

2014 Entry Form
(Complete one for each entry.)

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name Imagining Tomorrow Today: PHFA 2013 Annual Report

HFA Pennsylvania Housing Finance Agency

Submission Contact Scott Elliott

Phone 717-780-3916

Email selliott@phfa.org

Qualified Entries must be received by **Tuesday, July 1, 2014.**

For more information about Qualified Entries, [click here to access the 2014 Entry Rules.](#)

Use this header on the upper right corner of each page.

HFA PHFA
Entry Name 2013 Annual Report

| Communications | Homeownership | Rental Housing | Special Needs Housing |
|--|---|--|--|
| <input checked="" type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media | <input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production | <input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production | <input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs |
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Submission for 2014 NCSHA Awards
Pennsylvania Housing Finance Agency
Annual Report Category

The Pennsylvania Housing Finance Agency's 2013 annual report bucks conventional thinking. The trend, we've noticed, is for annual reports to be written for the general public. As a result, these reformulated annual reports developed for a laymen audience are normally 20 pages, or less, in length and exclude financial details. At PHFA, we take a different approach, and perhaps there is value in our submission to encourage other HFA's to reexamine the logic behind their reports to make sure their publications are truly adding value and are achieving the best strategic communications objective.

Our public relations staff at PHFA has never had a request from a citizen for a copy of our annual report. Not one. Annual reports, traditionally, are not intended for a general public audience. To reach most citizens with news from PHFA, we primarily use social media, our website, paid advertising and our press releases (to stimulate news stories). We do not use our annual report to reach our state residents since that is not our intended audience and, quite frankly, they are not interested in such a publication.

We use our annual report, instead, to reach out to key decision makers who play a major role in supporting our programs or as our business partners. These include: investors, multifamily developers, banks, government officials, state HFAs, and housing advocates. We mail paper copies of the report (not email) to 2,500 of our business partners; 500 annual reports are held in reserve for distribution as needed during the year. This is a more traditional use of an annual report, but it works for us. It uses our annual report as a communications tool to inform and influence our investors and business partners, and from that perspective it is highly successful for us.

We believe our annual report is innovative because it challenges conventional thinking by returning to the traditional use of an annual report. We don't ignore the general public. We simply reach them using media more conducive to that audience. Annual reports traditionally have been created to influence investors and decision makers. We use our annual report to serve that particular audience.

Certainly our approach is highly replicable. The challenge is not executing this approach. The challenge is getting HFAs to critically consider who is the actual audience for their annual report and having them debate internally if that is who they want to reach with that document? All good communications start by identifying the audience, the message(s), and the media channel(s) to be employed. In our case, the sophisticated nature of our intended audience guides the contents of our report.

I should note that we include our full financial statement in our annual report rather than providing our financials via a web link. This is done out of respect for our business partners' busy schedules, as it saves them time. Also, in our opinion, including the full financials on paper provides the impression of an organization that is financially strong and stable. There is something to be said for the sensory impression of having a full-color annual report on high-quality paper in your hands, and this reflects our belief that the impact of mailing a more traditional print publication is as much of the message as the actual text and photos inside the report.

We do not do a survey of our report recipients. Our feedback, instead, is anecdotal, gathered by our executive director and staff as they are in the field visiting with investors and our business partners. Do they see our report on these people's desks? Do they get comments and questions stimulated by the

actual mailing of a paper copy of the report directly to these decision makers? Do legislators comment to our government affairs staff about the report's contents? The answer to all these questions is yes, which is why we stick with this more traditional approach.

During the last five years, our communications staff has placed an emphasis on finding ways to drive down the cost of the annual report while not sacrificing the "wow factor" that is possible with a well-designed and well-printed publication. In the past, the full cost of developing, printing and mailing the report approached \$60,000. Working closely with our outside graphic design firm and print vendor, we have been able to produce and mail a high-quality final product for approximately \$35,000. For our agency, this represents a smart investment to reach and influence a vital audience segment. The report's concept, messaging and written text are developed entirely in-house.

Every year before we launch into development of the annual report, our creative team meets with the executive director to determine our approach for the next report. For the past few years, we have gone with an annual report that uses the first 20 pages to tell stories with photos and words that demonstrate the ways our housing programs touch lives in a very real way. (Those stories, by the way, are reused in our other communications materials, enhancing their value.) The remainder of the report consists of our financials, because our investors and many of our business partners want to see this information. Our 2013 annual report followed this format again because this is exactly the messaging we want to share with this audience that is so critical to our successful operation. This approach works for PHFA and, while it goes against conventional wisdom, we think that is exactly why there is value in sharing our experience with other NCSHA members.

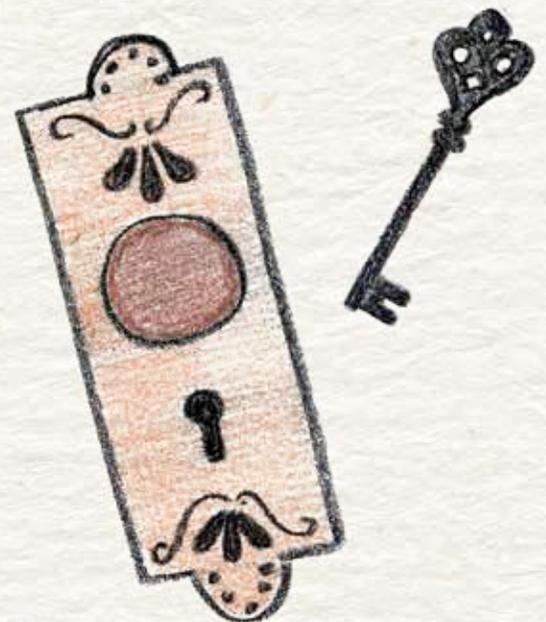
IMAGINING TOMORROW TODAY

Pennsylvania Housing Finance Agency | 2013 ANNUAL REPORT



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CREATING A BETTER FUTURE FOR OUR CHILDREN

Journalist and author William Hodding Carter II wrote, “There are only two lasting bequests we can hope to give our children. One of these is roots; the other, wings.”

At the Pennsylvania Housing Finance Agency, our efforts to expand affordable housing for Pennsylvanians help give children the stability — the roots — they need to reach their full potential. This annual report reminds us that children are some of the primary beneficiaries of our various housing initiatives. We strive to imagine tomorrow today so that we can provide them with a better Pennsylvania in which they can test their wings.

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.



A MESSAGE FROM GOVERNOR TOM CORBETT

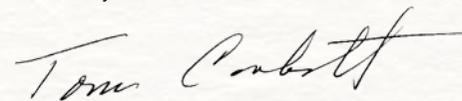
Discussions about housing frequently delve into the topics of financing, mortgages, architectural blueprints and other important matters. But we should never lose sight of the fact that housing is about people — and especially about our children and their needs.

Safe, quality housing provides the stability young children need so they can focus on more important things, like learning and being nurtured by their families. Housing is one of the essential components that is critical for helping Pennsylvania families flourish and supporting the development of our young people.

Sometimes in the rush of everyday life we take the value of affordable housing for granted. This annual report provides a moment for us all to pause and remember how important our childhood homes were during our own upbringing. Financial details and long-range planning can never be overlooked during discussions about our housing resources in Pennsylvania. But let's never forget that affordable housing is vital to the creation of strong families and pivotal to the care and well-being of our children.

The Pennsylvania Housing Finance Agency (PHFA) manages a wide variety of programs expanding housing options for current state residents and families moving to the Commonwealth. PHFA is respected nationally for its leadership in the provision of effective housing programs and services, and I encourage you to give them a call or visit their website the next time you, or a family member, have a housing need.

Sincerely,



TOM CORBETT
Governor



BOARD OF DIRECTORS

A MESSAGE FROM THE CHAIRMAN

It is said that the future is not a gift — it is an achievement.* The Board of Directors of the Pennsylvania Housing Finance Agency keeps an eye to the future to ensure that our housing investments will best serve the needs of today's generation and the next. By expanding the availability of safe, quality housing for Pennsylvania families, we provide an environment in which our children can be properly nurtured to prepare them well for tomorrow's challenges and opportunities.



The Honorable Glenn E. Moyer
Chairman of the Board

* Quote from Robert F. Kennedy



Chairman of the Board
The Honorable Glenn E. Moyer



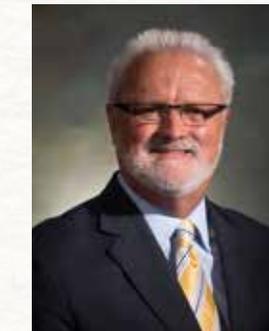
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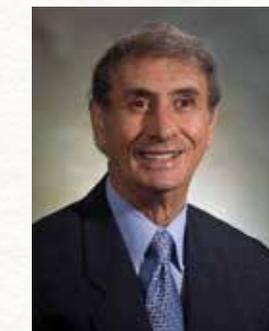
Lisa R. Gaffney



The Honorable
Beverly Mackereth



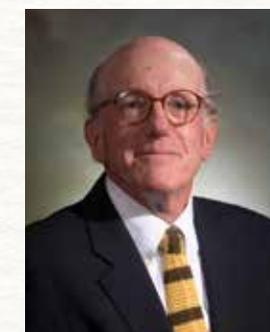
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Howard B. Slaughter Jr., D.Sc.



The Honorable
C. Alan Walker

IMAGINING TOMORROW TODAY: A MESSAGE FROM OUR EXECUTIVE DIRECTOR

Safe and comfortable housing is one of the most basic of human needs. We should know, because we handle requests from Pennsylvanians every day — from renters and from families looking to buy their first homes. We help them with their immediate housing needs. But our staff is always looking past the present situation to what could be...to what actions we must take today to improve housing options for Pennsylvanians tomorrow.

ENSURING AFFORDABLE RENTAL HOUSING

For renters, we offer an online apartment search tool that lets them quickly find apartments in their local area with the features they most desire, whether that be a certain number of bedrooms or proximity to a bus line. This online service at PAHousingSearch.com is backed up with live phone operators who can assist people with their apartment query. PHFA leads a group of state agencies that fund this service and oversee its operation.

The agency also funds the construction of affordable rental units around the state. The marketplace simply doesn't provide enough of these apartments to meet the needs of Pennsylvanians. Through the allocation of federal tax credits, we help finance the construction of these units that are so critically needed by low- and moderate-income families, our seniors, and by people with disabilities.

HOMEOWNERSHIP REMAINS DESIRABLE

In spite of recent troubles in the housing market, the dream of owning your own home remains strong. PHFA recognizes that, and we support a network of counseling agencies around the state available to educate Pennsylvanians about their personal finances and the process for

purchasing a home. The best homebuyer is an informed homebuyer, and the services offered by these counseling specialists meet that need. Many of their services are provided at no cost thanks to financial support from PHFA.

Again supplementing the marketplace, PHFA provides affordable mortgages for Pennsylvanians looking to become homeowners. These are not grants; they are home loans at competitive interest rates. One of the main benefits of a PHFA mortgage is that assistance is available for those who qualify to receive down payment and closing cost assistance — frequently the main hurdle for new homebuyers. During the past three years, the agency has adapted to changing market conditions and opportunities by offering a wider variety of home mortgage options than ever before.

CONTINUING FORECLOSURE PREVENTION ASSISTANCE

Started during the recession of the 1980s, the agency continues to provide financial assistance to families in danger of losing their homes. Our Homeowners' Emergency Mortgage Assistance Program, or HEMAP, has become a national model due to its effectiveness at preventing foreclosure and mitigating its disruption to people's lives and affected communities. The families that receive and repay HEMAP loans are forever grateful for the assistance they received following a layoff or medical emergency — assistance that helped them keep their home.

KEEPING A FUTURE FOCUS

PHFA is firmly grounded in the present — helping people meet their critical housing needs by providing timely, pertinent information and affordable financial loans. We also work with the private sector to expand

the availability of affordable rental housing stock. The stories told by Pennsylvanians on the pages that follow illustrate our current successes. But, at the same time, we never take our eyes off the future.

