-	(3,589)
Other liabilities	4,585	4,078	6,717	-	506	15,886
Net Cash Provided By (Used In) Operating Activities	\$21,893	\$53,960	\$381,123	\$926	\$(1,239)	\$456,663

PHFA's complete basic financial statements and required supplementary information are available on our website at www.PHFA.org. For readers who don't have convenient Internet access, please call our Customer Solutions Center at 1-800-822-1174 to request a copy.



Dave Doray is a senior development officer with the Multifamily Division. Dave handles a number of responsibilities, including the evaluation of proposals from developers requesting funding from the agency to build affordable rental housing.

About PHFA

The Pennsylvania Housing Finance Agency works to provide affordable homeownership and rental housing options for older adults, low- and moderate-income families, and people with special housing needs. Through its carefully managed mortgage programs and investments in multifamily housing developments, PHFA also promotes economic development across the state.

Since its creation by the legislature in 1972, it has generated nearly \$11.6 billion of funding for more than 155,690 single-family home mortgage loans, helped fund the construction of 122,590 rental units, and saved the homes of more than 47,500 families from foreclosure. PHFA programs and operations are funded primarily by the sale of securities and from fees paid by program users, not by public tax dollars. The agency is governed by a 14-member board.

PHFA is committed to the policy that all people shall have equal access to its housing programs and employment without regard to race, religion, gender, national origin, family status, disability, or age.

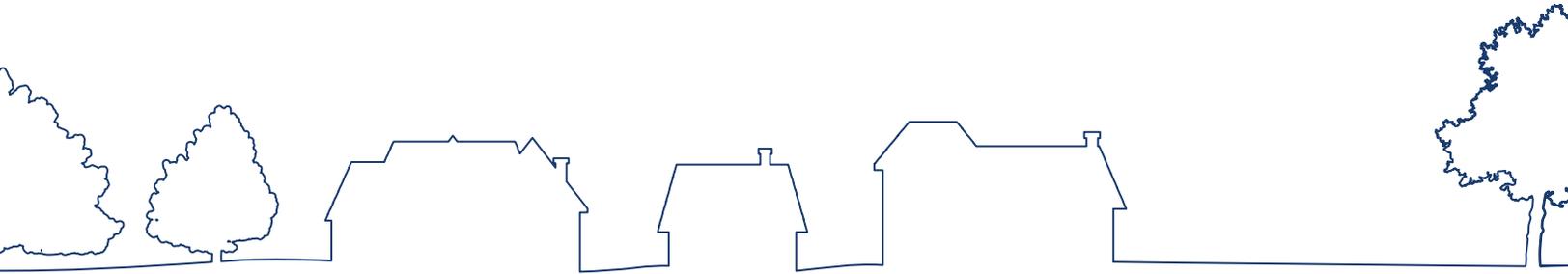


At the Pennsylvania Housing Finance Agency, we care about the environment. That's why this annual report has been printed using recycled paper and inks.

Additionally, our financial statement has been abbreviated in the printed version to reduce the number of pages necessary. Our complete financial report is conveniently available on our website, allowing us to minimize the number of printed paper copies.

Alone we can do so little; together we can do so much.

Helen Keller



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