The future represents possibilities. Long before our phone rings with calls from seniors or single parents looking for affordable housing, we're anticipating their needs and investing in housing developments and vital housing services that must be in place to address their situations. Additionally, because the agency lives largely off its own investments, and not state tax dollars, we must always be planning ahead to stay financially strong.

STAYING TRUE TO OUR MISSION

There is an old proverb that says the trees we plant today provide shade for our children tomorrow. That aptly describes our mindset at PHFA. We're meeting the needs of today, while always considering how we can enhance the availability of housing for the next generation. It's something we're passionate about.

Thanks for taking the time to read about our achievements from the past year. We hope these stories help you share the enthusiasm we have for our housing mission in Pennsylvania.



Brian A. Hudson Sr.
Executive Director and CEO





HOW PHFA HELPS HOMEBUYERS

When Pennsylvania families are ready for the responsibilities of homeownership, PHFA offers a variety of affordable mortgage programs to help homebuyers. These include down payment and closing cost assistance, which are often the biggest hurdles for first-time homebuyers. In recent years, PHFA has responded to a changing marketplace by offering a wider variety of customer-driven home purchase options.

In 2013, the agency made 4,100 mortgage loans to Pennsylvanians with a total loan value of nearly \$509 million. In its first full year offering refinancing, the agency helped more than 560 homeowners refinance their mortgages at more affordable interest rates.

(INSIDE PHOTO)

Marcus and Michelle Cole of York were delighted when they learned that a PHFA mortgage could help them purchase their dream home across the street from a park and close to an elementary school — an important consideration with the birth of their first baby, Meah. Marcus is proud to share that he is the first member of his family to become a homeowner.



FINDING THEIR FIRST HOME AND FILLING IT WITH LOVE

From the very start, Marcus and Michelle Cole were meant to be together. They met during third grade. They became boyfriend and girlfriend in eighth grade. He later romantically proposed to her on the beach, and they married, surrounded by family and friends, in 2008. Theirs is the classic love story.

It was while driving home from their honeymoon in the Poconos that the newlyweds started thinking about buying their first home. At the time, they were living in a two-bedroom townhome in Baltimore near their jobs at Johns Hopkins Hospital. But the homes they saw in south-central Pennsylvania were beautiful — and affordable.

Marcus and Michelle knew they'd need more space than they had in their townhome. They already had experience as foster parents, and they wanted to help more children through foster care. Plus, they wanted to have their own children. To make their family dreams come true, they'd need more room. Better yet, they needed a home of their own.

THE PERFECT PLACE TO RAISE THEIR FAMILY

Just as wonderfully scripted was their courtship and marriage, so, too, was what followed in the fall of 2012.

"Everything was excellent," Marcus says, recalling the turn of events. "It just fell in line. House, car, baby — in just that order. We bought the house in September, the car in October, and the baby came in November. It was just boom, boom, boom."

Daughter Meah Faith Cole was born soon after they moved in. She was, you might say, the perfect housewarming gift.

AN AFFORDABLE PHFA HOME LOAN MAKES IT POSSIBLE

Marcus credits his realtor, Kraig Hursh, for making their dream of homeownership a reality. Kraig and York Traditions Bank recommended a PHFA loan to complete the home purchase. It offered them a competitive interest rate, plus down payment and closing cost assistance — just what they needed as young, first-time homebuyers.

"The homebuying process was absolutely fabulous," says Marcus, with Michelle nodding agreement. "It went just perfectly. Absolutely perfectly.

"It's something I'll remember the rest of my life. It was awesome. New house, new car, new baby. 2012 was just a great year."

We're delighted their PHFA home loan is helping them write a new chapter in their love story together. It's a wonderful beginning to a story certain to have a happy ending. 🏠





HOW PHFA HELPS RENTERS

PHFA supports affordable rental housing in Pennsylvania in a number of ways. For example, every year, low-income housing tax credits administered by PHFA help fund the construction of critically needed rental housing across Pennsylvania and ensure that rents are kept affordable for residents. In 2013, PHFA awarded \$35.6 million in tax credits that are helping fund the construction of 43 developments in communities statewide.

The agency also works with management at these buildings to ensure the availability of housing services that help seniors and residents with disabilities continue to live independently.

(INSIDE PHOTO)

Nilda Figueroa and her daughter Sarah appreciate their safe and comfortable one-bedroom unit at Saint Peter Apartments in Columbia, along the Susquehanna River — providing quality housing that fits their budget. This building receives funds through the U.S. Department of Housing and Urban Development to provide affordable apartments for the residents. PHFA administers these Section 8 contracts in Pennsylvania on behalf of HUD.

A DEVOTED MOTHER GETS A HELPING HAND

Nilda Figueroa demonstrates the love of a mother every day. She does it by the sacrifices she's made throughout her life.

Nilda has raised three children on her own. Now, at age 67 — at a time when most seniors are focused on enjoying their twilight years — Nilda provides continuing care for her 34-year-old daughter. Sarah has special needs and cannot take care of herself.

HOUSING COSTS WERE A BURDEN

Through the years, making ends meet has been a struggle. Before she found her current apartment, she was living in a duplex in Columbia, Lancaster County. While there, she not only had to pay the rent but all the utilities, as well. Since the home was not well insulated, in the winter, she and Sarah spent most of their time in the upstairs bedrooms. It simply was too expensive to try and heat the downstairs kitchen and bathroom. Then, if something broke, the landlord often delayed the repairs. It was not a good living situation.

Nilda did all she could to create income, working whenever possible. But the bills always seemed to be increasing while her income did not.

AFFORDABLE HOUSING MAKES ALL THE DIFFERENCE

Her fortunes changed dramatically when she qualified for senior housing at Saint Peter Apartments in Columbia, owned and managed by Housing Development Corporation MidAtlantic. PHFA administers the federal government contract that ensures affordable rents for

tenants there. Now, at last, Nilda has clean, well-managed housing that fits within her limited budget. She and Sarah live in a one-bedroom unit on the sixth floor of the 10-story building.

A WONDERFUL APARTMENT THEY CALL HOME

"The apartment, I have to say, is nice and clean," Nilda beams. "It's well kept. So that's why I love it. And then there's the view. I ended up [with a unit] looking towards the Susquehanna River. It's beautiful.

"What I love about the building, too," she continues, "is that the people are so nice and there are so many activities here that keep us busy."

Most importantly, the rent of \$434 a month is within her budget. You can hear the relief in Nilda's voice when she shares her story.

"I think the most why I am at peace is because I don't have the stress of [constantly asking myself], 'Where am I going to come up with the rent? Where am I going to come up with the money for oil, the bills,' and stuff like that. It's a blessing." 🏠





HOW PHFA HELPS EDUCATE CONSUMERS

PHFA supports a network of 84 housing counseling agencies, staffed by 263 housing specialists and counselors available conveniently across the state.

These agencies help educate people interested in homeownership but new to the homebuying process so that they make well-informed housing decisions that stay within their budget and meet their family's needs. These agencies also provide guidance to homeowners in danger of foreclosure so they are aware of all available options for saving their home.

(INSIDE PHOTO)

When life changes threatened the home where Katherine Stone and her children had put down roots in Fayette County, housing counselor Rita Masi provided the expertise needed to secure a home-saving mortgage modification. Today, Katherine, shown with her boyfriend, Troy Barren, is happy knowing they won't lose their family home overlooking Connellsville.

PERSEVERANCE AND A CARING COUNSELOR SAVE A FAMILY'S HOME

A homeowner facing foreclosure can feel deeply alone. As the family's bills pile up, collectors can be relentless in their phone calls. On top of all this financial pressure, the prospect of being homeless can be frightening. But, as Katherine Stone learned firsthand, help is available.

Katherine is a single mother of two children in their 20s, both of whom still live at home. They've been in their two-story, three-bedroom home in Connellsville, Fayette County, for the past decade.

LOSS OF A JOB THREATENS THE FAMILY HOME

In 2009, when Katherine lost her job as a nurse's aide, her home could have been in jeopardy. But financial assistance through the Emergency Homeowners' Loan Program (EHLPP) kept her current on her mortgage. By the time that assistance ended in March 2013, Katherine was working again — this time providing personal care in a group home for people with disabilities. But 50 percent of her income went toward paying her mortgage. Financially, Katherine was living on the edge.

That's when housing counselor Rita Masi came into the picture. Rita works for the Fayette County Community Action Agency, which is part of PHFA's statewide network of counseling agencies. Rita met with Katherine and, once they looked at the numbers, they knew they had to take immediate action. Working together, they were relentless in their communications with Katherine's lender to seek a home loan modification.

A COUNSELOR'S INVOLVEMENT MAKES ALL THE DIFFERENCE

Dealing with the mortgage company was frustrating. Four times during three months they had to resubmit all their paperwork, often for seemingly minor omissions.

"There were times I wanted to cry or scream," Katherine shakes her head. "But Rita would say, 'Katherine, don't give in yet.'"

Without the help of a housing counselor, Rita doubts that Katherine would have gotten her loan modification. But working in tandem and supporting each other, they ultimately were successful.

"I think having a counselor helped with the negotiations," Rita reflects. "It helped the loan servicer realize Katherine was serious about keeping her home, and she would do whatever she needed to do to follow through on that process."

Today, Katherine's mortgage, which once was \$775 a month, is now a more manageable \$458. She and her children are grateful for the guidance from Rita that saved their house and now lets them create more happy family memories together in the place they call home. 🏠





HOW PHFA HELPS HOMEOWNERS IN NEED

Started in 1982, the agency's Homeowners' Emergency Mortgage Assistance Program (HEMAP) helps families who fall behind on their mortgage due to job loss, unexpected medical expenses, or other troubles.

The program brings them current on their home loan so they can get back on their feet. HEMAP assistance is not a grant; it's a loan that people pay back. The success of HEMAP in Pennsylvania has led other states, and the federal government, to use it as a model for their own foreclosure prevention initiatives.

(INSIDE PHOTO)

David and Amy Groff, and their son Macenzy, have been helped by a HEMAP loan that saved their home in Northampton County from foreclosure. When families like the Groffs pay back their HEMAP loans, their payments help the program provide assistance to even more Pennsylvania families.

AVOIDING FORECLOSURE OFFERS HOPE FOR A BETTER TOMORROW

Macenzy Groff is a constant reminder to his parents that even the roughest beginnings can produce happy endings. Born three months early in 1998, Macenzy weighed just 2 pounds, 2 ounces. Overnight, he dropped to slightly more than 1 pound. His life hung in the balance. Today, at 15 years old, he stands 6 feet tall and weighs 200 pounds. He's a survivor.

Macenzy's parents, David and Amy, have faced their own struggles. They were married young, in their early 20s, and it seems each passing year has brought new challenges. But they haven't buckled under the pressure.

They live in Bangor, Northampton County, and they've always held down jobs. David is a millwright at a water pipe foundry. The work is good — when it's there. Amy works for a collection agency.

"It's kind of funny because I'm collecting other people's bills," Amy laughs. "But at the same time you think, 'Why don't these people pay their bills? Oh, wait, because they don't have money, like me.'"

DOWN, BUT NOT OUT

Life has thrown them its share of curves, including unexpected expenses. They cared for David's mother when she had cancer. Macenzy's premature birth brought its share of hospital fees. There was a bankruptcy and a car accident. Every time it looked like they might get ahead, there was another bill in their mailbox.

Then came the Act 91 Notice, informing them they were in danger of losing their home. But that same foreclosure notice carried a message of hope. It directed David and Amy to PHFA for foreclosure prevention assistance.

FORECLOSURE HELP IS AVAILABLE

Today, PHFA is helping the Groffs with a loan through the Homeowners' Emergency Mortgage Assistance Program (HEMAP), started more than 30 years ago to help families keep their homes when financial hardship strikes.

"HEMAP actually brought us current on everything — taxes included," Amy explains. "And our payment is excellent because it's only \$150 a month. HEMAP is excellent."

HEMAP is giving the Groffs a good chance to stay in their home, and an opportunity to create their own happy ending. Yes, their life has had its share of bumps along the way. But a helping hand from PHFA now offers them the promise of a better tomorrow. 🏠





HOW PHFA HELPS COMMUNITIES

Created as PHFA's community development entity, Commonwealth Cornerstone Group (CCG) is eligible to receive New Markets Tax Credits from the U.S. Department of the Treasury. It then uses those tax credits to help communities with critical revitalization efforts. Since its founding in 2004, CCG has received four New Markets Tax Credit awards totaling \$193 million. To date, CCG has fully committed this allocation of tax credits to 21 developments located throughout the Commonwealth.

(INSIDE PHOTO)

New Markets Tax Credits were used to help finance the rehabilitation of Schmucker Hall on the campus of the Lutheran Theological Seminary at Gettysburg — a structure that played a pivotal role in the Civil War Battle of Gettysburg.

Emried Cole (left) and Rev. John Spangler, both associated with the seminary, played leadership roles in the group that directed the restoration efforts. They proudly shared that on the 150th anniversary of the battle, the new Seminary Ridge Museum celebrated its grand opening week by attracting more than a thousand visitors each day.

CREATING A NEW HOME FOR CIVIL WAR HISTORY

July 2013 marked the 150th anniversary of the Battle of Gettysburg. So it was fitting during this special anniversary year that a building so key to the battle would not only be preserved but would become a new museum to showcase key aspects of that epic struggle, and of American life at that time.

Since 1832, Schmucker Hall on the campus of the Lutheran Theological Seminary at Gettysburg has provided one of the best views of the surrounding countryside. Its distinctive, green-roofed cupola atop the fourth story is not only its most distinctive architectural feature, but it provided a strategic advantage during wartime. That's partly why the structure played such a critical role during the battle. It also was used as a military hospital to treat wounded soldiers.

SAVING A HISTORIC BUILDING FOR FUTURE GENERATIONS

Despite its considerable historical significance, 140 years later, the structure was deteriorating. A plan was needed to preserve the building in a way that drew on its past to provide it with a future purpose. That's when some forward-thinking people at the Adams County Historical Society and the seminary came up with the idea of rehabilitating the brick structure to create the new Seminary Ridge Museum. Among the many challenges facing the project was financing the \$15 million initiative.

COMMONWEALTH CORNERSTONE GROUP SHARES THE VISION

Fortunately, Commonwealth Cornerstone Group (CCG), a nonprofit arm of PHFA, recognized the value of the project — not only to preserve Civil War history but also to provide an economic stimulus for the borough of Gettysburg and Adams County.

"Commonwealth Cornerstone Group personnel were intimately involved through the process, negotiating a really complex financing structure," explains Emried Cole, a representative of the seminary and a key member of the historical foundation that worked to preserve the building. "New Markets Tax Credits [administered by CCG] are in the nature of community development tax credits. So CCG recognized the importance of the museum, and its construction and operation, to the economy of the Gettysburg community."

According to plan, with financial assistance from CCG, the building's renovation was completed right on schedule. Both short-term and long-term, the project is providing an economic stimulus benefiting the region. Equally important is its preservation of Civil War history that now is on public display for visitors in a building that's as much a part of the Battle of Gettysburg as the powerful stories it shares. 🏠





Sherry Heidelmark searches the tax credit files at PHFA. Sherry is a development officer and has worked at the agency for 22 years.

PENNSYLVANIA HOUSING FINANCE AGENCY

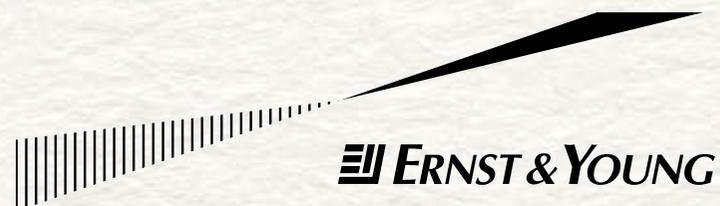
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REPORT OF INDEPENDENT AUDITORS

June 30, 2013 and 2012



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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 & Homeowners' Emergency Mortgage Assistance Program ("HEMAP") of the Pennsylvania Housing Finance Agency ("PHFA"), a component unit of the Commonwealth of Pennsylvania, as of and for the year ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the PHFA'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 conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards

generally accepted in the United States 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinions

In our opinion, 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 & Homeowners' Emergency Mortgage Assistance Program ("HEMAP") of PHFA as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that 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 24-33 and 87, 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 which 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, 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 18, 2013 on our consideration of the PHFA'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 PHFA's internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2013 PHFA adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

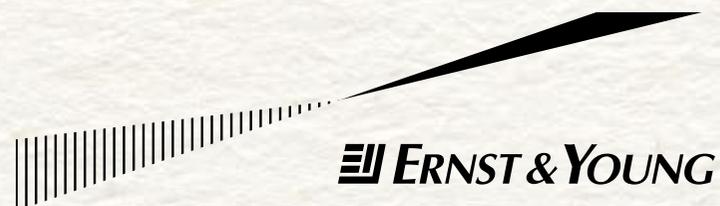
A handwritten signature in black ink that reads "Ernst & Young LLP".

November 18, 2013

REPORT OF INDEPENDENT AUDITORS

on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

June 30, 2013 and 2012



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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the General Fund, Multifamily Housing Program, Single Family Mortgage Loan Program, Insurance Fund and Homeowners' Emergency Mortgage Assistance Program (HEMAP) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Pennsylvania Housing Finance Agency (PHFA), a component unit of the Commonwealth of Pennsylvania, and have issued our report thereon dated November 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PHFA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose

of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PHFA's internal control. Accordingly, we do not express an opinion on the effectiveness of PHFA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies

in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PHFA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 18, 2013

MANAGEMENT'S DISCUSSION & ANALYSIS *(Unaudited)*

(Amounts rounded to facilitate easy reading)

June 30, 2013 and 2012

Introduction

The discussion and analysis provided here are designed to furnish an objective and easily readable 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 readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business. Basic financial statements from the prior period are also presented in order to facilitate an enhanced understanding of the Agency's financial position and results of operations by means of comparability. The basic financial statements include three required statements: The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position present 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 Statements of Revenues, Expenses and Changes in Net Position reflect 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. By presenting the financial performance of the Agency, the change in net position is similar to net profit or loss in a private-sector business.

The Statements of Cash Flows are 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 means to obtain a more comprehensive assessment of factors affecting the Agency's financial condition.

Condensed Statements of Net Position (in thousands)

| | 2013* | 2012* | 2011* | Percentage Change | |
|----------------------------------|--------------------|--------------------|--------------------|-------------------|-------------|
| | | | | 2013/2012 | 2012/2011 |
| Assets: | | | | | |
| Mortgage loans receivable | \$4,161,642 | \$4,475,857 | \$4,805,610 | (7%) | (7%) |
| Capital assets | 30,879 | 31,524 | 32,439 | (2%) | (3%) |
| Other assets | 983,748 | 1,010,752 | 1,131,946 | (3%) | (11%) |
| Total assets | \$5,176,269 | \$5,518,133 | \$5,969,995 | (6%) | (8%) |
| Deferred Outflow of Resources | 56,515 | 93,110 | 101,607 | (39%) | (8%) |
| Liabilities: | | | | | |
| Current liabilities | 341,593 | 288,329 | 417,297 | 18% | (31%) |
| Long-term liabilities | 4,040,188 | 4,501,911 | 4,843,855 | (10%) | (7%) |
| Total liabilities | 4,381,781 | 4,790,240 | 5,261,152 | (9%) | (9%) |
| Net Position: | | | | | |
| Net Investment in Capital Assets | 10,879 | 11,524 | 12,439 | (6%) | (7%) |
| Restricted | 178,906 | 212,255 | 179,589 | (16%) | 18% |
| Unrestricted | 661,218 | 597,224 | 618,422 | 11% | (3%) |
| Total Net Position | \$ 851,003 | \$ 821,003 | \$ 810,450 | 4% | 1% |

* Certain reclassifications have been made in the June 30, 2012 and June 30, 2011 financial statements to conform to the June 30, 2013 presentation. At June 30, 2012 and June 30, 2011, asset balances of unamortized underwriters' fees totaling \$17.8 million and \$20.3 million, respectively, had previously been reported as a component of Bonds and Notes Payable. These amounts are now reported as deferred costs of bond issuance within Other Assets to conform to the June 30, 2013 presentation. See **Note 2 – Summary of Significant Accounting Policies** and **Note 9 – Long-Term Liabilities** for additional details of this reclassification.

MANAGEMENT'S DISCUSSION & ANALYSIS *(Unaudited)*

(Amounts rounded to facilitate easy reading)

June 30, 2013 and 2012

Discussion and Analysis of Significant Changes in the Statements of Net Position

June 30, 2013 Compared to June 30, 2012

Assets

Mortgages receivable decreased by \$314 million from a total of \$4.476 billion at June 30, 2012 to \$4.162 billion at June 30, 2013. Part of this decrease is attributable to the satisfaction of more than \$20 million of mortgages within the Multifamily Housing Program as a result of regularly scheduled payments, prepayments, and loan forgiveness. The remaining decrease is attributable to the Agency's growing practice of pooling Single Family Mortgage Loan Program mortgages into mortgage-backed securities ("MBSs") and selling the securities. Prior to the Agency's practice of pooling and selling MBSs via the Government National Mortgage Association ("GNMA") and the Federal National Mortgage Association ("FNMA"), primary mortgages provided to single family homeowners were funded by the issuance of bonds; the mortgages receivable, in turn, were reflected as assets on the Agency's Statements of Net Position. Mortgages pooled into MBSs are not reflected on the Agency's Statements of Net Position. As the practice of utilizing the MBS market continues, the number of new mortgages that would otherwise be recorded as mortgages receivable on the Agency's Statements of Net Position decreases. Existing mortgages receivable inherently decrease over the course of time as a result of regularly scheduled payments and prepayments, as was the experience during the fiscal year ended June 30, 2013.

Other assets reflected in the condensed Statements of Net Position above include cash, cash equivalents, investments, and amounts due from other funds. Cash, cash equivalents, and investments decreased by a total of \$86 million from \$864 million at June 30, 2012 to \$778 million at June 30, 2013. \$43 million of this decrease is attributable to the reductions of cash, cash equivalents, and investments within the Multifamily Housing Program. Monies held in escrow on behalf of multifamily projects are disbursed to the projects upon satisfaction of their primary mortgages; during the fiscal year ended June 30, 2013, 37 (thirty-seven) Multifamily Housing Program primary mortgages were satisfied as a result of regularly scheduled payments prepayments, thereby reducing the number of primary mortgages in the Agency's multifamily portfolio from 224 at June 30, 2012 to 187 at June 30, 2013. The remaining decrease in cash, cash equivalents and investments is attributable to reductions of balances within the General Fund and Single Family Mortgage Loan Program. This was caused primarily by the timing of sales of the Agency's MBSs, whereby a sizeable portion of new mortgages within the Agency's Single Family Mortgage Loan Program are initially funded by Agency cash; that cash is later replenished when the mortgages are bundled into MBSs and sold. Amounts due from other funds represent transfers of funds between the Agency's General Fund, Insurance Fund, Multifamily Housing Program and Single Family Mortgage Loan Program that have not been settled at year-end. The balance of amounts due from other funds increased by \$68 million from June 30, 2012 to June 30, 2013. This increase is attributed primarily to the timing of sales of the Agency's MBSs mentioned previously.

Deferred Outflow of Resources

Deferred outflows of resources represent the anticipated utilization, applicable to future reporting periods, of the net position of interest rate swap agreements ("swaps") deemed to be effective hedging derivatives. The decrease of nearly \$37 million from June 30, 2012 to June 30, 2013 is the result of the decreasing balances of swaps held by the Agency, brought on by reductions of notional amounts, exercising embedded options during opportune economic conditions and an overall increase in fair values during the fiscal year.

Liabilities

Current liabilities increased by \$54 million from a balance of \$288 million at June 30, 2012 to \$342 million at June 30, 2013. This is attributable to an increase in amounts due from other funds – sums which counterbalance amounts due from other funds, discussed previously – totaling \$68 million, offset by reductions in bonds and accrued interest payable due within one year, which was enabled by the Agency's ongoing efforts to reduce bonds payable by applying prepayments received from borrowers and available cash.

Noncurrent liabilities decreased by \$462 million from a balance of \$4.502 billion at June 30, 2012 to \$4.040 billion at June 30, 2013. The decrease was primarily attributable to a net reduction of bonds and notes payable balances equaling \$416 million, enabled by the Agency's practice of redeeming bonds using prepayments received from borrowers and available cash. In addition to the reduction of bonds payable, the Agency experienced a reduction of \$45 million in amounts attributable to its swap liabilities from a balance of \$123 million at June 30, 2012 to \$78 million at June 30, 2013 – the result of reductions of notional balances of the underlying swaps, exercising embedded options during opportune economic conditions and an overall increase in fair values during the fiscal year.

June 30, 2012 Compared to June 30, 2011

Assets

Cash, cash equivalents, and investment balances decreased to \$864 million at June 30, 2012 from \$980 million at June 30, 2011. The interest rate environment at the time of the fiscal year beginning July 1, 2011 was challenging for the Agency, as it directly affected the Agency's ability to issue bonds that would otherwise result in marketable mortgage interest rates. In response to this challenge, the Agency vigorously undertook a new method of providing mortgage loans and generating liquidity by pooling new production loans into MBSs through GNMA. Sales of MBSs from that process approximates the required funding of new mortgage loan purchases; the effects result in reduced levels of cash and investments when compared to prior years.

The Multifamily Housing Program mortgage loan portfolio decreased to \$452 million at June 30, 2012 from \$468 million at June 30, 2011 and the Single Family Mortgage Loan Program mortgage loan portfolio decreased to \$3.968 billion at June 30, 2012 from \$4.273 billion at June 30, 2011. Both decreases resulted from the effects of scheduled principal payments, prepayments, and the increased provision for loan loss, while mortgage loans receivable in the Single Family Mortgage Loan Program also decreased dramatically because of the effects of the Agency's utilization of the secondary market and pooling of new mortgage production into MBSs. During the year ended June 30, 2012, the Agency pooled mortgage loans with principal balances totaling nearly \$197 million – loans that would have otherwise been reported as mortgage loans receivable had they not been pooled into MBSs and sold. The HEMAP mortgage assistance portfolio decreased to \$56 million at June 30, 2012 from \$65 million at June 30, 2011, after adjustments for the provision for loan loss, prepayments, and scheduled principal payments.

PENNSYLVANIA HOUSING FINANCE AGENCY
**MANAGEMENT'S DISCUSSION
 & ANALYSIS** *(Unaudited)*

(Amounts rounded to facilitate easy reading)

June 30, 2013 and 2012

Liabilities

The total outstanding bonds and notes payable balances of the Multifamily Housing Program and Single Family Mortgage Loan Program at June 30, 2012 decreased to \$127 million and \$3.971 billion, respectively, from the

previous year. This was the result of scheduled debt payments and early redemptions enabled by mortgage prepayments and excess Agency cash, and resultantly reduced amounts reported as both current and noncurrent liabilities at June 30, 2012 compared to June 30, 2011.

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

| | 2013 | 2012* | 2011* | Percentage Change | |
|----------------------------------|------------|------------|------------|-------------------|-----------|
| | | | | 2013/2012 | 2012/2011 |
| Operating revenues: | | | | | |
| Mortgage loan interest | \$ 175,240 | \$ 202,566 | \$ 206,728 | (13%) | (2%) |
| Program income and fees | 61,677 | 43,426 | 68,085 | 42% | (36%) |
| Other income | 14,513 | 40,214 | 13,815 | (64%) | 191% |
| Federal program awards | 405,153 | 476,754 | 458,333 | (15%) | 4% |
| Total operating revenues | 656,583 | 762,960 | 746,961 | (14%) | 2% |
| Operating expenses: | | | | | |
| Interest and financing expenses | 156,124 | 184,079 | 186,430 | (15%) | - |
| Program expenses | 65,306 | 64,294 | 62,834 | 2% | 2% |
| Federal program expenses | 405,153 | 476,754 | 458,333 | (15%) | 4% |
| Total operating expenses | 626,583 | 725,127 | 707,597 | (14%) | 2% |
| Operating income | 30,000 | 37,833 | 39,364 | (21%) | (4%) |
| Special Item | - | (27,280) | - | (100%) | 100% |
| Change in Net Position | 30,000 | 10,553 | 39,364 | 184% | (73%) |
| Net Position - Beginning of Year | 821,003 | 810,450 | 771,086 | 1% | 5% |
| Net Position - End of Year | \$ 851,003 | \$ 821,003 | \$ 810,450 | 4% | 1% |

* Certain reclassifications have been made in the June 30, 2012 and June 30, 2011 financial statements to conform to the June 30, 2013 presentation. For the years ended June 30, 2012 and June 30, 2011, net swap payments totaling \$7.6 million and \$5.3 million, respectively, attributable to investment derivative swaps were reported as a component of Interest Expense on Bonds and Notes. These amounts are now reported as a component of Investment Income, net. See **Note 2 – Summary of Significant Accounting Policies** for additional details of this reclassification.

Discussion and Analysis of Significant
 Changes in the Statements of Revenues,
 Expenses and Changes in Net Position

June 30, 2013 Compared to June 30, 2012

Operating income equaled \$30 million for the year ended June 30, 2013, down \$7.8 million from \$37.8 million for the year ended June 30, 2012. This reduction is primarily attributable to changes in the fair value of investments held by the Agency at June 30, 2013. Adverse market conditions prompted a net decrease of \$20 million in the fair value of investments for the year ended June 30, 2013, while the fair value of investments reflected an increase of over \$19 million for the year ended June 30, 2012. The changes in the fair value of investments are purely market driven and are presented in order to conform to reporting requirements of the Governmental Accounting Standards Board (GASB), whereby investments are required to be reported at their market values respective of the reporting date and, ultimately, reflect only short-term market activity. Changes in fair values of investments are unrealized and do not represent tangible income or expenses or cash transactions of the Agency. Absent the effects of GASB fair value reporting requirements and its reflection of short-term market activity, investments owned and reported by the Agency at June 30, 2013 have enjoyed a net long-term gain totaling nearly \$43 million since the time of their purchase.

In addition to the decrease in fair values of investments, mortgage loan interest income decreased by \$27.3 million to a total of \$175.2 million for the year ended June 30, 2013, compared to \$202.6 million for the year ended June 30, 2012.

The reduction in mortgage loan interest income coincides with the reduction of principal balances associated with existing mortgages receivable, which inherently decrease over the course of time as a result of regularly scheduled payments and prepayments, and the Agency's increasing practice of pooling of mortgages into MBSs and selling the securitized pools, whereby most of the interest received from borrowers is passed through to investors instead of being retained by the Agency, and the underlying mortgages are no longer owned by the Agency.

The notable decrease in operating revenue was lessened by the receipt of \$22.2 million by the Homeowners' Emergency Mortgage Assistance Program ("HEMAP"). The receipt represented the first disbursement of what is to eventually approximate \$60 million over a multi-year period, resulting from Pennsylvania's Act 70 of 2012, also known as the Homeowner Assistance Settlement Act.

The overall decrease in operating income was lessened by a decrease in interest expense on bonds and notes and finance expenses totaling \$30 million, bringing total interest and finance expenses to \$156 million for the year ended June 30, 2013, compared to \$184 million in similar expenses for the year ended June 30, 2012. This decrease is attributable to the redemption of bonds by the use of earnings, excess cash, and prepayments of mortgages received in both the Single Family Mortgage Loan Program and Multifamily Housing Program.

PENNSYLVANIA HOUSING FINANCE AGENCY
**MANAGEMENT'S DISCUSSION
& ANALYSIS** *(Unaudited)*
(Amounts rounded to facilitate easy reading)

June 30, 2013 and 2012

June 30, 2012 Compared to June 30, 2011

The Agency's net position increased by \$10.5 million for the year ended June 30, 2012, compared to a \$39.4 million increase for the year ended June 30, 2011. The decrease in net income for 2012 compared to 2011 is attributable to the accounting treatment of the Agency exercising options related to its swaps, whereby the Agency recognized a Special Item expense of \$27 million. The Agency took advantage of the economic benefits associated with reducing the semiannual fixed payments to counterparties for 10 (ten) of its swaps at various times during the year ended June 30, 2012. The swaps were amended, whereby the Agency reduced its semiannual fixed rate payment to the swaps' counterparties.

The aforementioned options were embedded within the respective swaps at the time the agreements were entered into, and there existed a cost to the Agency to have these rights embedded. As a result, these options were considered to be an additional element of value within each swap. Exercising these options, however, ultimately changed the critical terms of the associated swap. GASB dictates that such changes trigger a termination of hedge accounting. In the instance of a termination event, amounts previously deferred and reported as an accumulated decrease in the fair value of hedging derivatives, which are deferred outflows of resources, are to be recognized immediately as an item of income or expense – depending on the fair value of the swap at the time of termination.

Gains or losses resulting from termination events occurring during the year ended June 30, 2012 were reported as a Special Item on the Statements of Revenues, Expenses, and Changes in Net Position because they were, at the time, infrequent in occurrence. The Agency maintains contractual rights to exercise options of this nature within nearly all of its swaps. Because similar events occurred in periods subsequent to the year ended June 30, 2012 and are anticipated to occur during the remaining lives of the associated swaps, provided it is economically advantageous for the Agency to exercise the embedded options, these events can no longer be deemed special items. Transactions resulting from termination events in subsequent periods are and will be reported as gains or losses on swap terminations. The amended swaps continued to be effective hedging derivative instruments as of June 30, 2012.

The effects of the termination events described above and the ultimate effects of the resultant Special Item on the Agency's net position represent non-cash transactions. At no time was the Agency required to relinquish or exchange cash or any other monetary assets because of the termination events and resultant Special Item.

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 can be found at the Agency's website at www.phfa.org.



Mike Blattenberger is a Web/application developer with the agency. He started at PHFA in 2005. Mike is shown making changes to technology in the agency's server room.

STATEMENTS OF NET POSITION

(In thousands of dollars)

June 30, 2013 and 2012

| | 2013 | | | | | |
|---|-------------------|-----------------------------|-------------------------------------|------------------|------------------|---------------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 22,948 | \$ 19,019 | \$ 276,463 | \$ 42,798 | \$ 10,638 | \$ 371,866 |
| Restricted cash and cash equivalents | 2,609 | 99,355 | 37,726 | - | - | 139,690 |
| Investments | 170 | - | - | - | - | 170 |
| Restricted investments | 107 | 4,899 | 5,703 | - | - | 10,709 |
| Accrued interest receivable on investments | 96 | 206 | 833 | 71 | - | 1,206 |
| Mortgage loans receivable, net | - | 20,150 | 77,610 | - | 7,066 | 104,826 |
| Other current assets | 2,126 | - | 1 | - | 1,823 | 3,950 |
| Due from other funds | 126,267 | 21,808 | - | - | - | 148,075 |
| Total current assets | 154,323 | 165,437 | 398,336 | 42,869 | 19,527 | 780,492 |
| Noncurrent assets: | | | | | | |
| Investments | 34,300 | 2,292 | 69,242 | 2,250 | - | 108,084 |
| Restricted investments | 666 | 5,260 | 141,276 | - | - | 147,202 |
| Mortgage loans receivable, net | - | 411,235 | 3,598,296 | - | 47,285 | 4,056,816 |
| Capital assets, net | 30,879 | - | - | - | - | 30,879 |
| Other noncurrent assets | 23,120 | 2,008 | 27,664 | - | 4 | 52,796 |
| Total noncurrent assets | 88,965 | 420,795 | 3,836,478 | 2,250 | 47,289 | 4,395,777 |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Accumulated decrease in fair value of hedging derivatives | 563 | 11,177 | 44,775 | - | - | 56,515 |
| Total assets and deferred outflows of resources | \$ 243,851 | \$ 597,409 | \$ 4,279,589 | \$ 45,119 | \$ 66,816 | \$ 5,232,784 |

| | 2012 | | | | | |
|---|-------------------|-----------------------------|-------------------------------------|------------------|------------------|---------------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 75,786 | \$ 43,888 | \$ 238,341 | \$ 35,197 | \$ 1 | \$ 393,213 |
| Restricted cash and cash equivalents | 1,555 | 122,037 | 35,599 | - | - | 159,191 |
| Investments | 119 | 35 | 5,006 | 6,003 | - | 11,163 |
| Restricted investments | 46 | 446 | 8,594 | - | - | 9,086 |
| Accrued interest receivable on investments | 212 | 305 | 933 | 76 | - | 1,526 |
| Mortgage loans receivable, net | - | 28,287 | 81,684 | - | 7,244 | 117,215 |
| Other current assets | 1,819 | 2,968 | - | - | 2,057 | 6,844 |
| Due from other funds | 49,514 | 30,123 | - | - | - | 79,637 |
| Total current assets | 129,051 | 228,089 | 370,157 | 41,276 | 9,302 | 777,875 |
| Noncurrent assets: | | | | | | |
| Investments | 43,149 | 2,066 | 116,408 | 2,092 | - | 163,715 |
| Restricted investments | 115 | 5,168 | 122,253 | - | - | 127,536 |
| Mortgage loans receivable, net | - | 423,711 | 3,886,449 | - | 48,482 | 4,358,642 |
| Capital assets, net | 31,523 | - | - | - | 1 | 31,524 |
| Other noncurrent assets | 25,930 | 1,997 | 30,910 | - | 4 | 58,841 |
| Total noncurrent assets | 100,717 | 432,942 | 4,156,020 | 2,092 | 48,487 | 4,740,258 |
| DEFERRED OUTFLOW OF RESOURCES | | | | | | |
| Accumulated decrease in fair value of hedging derivatives | 1,172 | 13,247 | 78,691 | - | - | 93,110 |
| Total assets and deferred outflows of resources | \$ 230,940 | \$ 674,278 | \$ 4,604,868 | \$ 43,368 | \$ 57,789 | \$ 5,611,243 |

STATEMENTS OF NET POSITION *(continued)*

June 30, 2013 and 2012

(In thousands of dollars)

| | 2013 | | | | | |
|---|-------------------|-----------------------------|-------------------------------------|------------------|------------------|---------------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Bonds and notes payable, net | \$ 1,000 | \$ 14,872 | \$ 65,910 | \$ - | \$ - | \$ 81,782 |
| Accrued interest payable | 463 | 2,040 | 32,391 | - | - | 34,894 |
| Accounts payable and accrued expenses | 2,439 | - | 1,946 | - | 465 | 4,850 |
| Escrow deposits and development reserves | 547 | 19,115 | 43,567 | - | - | 63,229 |
| Other current liabilities | 58 | 1,013 | 6,998 | 300 | 394 | 8,763 |
| Due to other funds | - | - | 148,075 | - | - | 148,075 |
| Total current liabilities | 4,507 | 37,040 | 298,887 | 300 | 859 | 341,593 |
| Noncurrent liabilities: | | | | | | |
| Bonds and notes payable, net | 39,000 | 56,381 | 3,525,560 | - | - | 3,620,941 |
| Derivative Instrument - Interest rate swaps | 563 | 8,919 | 46,209 | - | - | 55,691 |
| Deferred swap borrowing | - | 2,424 | 19,583 | - | - | 22,007 |
| Development reserves | - | 80,990 | - | - | - | 80,990 |
| Other noncurrent liabilities | 25,694 | 173,774 | 34,772 | 2,963 | 23,356 | 260,559 |
| Total noncurrent liabilities | 65,257 | 322,488 | 3,626,124 | 2,963 | 23,356 | 4,040,188 |
| Total liabilities | 69,764 | 359,528 | 3,925,011 | 3,263 | 24,215 | 4,381,781 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 10,879 | - | - | - | - | 10,879 |
| Restricted for bond resolution or legislation | - | 492 | 135,813 | - | 42,601 | 178,906 |
| Unrestricted | 163,208 | 237,389 | 218,765 | 41,856 | - | 661,218 |
| Total net position | 174,087 | 237,881 | 354,578 | 41,856 | 42,601 | 851,003 |
| Total liabilities and net position | \$ 243,851 | \$ 597,409 | \$ 4,279,589 | \$ 45,119 | \$ 66,816 | \$ 5,232,784 |

| | 2012 | | | | | |
|---|-------------------|-----------------------------|-------------------------------------|------------------|------------------|---------------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| LIABILITIES | | | | | | |
| Current liabilities: | | | | | | |
| Bonds and notes payable, net | \$ - | \$ 20,324 | \$ 61,940 | \$ - | \$ - | \$ 82,264 |
| Accrued interest payable | 386 | 2,627 | 38,313 | - | - | 41,326 |
| Accounts payable and accrued expenses | 1,940 | 53 | 2,799 | 158 | 514 | 5,464 |
| Escrow deposits and development reserves | 25 | 28,099 | 44,500 | - | - | 72,624 |
| Other current liabilities | 54 | 1,069 | 5,111 | 300 | 480 | 7,014 |
| Due to other funds | - | - | 79,637 | - | - | 79,637 |
| Total current liabilities | 2,405 | 52,172 | 232,300 | 458 | 994 | 288,329 |
| Noncurrent liabilities: | | | | | | |
| Bonds and notes payable, net | 20,000 | 106,614 | 3,909,504 | - | - | 4,036,118 |
| Derivative Instrument - Interest rate swaps | 1,172 | 13,637 | 82,346 | - | - | 97,155 |
| Deferred swap borrowing | - | 2,747 | 23,399 | - | - | 26,146 |
| Development reserves | - | 85,691 | - | - | - | 85,691 |
| Other noncurrent liabilities | 18,599 | 178,736 | 30,331 | 2,740 | 26,395 | 256,801 |
| Total noncurrent liabilities | 39,771 | 387,425 | 4,045,580 | 2,740 | 26,395 | 4,501,911 |
| Total liabilities | 42,176 | 439,597 | 4,277,880 | 3,198 | 27,389 | 4,790,240 |
| NET POSITION | | | | | | |
| Net investment in capital assets | 11,523 | - | - | - | 1 | 11,524 |
| Restricted for bond resolution or legislation | - | 7,636 | 174,220 | - | 30,399 | 212,255 |
| Unrestricted | 177,241 | 227,045 | 152,768 | 40,170 | - | 597,224 |
| Total net position | 188,764 | 234,681 | 326,988 | 40,170 | 30,400 | 821,003 |
| Total liabilities and net position | \$ 230,940 | \$ 674,278 | \$ 4,604,868 | \$ 43,368 | \$ 57,789 | \$ 5,611,243 |

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(In thousands of dollars)

YEARS ENDED

June 30, 2013 and 2012

| | 2013 | | | | | |
|--|--------------|-----------------------------|-------------------------------------|----------------|-----------|------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| Operating revenues: | | | | | | |
| Interest income on mortgage loans | \$ - | \$ 15,512 | \$ 159,166 | \$ - | \$ 562 | \$ 175,240 |
| Program income and fees | 31,753 | 790 | 3,310 | 2,026 | 23,798 | 61,677 |
| Gain on sales of mortgage-backed securities | 21,185 | - | - | - | - | 21,185 |
| Investment income (loss) | (271) | (2,390) | 6,683 | 323 | 21 | 4,366 |
| Swap borrowing income | - | 323 | 446 | - | - | 769 |
| Net increase (decrease) in fair value of investments | (7,514) | 293 | (12,762) | (63) | - | (20,046) |
| Net increase in fair value of swaps | - | 2,649 | 2,220 | - | - | 4,869 |
| Gain on swap terminations | - | - | 3,370 | - | - | 3,370 |
| Federal program awards | - | 386,373 | 4,317 | - | 14,463 | 405,153 |
| Total operating revenues | 45,153 | 403,550 | 166,750 | 2,286 | 38,844 | 656,583 |
| Operating expenses: | | | | | | |
| Interest expense on bonds and notes | 821 | 2,997 | 140,824 | - | - | 144,642 |
| Salaries and related benefits | 24,951 | - | - | - | 2,333 | 27,284 |
| OPEB liability expense | 3,578 | - | - | - | 488 | 4,066 |
| Financing expenses | - | 426 | 11,056 | - | - | 11,482 |
| General and administrative | 5,916 | 2,382 | 883 | 600 | 911 | 10,692 |
| Provision for loan loss | - | 4,419 | 6,751 | - | 8,448 | 19,618 |
| Early extinguishment of debt | - | - | 3,646 | - | - | 3,646 |
| Federal program expense | - | 386,373 | 4,317 | - | 14,463 | 405,153 |
| Total operating expenses | 35,266 | 396,597 | 167,477 | 600 | 26,643 | 626,583 |
| Operating income (loss) | 9,887 | 6,953 | (727) | 1,686 | 12,201 | 30,000 |
| Special item and transfers: | | | | | | |
| Special item; Loss on swap terminations | - | - | - | - | - | - |
| Interfund transfers | (24,564) | (3,753) | 28,317 | - | - | - |
| Change in Net Position | (14,677) | 3,200 | 27,590 | 1,686 | 12,201 | 30,000 |
| Total net position - beginning of year | 188,764 | 234,681 | 326,988 | 40,170 | 30,400 | 821,003 |
| Total net position - end of year | \$ 174,087 | \$ 237,881 | \$ 354,578 | \$ 41,856 | \$ 42,601 | \$ 851,003 |

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

| | 2012 | | | | | |
|--|--------------|-----------------------------|-------------------------------------|----------------|-----------|------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| Operating revenues: | | | | | | |
| Interest income on mortgage loans | \$ 20 | \$ 21,746 | \$ 180,167 | \$ - | \$ 633 | \$ 202,566 |
| Program income and fees | 34,535 | 672 | 4,138 | 1,936 | 2,145 | 43,426 |
| Gain on sales of mortgage-backed securities | 14,046 | - | - | - | - | 14,046 |
| Investment income (loss) | 185 | (274) | 4,294 | 548 | - | 4,753 |
| Swap borrowing income | - | 313 | 821 | - | - | 1,134 |
| Net increase (decrease) in fair value of investments | 14,278 | 107 | 4,530 | 265 | - | 19,180 |
| Net increase in fair value of swaps | - | 188 | 913 | - | - | 1,101 |
| Gain on swap terminations | - | - | - | - | - | - |
| Federal program awards | - | 420,877 | 3,558 | - | 52,319 | 476,754 |
| Total operating revenues | 63,064 | 443,629 | 198,421 | 2,749 | 55,097 | 762,960 |
| Operating expenses: | | | | | | |
| Interest expense on bonds and notes | 739 | 6,431 | 159,774 | - | - | 166,944 |
| Salaries and related benefits | 23,672 | - | - | - | 1,646 | 25,318 |
| OPEB liability expense | 3,707 | - | - | - | 506 | 4,213 |
| Financing expenses | - | 1,480 | 15,655 | - | - | 17,135 |
| General and administrative | 8,001 | 2,502 | 1,638 | 600 | 497 | 13,238 |
| Provision for loan loss | - | 3,000 | 5,000 | - | 10,976 | 18,976 |
| Early extinguishment of debt | - | 42 | 2,507 | - | - | 2,549 |
| Federal program expense | - | 420,877 | 3,558 | - | 52,319 | 476,754 |
| Total operating expenses | 36,119 | 434,332 | 188,132 | 600 | 65,944 | 725,127 |
| Operating income (loss) | 26,945 | 9,297 | 10,289 | 2,149 | (10,847) | 37,833 |
| Special item and transfers: | | | | | | |
| Special item; Loss on swap terminations | - | (3,060) | (24,220) | - | - | (27,280) |
| Interfund transfers | 6,100 | (8,830) | 2,730 | - | - | - |
| Change in Net Position | 33,045 | (2,593) | (11,201) | 2,149 | (10,847) | 10,553 |
| Total net position - beginning of year | 155,719 | 237,274 | 338,189 | 38,021 | 41,247 | 810,450 |
| Total net position - end of year | \$ 188,764 | \$ 234,681 | \$ 326,988 | \$ 40,170 | \$ 30,400 | \$ 821,003 |

STATEMENTS OF CASH FLOWS

(In thousands of dollars)

YEARS ENDED

June 30, 2013 and 2012

| | 2013 | | | | | |
|--|--------------|-----------------------------|-------------------------------------|----------------|-----------|------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| Cash Flows From Operating Activities | | | | | | |
| Receipts of mortgage loan payments | \$ - | \$ 36,101 | \$ 881,979 | \$ - | \$ 7,237 | \$ 925,317 |
| Receipts from fees and other income | 53,054 | 889 | 3,410 | 2,031 | 23,798 | 83,182 |
| Receipts from interest on mortgages | - | 16,291 | 155,484 | - | 562 | 172,337 |
| Receipt (payment) of escrow and development reserves | 7,621 | (15,746) | 8,640 | - | - | 515 |
| Payments for mortgages and purchases | - | (20,686) | (592,821) | - | (14,310) | (627,817) |
| Payments to employees and suppliers | (30,280) | (2,435) | (1,736) | (535) | (3,322) | (38,308) |
| Net cash provided by (used in) operating activities | 30,395 | 14,414 | 454,956 | 1,496 | 13,965 | 515,226 |
| Cash Flows From Noncapital Financing Activities | | | | | | |
| Proceeds from the issuance of bonds and notes | 20,000 | 47,785 | 367,615 | - | - | 435,400 |
| Payments for retirement of bonds and notes | - | (103,470) | (747,589) | - | - | (851,059) |
| Payments of bonds and notes interest | - | (3,584) | (150,392) | - | - | (153,976) |
| Payments of financing costs | - | (426) | (11,056) | - | - | (11,482) |
| Transfers from (to) other funds | (101,317) | 4,562 | 96,755 | - | (3,349) | (3,349) |
| Net cash provided by (used in) noncapital financing activities | (81,317) | (55,133) | (444,667) | - | (3,349) | (584,466) |
| Cash Flows From Capital Financing Activities | | | | | | |
| Purchases of capital assets | (519) | - | - | - | - | (519) |
| Interest paid on capital debt | (744) | - | - | - | - | (744) |
| Net cash used in capital financing activities | (1,263) | - | - | - | - | (1,263) |
| Cash Flows From Investing Activities | | | | | | |
| Proceeds from the sale or maturity of investments | 470 | 2,515 | 29,278 | 5,782 | - | 38,045 |
| Investment interest receipts | - | - | 9,881 | 323 | 21 | 10,225 |
| Net interest payments on investment derivatives | - | (2,342) | (3,198) | - | - | (5,540) |
| Purchases of investments | (69) | (7,005) | (6,001) | - | - | (13,075) |
| Net cash provided by (used in) investing activities | 401 | (6,832) | 29,960 | 6,105 | 21 | 29,655 |
| Net increase (decrease) in cash and cash equivalents | (51,784) | (47,551) | 40,249 | 7,601 | 10,637 | (40,848) |
| Cash and cash equivalents, beginning of year | 77,341 | 165,925 | 273,940 | 35,197 | 1 | 552,404 |
| Cash and cash equivalents, end of year | \$ 25,557 | \$ 118,374 | \$ 314,189 | \$ 42,798 | \$ 10,638 | \$ 511,556 |

| | 2012 | | | | | |
|--|--------------|-----------------------------|-------------------------------------|----------------|----------|------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | Total |
| Cash Flows From Operating Activities | | | | | | |
| Receipts of mortgage loan payments | \$ - | \$ 77,076 | \$ 592,197 | \$ - | \$ 6,930 | \$ 676,203 |
| Receipts from fees and other income | 48,516 | 571 | 4,267 | 2,165 | 2,145 | 57,664 |
| Receipts from interest on mortgages | - | 21,746 | 180,167 | - | 633 | 202,546 |
| Receipt (payment) of escrow and development reserves | 2,394 | 2,432 | (5,703) | - | - | (877) |
| Payments for mortgages and purchases | - | (64,514) | (292,411) | 85 | (8,501) | (365,341) |
| Payments to employees and suppliers | (37,155) | (4,893) | (16,463) | - | (4,298) | (62,809) |
| Net cash provided by (used in) operating activities | 13,755 | 32,418 | 462,054 | 2,250 | (3,091) | 507,386 |
| Cash Flows From Noncapital Financing Activities | | | | | | |
| Proceeds from the issuance of bonds and notes | - | - | 81,705 | - | - | 81,705 |
| Payments for retirement of bonds and notes | - | (41,815) | (502,300) | - | - | (544,115) |
| Payments of bonds and notes interest | - | (7,171) | (162,303) | - | - | (169,474) |
| Payments of financing costs | - | (1,480) | (15,655) | - | - | (17,135) |
| Transfers from (to) other funds | (11,761) | 15,732 | (3,971) | - | 2,734 | 2,734 |
| Net cash provided by (used in) noncapital financing activities | (11,761) | (34,734) | (602,524) | - | 2,734 | (646,285) |
| Cash Flows From Capital Financing Activities | | | | | | |
| Purchases of capital assets | (303) | - | - | - | - | (303) |
| Interest paid on capital debt | (734) | - | - | - | - | (734) |
| Net cash used in capital financing activities | (1,037) | - | - | - | - | (1,037) |
| Cash Flows From Investing Activities | | | | | | |
| Proceeds from the sale or maturity of investments | 8,577 | 35,508 | 87,264 | - | - | 131,349 |
| Investment interest receipts | 185 | 46 | 11,561 | 548 | - | 12,340 |
| Net interest payments on investment derivatives | - | (321) | (7,267) | - | - | (7,588) |
| Purchases of investments | - | (26,005) | (57,279) | (745) | - | (84,029) |
| Net cash provided by (used in) investing activities | 8,762 | 9,228 | 34,279 | (197) | - | 52,072 |
| Net increase (decrease) in cash and cash equivalents | 9,719 | 6,912 | (106,191) | 2,053 | (357) | (87,864) |
| Cash and cash equivalents, beginning of year | 67,622 | 159,013 | 380,131 | 33,144 | 358 | 640,268 |
| Cash and cash equivalents, end of year | \$ 77,341 | \$ 165,925 | \$ 273,940 | \$ 35,197 | \$ 1 | \$ 552,404 |

STATEMENTS OF CASH FLOWS *(continued)*

(In thousands of dollars)

YEARS ENDED

June 30, 2013 and 2012

| | 2013 | | | | | Total |
|--|--------------|-----------------------------|-------------------------------------|----------------|-----------|-------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Operating income (loss) | \$ 9,887 | \$ 6,953 | \$ (727) | \$ 1,686 | \$ 12,201 | \$ 30,000 |
| Investment income recognized | 271 | 2,390 | (6,683) | (323) | (21) | (4,366) |
| Swap borrowing income | - | (323) | (446) | - | - | (769) |
| Net change in fair value of investments | 7,514 | (293) | 12,762 | 63 | - | 20,046 |
| Net change in fair value of swaps | - | (2,649) | (2,220) | - | - | (4,869) |
| Gain on swap terminations | - | - | (3,370) | - | - | (3,370) |
| Interest expense on bonds and notes | 821 | 2,997 | 140,824 | - | - | 144,642 |
| Financing expenses | - | 426 | 11,056 | - | - | 11,482 |
| Provision for loan loss | - | 4,419 | 6,751 | - | 8,448 | 19,618 |
| Depreciation | 1,163 | - | - | - | 1 | 1,164 |
| Early extinguishment of debt | - | - | 3,646 | - | - | 3,646 |
| Changes in assets and liabilities: | | | | | | |
| Mortgage loans receivable, net | - | 16,194 | 285,476 | - | (7,073) | 294,597 |
| Accrued interest receivable on investments | 116 | 99 | 100 | 5 | - | 320 |
| Other assets | 2,503 | 2,957 | 3,245 | - | 234 | 8,939 |
| Accounts payable and accrued expenses | 499 | (53) | (853) | (158) | (32) | (597) |
| Escrow deposits and development reserves | 522 | (13,685) | (933) | 223 | - | (13,873) |
| Other liabilities | 7,099 | (5,018) | 6,328 | - | 207 | 8,616 |
| Net cash provided by (used in) operating activities | \$ 30,395 | \$ 14,414 | \$ 454,956 | \$ 1,496 | \$ 13,965 | \$ 515,226 |
| Net increase (decrease) in fair value of investments | \$ (7,514) | \$ 293 | \$ (12,762) | \$ (63) | \$ - | \$ (20,046) |

Net increases and decreases in the fair value of investments do not result in cash receipts or cash payments.

There were no other material investing, capital, or financing activities that did not result in cash receipts or cash payments during the fiscal year.

| | 2012 | | | | | Total |
|--|--------------|-----------------------------|-------------------------------------|----------------|-------------|------------|
| | General Fund | Multifamily Housing Program | Single Family Mortgage Loan Program | Insurance Fund | HEMAP | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | |
| Operating income (loss) | \$ 26,945 | \$ 9,297 | \$ 10,289 | \$ 2,149 | \$ (10,847) | \$ 37,833 |
| Investment income recognized | (185) | 274 | (4,294) | (548) | - | (4,753) |
| Swap borrowing income | - | (313) | (821) | - | - | (1,134) |
| Net change in fair value of investments | (14,278) | (107) | (4,530) | (265) | - | (19,180) |
| Net change in fair value of swaps | - | (188) | (913) | - | - | (1,101) |
| Gain on swap terminations | - | - | - | - | - | - |
| Interest expense on bonds and notes | 739 | 6,431 | 159,774 | - | - | 166,944 |
| Financing expenses | - | 1,480 | 15,655 | - | - | 17,135 |
| Provision for loan loss | - | 3,000 | 5,000 | - | 10,976 | 18,976 |
| Depreciation | 1,217 | - | - | - | 1 | 1,218 |
| Early extinguishment of debt | - | 42 | 2,507 | - | - | 2,549 |
| Changes in assets and liabilities: | | | | | | |
| Mortgage loans receivable, net | - | 12,562 | 299,786 | - | (1,571) | 310,777 |
| Accrued interest receivable on investments | (85) | (101) | 129 | 229 | - | 172 |
| Other assets | (2,154) | (2,358) | (15,571) | - | (1,871) | (21,954) |
| Accounts payable and accrued expenses | (838) | (33) | 746 | 156 | (1,212) | (1,181) |
| Escrow deposits and development reserves | (57) | (6,710) | (5,314) | - | - | (12,081) |
| Other liabilities | 2,451 | 9,142 | (389) | 529 | 1,433 | 13,166 |
| Net cash provided by (used in) operating activities | \$ 13,755 | \$ 32,418 | \$ 462,054 | \$ 2,250 | \$ (3,091) | \$ 507,386 |
| Net increase (decrease) in fair value of investments | \$ 14,278 | \$ 107 | \$ 4,530 | \$ 265 | \$ - | \$ 19,180 |

Net increases and decreases in the fair value of investments do not result in cash receipts or cash payments.

There were no other material investing, capital, or financing activities that did not result in cash receipts or cash payments during the fiscal year.

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

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

1 | Reporting Entity

The Pennsylvania Housing Finance Agency (“Agency”) is a component unit of the Commonwealth of Pennsylvania (“Commonwealth”) as described in Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. The Agency’s financial information is discretely presented in the Commonwealth’s financial statements, but the Agency is not considered part of the Commonwealth’s primary government.

The Agency was created by the General Assembly in 1972 as a means to provide affordable housing for older adults, persons and families of modest means, and persons with disabilities. Pursuant to the Housing Finance Agency Law, Act of 1959, P. L. 1688, No. 620 (“Act”), as amended, 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, persons with special needs, or the elderly who receive assistance from federal government programs.

The Act was amended to authorize the Agency to make or purchase mortgage 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 initial legislation and subsequent amendments grant the Agency the power to issue debt in order to finance its programs and operations. Debt obligations issued under the

provisions of the Act are not a debt or liability of the Commonwealth or any of its political subdivisions or a pledge of the faith and credit of the Commonwealth or of any of its political subdivisions.

The Board of the Agency sets policy and oversees the organization’s operations. The Board has 14 members. The Secretary of Banking, (chair), the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve by virtue of their offices. Four members of the Board serve at the pleasure of the majority and minority leaders of the State Senate and House of Representatives. Six private citizen members are appointed by the Governor and confirmed by the State Senate, and serve for staggered six-year terms.

2 | Summary of Significant Accounting Policies

Basis of Accounting

The Agency presents its financial statements in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”), as established by GASB. For financial reporting purposes, the Agency is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred, except those directly related to mortgage loan or program originations, which are deferred, netted against fee income for mortgage loans originated and amortized over the anticipated life of the related mortgage loan or program.

Description of Funds

The accounts of the Agency are structured within separate enterprise funds, each representing a separate accounting entity. The Agency’s resources are allocated to these funds based upon legal responsibility, accountability, and management designation, summarized as follows:

General Fund – Consists of a group of accounts used to record the receipt of income not directly pledged to the repayment of mortgage revenue bonds and the payment of expenses related to the Agency’s administrative functions, including salary and related benefits.

Multifamily Housing Program – Records the activity related to financing the construction, rehabilitation, or operational expenses of multifamily rental housing developments generally designed for persons or families of low and moderate income or the elderly.

Single Family Mortgage Loan Program – Records the activity related to providing capital for the purchase and servicing of mortgage loans for owner-occupied single-family residences for persons or families of low and moderate income.

Insurance Fund – The Agency provides primary mortgage insurance coverage through this fund for single-family borrowers who are unable to obtain insurance from other sources.

Homeowners’ Emergency Mortgage Assistance Program (“HEMAP”) – Created by Act 91 of 1982 by the Pennsylvania General Assembly to provide emergency mortgage assistance loans to mortgagors facing foreclosure due to circumstances beyond their control. HEMAP’s primary operating revenues derive from funding received from the Commonwealth of Pennsylvania and

are reported as a component of Program Income and Fees on the Agency’s financial statements.

Cash and Cash Equivalents

Cash includes cash on hand and cash deposits. Cash equivalents are defined as short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash, which include money market investments.

Investments

Investments are reported at fair value. Fair value is determined by reference to published market prices and quotations, where available, at the closing of each reporting period. Changes in fair values are recognized separately within the Statements of Revenues, Expenses and Changes in Net Position.

Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments are restricted primarily by escrow agreements, bond resolutions, debt servicing agreements, or other contractual agreements. The Agency collects mortgage payments on behalf of mortgagees for whom the Agency acts as a servicer. The Agency holds monies from multifamily property owners and single-family homeowners for payments of real estate taxes, property insurance, and operating reserves, and has recorded a corresponding liability related to these balances. The Agency maintains funds, restricted as to their use, in order to comply with bond debt capital reserve fund and self-insurance fund requirements and certain investor or creditor covenants.

Mortgage Loans Receivable, Net

Mortgage loans receivable are reported as the sum of mortgage amounts disbursed plus accrued interest, unamortized origination costs and premiums,

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

and unamortized mortgage servicing rights/servicing release premiums, less repayments and an allowance for loan losses.

The current portion of mortgage loans receivable represents the contractual amount due within the forthcoming year.

Mortgage servicing rights/servicing release premiums are amortized over the life of the related loans using the effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency for which servicing rights were retained. Mortgage servicing rights respective of the servicing rights retained for loans sold by the Agency are reported at the lower of amortized cost or fair value.

The allowance for loan losses is based upon management's evaluation of mortgage loans receivable, and represents an adjustment to ultimately reflect the balances of mortgage loans receivable at an amount deemed collectible. Factors considered by management include the estimated fair values of the properties that represent collateral, mortgage insurance coverage on the collateral, the financial condition of the borrower, government guarantees, and the economy as a whole. While management uses available information to estimate levels of potential losses on mortgage loans, future additions to the allowance may be necessary based on changes in economic conditions.

Real Estate Owned

Included within mortgage loans receivable reported within the Single Family Mortgage Loan Program are amounts attributable to real estate owned. During the normal course of business, the Agency acquires and holds for sale single-family real estate as a result of foreclosure, acceptance of a deed in lieu of foreclosure, or other defaults of nonperforming mortgage loans. The outstanding balances attributable to

these properties are stated at the remaining mortgage balances less an estimated allowance for loss in order to approximate the lower of cost or net realizable value. In addition to recoveries from the sale of real estate owned, recoveries are also received from the U.S. Department of Housing and Urban Development, other federal government programs, or private mortgage insurance.

Capital Assets

The Agency capitalizes assets with an initial cost of \$1 (one-thousand dollars) or more. Depreciation is calculated using the straight-line method over the estimated useful lives, which range from 5 to 45 years. When capital assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recorded as a revenue or expense.

Due From and Due To Other Funds and Interfund Transfers

In order to meet liquidity requirements of individual funds, the Agency transfers funds to and from the separate enterprise funds. The Agency makes interfund transfers to the extent that such transfers are not otherwise required to meet the Agency's debt obligations and if such transfers are not in violation of the terms of bond resolutions or indentures. Transactions which have not been settled at the year-end are recorded as due to or due from other funds.

Other Assets

Other assets include net pension assets, federal funding receivable, prepaid expenses, deferred costs of bond issuance, and advances from the Agency to HEMAP.

Deferred Outflow of Resources

Amounts reported as Accumulated Decrease in Fair Value of Hedging Derivatives represent the anticipated utilization of the net position of interest rate swap agreements deemed to be effective hedging derivatives.

Bonds and Notes Payable, Net

The Agency issues bonds and notes to provide capital for its mortgage programs and other uses consistent with its mission. The resultant debt is secured by mortgage loans, investments, general credit pledges, other assets, and revenues within the respective program or accounts established by the associated security agreements. Outstanding bonds and notes are stated at their unpaid balance less any unamortized discounts or premiums and unamortized gains or losses from refunding. The current portion of bonds and notes payable represents the scheduled principal payable within the forthcoming year.

Escrow Deposits and Development Reserves

Escrow deposits represent balances of receipts from single-family homeowners and multifamily developments for anticipated payments of real estate taxes, property insurance and mortgage insurance. Development reserves represent operating reserves for repairs and replacement, property improvements, supportive services, and operating deficit reserves.

Other Liabilities

Other liabilities consist mainly of deferred revenues, other post-employment benefit ("OPEB") obligations, deferred federal funding, accrued expenses, and advances to HEMAP from the Agency.

Derivative Instrument – Interest Rate Swaps

The Agency enters into interest rate swap agreements ("swaps") with various counterparties to hedge the interest rate exposure associated with variable-rate debt and to reduce overall borrowing costs. Swaps are structured whereby the Agency pays a fixed interest rate to a counterparty in exchange for the same counterparty paying a variable interest rate, which is established based upon a common market index, to the Agency. Swaps are stated at fair value. For swaps deemed to be effective hedges, the changes in fair values are reported as accumulated decreases in fair values of hedging derivatives – deferred outflows of resources which equal the values of the corresponding swaps; for swaps deemed to be investments and not considered effective hedges, the changes in fair values are reported as a net increase or decrease in the fair value of swaps and recognized as a revenue or expense.

Deferred Swap Borrowing

These amounts represent unamortized balances of interest rate swap agreements previously reported as hedging derivatives that were reclassified as a result of termination events. Termination events prevent the continued use of hedge accounting and cause the fair values of terminated hedging instruments to be recognized immediately as a revenue or expense, rather than reported as a deferred inflow or outflow of resources. Deferred swap borrowing balances are amortized and recognized as revenue over the remaining lives of the underlying terminated interest rate swap agreements in order to recoup the effects of the termination event over time.

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Net Position

Net position is classified in the following three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets.

Restricted by Bond Resolution or Legislation – Consists of assets with constraints placed on their use by (1) Agency bond resolutions or external groups, such as creditors or grantors, or (2) laws or regulations of other governments.

Unrestricted – Consists of assets that do not meet the definition of Net Investment In Capital Assets or Restricted. This component includes assets designated for specific purposes by the members of the Board.

When both restricted and unrestricted resources are available in a fund, it is the Agency's policy to use restricted resources to the extent allowed and only use unrestricted resources when needed.

Operating Revenues and Expenses

The Agency records all revenue from mortgage and loan activity, mortgage servicing, grant program administration, investment income, and gains on the sale of pooled loans via the Government National Mortgage Association ("GNMA") and the Federal National Mortgage Association ("FNMA") as operating revenues. The costs of providing these programs are recorded as operating expenses. The General Fund records revenue and expenses for salaries, benefits, and other operational revenues and expenses that are not directly related to mortgage loan programs.

Interest Income on Mortgage Loans

Interest received for mortgage loans is based upon the constant yield method.

Multifamily Housing and Single Family Mortgage Loan Program loans more than 180 days delinquent in scheduled payments are considered nonperforming mortgage loans, which result in the cessation of recognition of additional interest on such mortgage loans.

Gain on Sales of Mortgage-Backed Securities

The Agency participates in the GNMA and FNMA Mortgage Backed Securities ("MBS") programs, whereby GNMA or FNMA guarantees securities that are issued by the Agency and backed by pools of mortgage loans. Gains on sales of MBSs are recorded at the time of settlement and represent the difference between the sale price of the MBSs and the carrying value of the underlying pool of mortgages backing them.

Investment Income

Investment Income includes net receipts and payments associated with swaps deemed to be investment derivatives, gains or losses on sales of investment securities, and investment interest income.

Federal Program Awards and Expenses

The Agency receives program grants and other federal financial assistance and transfers these monies to various secondary recipients within the Commonwealth of Pennsylvania. The Agency receives administrative fees for the oversight of award distribution, monitoring of subrecipients, reporting to federal agencies, and costs for required independent annual audits of the federal awards, which are recorded as program income and fees.

Pension Plan and Other Postemployment Benefits Expense

The Agency is required to measure and disclose amounts for annual pension cost and net pension obligations. Actuarially determined periodic contributions are made by the Agency in order to maintain sufficient assets to pay benefits when due. Pension expenses are recorded as salaries and related benefits.

The Agency is required to measure, recognize, and disclose OPEB expenses, related liabilities/(assets), and note disclosures. The Agency does not fund its OPEB liability; rather, the Agency maintains health insurance for its retirees on a pay-as-you-go basis.

Compensated Absences

Employees earn vacation and illness leave benefits. Upon separation of service, employees are compensated for accumulated leave balances, limited by Agency policy. Compensated absence leave is recorded as an accrued expense in the period earned.

Debt Issuance Costs, Discounts, and Other Related Costs

The Agency capitalizes costs related to bond and note issuance, defers and reports those costs as Other Assets, and amortizes the costs as a component of interest expense on bonds and notes over the contractual life of the bonds and notes using the effective interest method. Bond discounts and premiums are amortized over the lives of the corresponding bonds using the effective interest method. Gains and losses on debt refundings are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt. Net swap agreement payments are recorded as a component of interest expense on bonds and notes.

Adopted Accounting Standards

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. This includes the concept of financial burden or benefit on the relationship between the primary government and the component unit. The implementation of this standard had no impact on the Agency's 2013 financial statements.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. The implementation of this standard, effective for the Agency's 2013 financial statements, modified certain disclosures and accounting for servicing rights/servicing release premiums.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* revised financial reporting for certain elements of the financial statements regarding acquisition or the consumption of net position, distinct from assets or liabilities, that are applicable to future reporting periods. The implementation of this standard, effective for the Agency's 2013 financial statements, modified the presentation of items identified in the financial statements as deferred outflows and inflows of resources and revised the identification of the term "Fund Net Assets" to "Net Position."

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Accounting Standards Issued But Not Yet Adopted

GASB issued the following Statements that will become effective in future reporting periods. Management is currently evaluating the potential impact on the Agency's financial statements.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. This statement is effective for the Agency's fiscal year ending June 30, 2014.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. This statement is effective for the Agency's fiscal year ending June 30, 2014.
- GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, issued June 2012. This statement is effective for the Agency's fiscal year ending June 30, 2014.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, issued June 2012. This statement is effective for the Agency's fiscal year ending June 30, 2015.
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. This statement is effective for the Agency's fiscal year ending June 30, 2015.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. This statement is effective for the Agency's fiscal year ending June 30, 2014.

Reclassifications

The following reclassifications have been made to the June 30, 2012 financial statements to conform to the June 30, 2013 presentation:

- \$8,492 attributable to an investment in a bond mutual fund was previously reported as a component of Restricted Cash and Cash Equivalents. This amount is now reported as a component of noncurrent Restricted Investments.
- Amounts reported as Deferred Outflows of Resources were previously classified as assets on the Statement of Net Position; amounts are now reported separately and distinctly.
- \$17.8 million attributable to asset balances of unamortized underwriters' fees had previously been included with liability balances of unamortized bond discounts and premiums, reported as a component of Bonds and Notes Payable, within the General Fund, the Multifamily Housing Program and Single Family Mortgage Loan Program equaling \$64, \$113 ,and \$17,661, respectively. These amounts are now reported as deferred costs of bond issuance within Other Assets. See **Note 9 – Long-Term Liabilities** for additional effects resulting from this reclassification.
- \$14 million attributable to net gains on sales of MBSs were previously reported as Program Income and Fees. These amounts are now reported separately as Gains on Sales of Mortgage-backed Securities.
- \$7,588 attributable to net swap payments on investment derivative swaps were reported as a component of Interest Expense on Bonds and Notes within the Multifamily Housing Program and Single Family Mortgage Loan

Program equaling \$321 and \$7,267, respectively. These amounts are now reported as a component of Investment Income.

3 | Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

The Agency maintains a policy whereby cash and cash equivalents must be held in insured depositories satisfactory to the Agency and must be fully collateralized. Cash and cash equivalents balances for the years ended June 30 were as follows:

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Cash | \$ 59,603 | \$ 58,513 |
| Money Markets | 451,953 | 493,891 |
| Total carrying amount cash and cash equivalents | <u>\$ 511,556</u> | <u>\$ 552,404</u> |
| Bank balance of cash and cash equivalents | <u>\$ 517,183</u> | <u>\$ 558,569</u> |

Custodial Credit Risk

The Agency assumes levels of custodial credit risk for its cash and cash equivalents with financial institutions. Custodial credit risk is the risk that, in the event of a bank failure, the Agency's cash and cash equivalents may not be returned. The Agency has not established a formal custodial credit risk policy for its cash and cash equivalents.

At June 30, 2013, the carrying value of the Agency's cash deposits equaled \$59,603 with a bank balance of \$68,378, of which \$66,878 was uninsured and

collateralized in accordance with Act 72 of the Commonwealth of Pennsylvania with securities held by the pledging financial institution, its trust department, or agent, but not in the Agency's name.

The carrying value of the Agency's money market investments, reported as cash equivalents, equaled \$451,953 with a bank balance of \$448,805, does not expose the Agency to custodial credit risk.

Investments

Commonwealth of Pennsylvania statutes and contractual provisions contained within the Agency's bond trust indentures govern the investment policies of the Agency. The Housing Finance Agency Law, Act of December 3, 1959, P. L. 1688 ("Act") and bond indentures provide the authority to invest all Agency funds. In compliance with the Act and bond indentures, it is the policy of the Agency to invest in securities that provide suitable returns, preserve principal, meet liquidity needs, and which further the mission of the Agency.

Securities include any of the following obligations, to the extent the same are at the time legal for investment of funds of the Agency under the Act, including amendments thereto made, or under other applicable law:

- Direct obligations of or obligations guaranteed by the United States of America;
- Any bond, debenture, note, participation certificate, or other similar obligation issued by any of the following agencies: GNMA, Federal Land Bank, Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Farm Credit Administration, Export-Import Bank, and FNMA;
- Any other obligation of the United States of America or any federal agencies which may then be purchased with Agency funds or which are legal

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investments for savings banks, savings associations, or savings and loan associations in the Commonwealth;

- Public Housing Bonds issued by public agencies or municipalities and fully secured by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary loans notes, or project notes issued by public agencies or municipalities, in such case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Direct and general obligations of or obligations guaranteed by the Commonwealth, to the payment of the principal of the interest on which the full faith and credit of the Commonwealth is pledged;
- Direct and general obligations of any state of the United States, to the payment of which the full faith and credit of such state are pledged, but only if such obligations are rated not less than "AA" by Standard & Poor's and "Aa" by Moody's Rating Service or, upon the discontinuance of either or both of such services, another nationally recognized rating service;
- Deposits in interest-bearing time or demand deposits, or certificates of deposit, fully secured as provided under the laws of the Commonwealth or by obligations described in the six bullet points above;
- Repurchase agreement with Primary Government Securities Dealers fully collateralized by Investment Securities of the types described in the first three bullet points above provided that such collateral is valued at least monthly and that such collateral as applicable is held by the trustee or a third party;

- Deposits in mutual or money market funds which invest solely in Investment Securities of the types described in the first three bullet points above and with total assets (deposited funds) of five hundred million dollars or greater;
- Commercial paper (except that of the Agency or an affiliate) or finance company paper rated "P-1" by Moody's Investors Service and "A-1+" by Standard & Poor's Corporation;
- Non-collateralized certificates of deposit with institutions rated not less than "Aa" by Moody's Investors Service and "AA" by Standard & Poor's Corporation;
- Investment agreements with an entity whose obligations are rated not less than "AA" by Standard & Poor's Corporation and "Aa" by Moody's Investor's Service, or which fully secure such agreements with securities described in the first three bullet points above; and
- Reverse repurchase agreements as applicable to Agency funds.

Credit Risk

The Agency mitigates its credit risk by limiting investments to those permitted in its deposit and investment policies, diversifying the investment portfolio, and prequalifying firms with which the Agency conducts its investment activities.

The credit quality ratings of the Agency's investments for the year ended June 30, 2013, as determined by Moody's Investors Service, are shown as follows. \$193,352 of U.S. Government Agency Mortgage-Backed Securities, U.S. Government Agency Securities and U.S. Treasury securities, which are explicitly guaranteed by the U.S. Government, are not considered to have credit risk and, therefore, are not included in the summary.

| Investment Type | Fair Value | Aaa | Credit Ratings Ba1 | Not Rated |
|---|-------------------|------------------|---------------------------|------------------|
| U.S. Government Agency Securities* | \$ 48,785 | \$ - | \$ - | \$ 48,785 |
| U.S. Government Agency Mortgage-Backed Securities | 11,996 | 11,996 | - | - |
| Bond Mutual Fund | 8,393 | - | - | 8,393 |
| SLM Corporate Bonds | 3,640 | - | 3,640 | - |
| | <u>\$ 72,814</u> | <u>\$ 11,996</u> | <u>\$ 3,640</u> | <u>\$ 57,178</u> |

* Amounts are comprised of Tennessee Valley Authority bonds, which are implicitly guaranteed U.S. Government Securities.

Money market investments, reported as cash equivalents, with a book value of \$451,953 is rated Aaa by Moody's Investors Service.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the custodian or counterparty holding the investment, the Agency will not be able to recover the value of the investment. The Agency has not established a formal custodial credit risk policy for its investments. All of the Agency's investment balances are held by bank trust departments, acting as the counterparty, in book-entry form in the Agency's name and, accordingly, are subject to custodial credit risk.

Money market investments equaling \$451,953, reported as cash equivalents, do not expose the Agency to custodial credit risk.

Concentration of Credit Risk

Concentration risk is the risk of loss attributed to the magnitude of the Agency's investment in a single investment issuer. The Agency has a concentration of credit risk with the Tennessee Valley Authority where the value of investments

with this issuer is \$48,785 at June 30, 2013, which exceeds 5% of the total value of the investment portfolio.

Agency policy indicates that the proportion of investments in government securities shall not exceed 70% of the portfolio and the proration of investments in certificates of deposit shall not exceed 30% of the portfolio. At June 30, 2013, concentrations in government securities, which represented nearly 100% of the portfolio, exceed the policy. The departure from policy has written approval from the Executive Director, as permitted by the Agency Investment Policy and Guidelines. Concentration limits are not established in the bond indentures and governing agreements for trust investments.

Interest Rate Risk

The Agency's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. For the year ended June 30, 2013, the Agency had investments with the following maturities:

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| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|---|-------------------|----------------------------------|------------------|--------------|-------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| U.S. Government Agency Mortgage-backed Securities | \$ 193,987 | \$ 6,009 | \$ 13,970 | \$ - | \$ 174,008 |
| U.S. Government Agency Securities | 49,307 | 204 | 261 | 50 | 48,792 |
| U.S. Treasury Securities | 10,838 | - | 10,838 | - | - |
| Bond Mutual Fund | 8,393 | - | - | - | 8,393 |
| SLM Corporate Bonds | 3,640 | 3,640 | - | - | - |
| | <u>\$ 266,165</u> | <u>\$ 9,853</u> | <u>\$ 25,069</u> | <u>\$ 50</u> | <u>\$ 231,193</u> |

Investments in mortgage-backed securities are sensitive to interest rate changes because, for example, borrowers have the option to prepay their mortgages.

In addition to the amounts listed above, the Agency held money market investments with a fair value of \$451,953, reported as cash equivalents that have maturities of less than one year.

4 | Mortgage Loans Receivable

Mortgage loans receivable for the years ended June 30 consisted of the following:

| | 2013 | 2012 |
|-------------------------------------|---------------------|---------------------|
| Multifamily Housing Program | \$ 591,269 | \$ 623,430 |
| Single Family Mortgage Loan Program | 3,649,290 | 3,941,622 |
| HEMAP | 102,454 | 106,288 |
| | <u>4,343,013</u> | <u>4,671,340</u> |
| Add: | | |
| Loan premiums | 36,291 | 34,911 |
| Less: | | |
| Loan discounts | 2,777 | 2,777 |
| Allowance for potential loan losses | 214,885 | 227,617 |
| | <u>4,161,642</u> | <u>4,475,857</u> |
| Mortgage loans receivable, net | 4,161,642 | 4,475,857 |
| Less current portion | 104,826 | 117,215 |
| | <u>\$ 4,056,816</u> | <u>\$ 4,358,642</u> |
| Long-term portion | | |

Multifamily Housing Program mortgage loans receivable are collateralized by mortgages on the related projects. The federal government subsidizes certain projects included in the Multifamily Housing Program.

Single Family Mortgage Loan Program loans receivable are secured by liens on the related real property. Private mortgage insurance for single-family mortgage loans is provided by commercial companies, certain federal programs, or the Agency's Insurance Fund. Private mortgage insurance is generally required on all mortgage loans where the loan principal amount exceeds 80% of the lesser of the purchase price or the initial appraised value of the property.

HEMAP loans are unsecured, being in a second or third lien position, as those loans are provided to mortgagors facing foreclosure because of circumstances beyond their control.

Real Estate Owned by the Agency

Included in the Single Family Mortgage Loan Program are 410 properties with a total mortgage loans receivable balance equaling \$28,199 at June 30, 2013 and 325 properties with a total mortgage loans receivable balance equaling \$20,343 at June 30, 2012. The Agency has acquired and is holding these properties for sale as a result of foreclosure, acceptance of a deed in lieu of foreclosure, or other defaults of nonperforming mortgage loans.

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Allowance for Potential Loan Loss

The allowances for potential loan losses for the years ended June 30 consisted of the following:

| | Multifamily Housing Program | | Single Family Mortgage Loan Program | | HEMAP | |
|-------------------|-----------------------------|------------|-------------------------------------|----------|-----------|-----------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | \$ 168,655 | \$ 169,000 | \$ 8,400 | \$ 7,946 | \$ 50,562 | \$ 45,956 |
| Loss provision | 4,419 | 3,000 | 6,751 | 5,000 | 8,448 | 10,976 |
| Net charge-offs | (15,968) | (3,345) | (5,475) | (4,546) | (10,907) | (6,370) |
| Ending balance | \$ 157,106 | \$ 168,655 | \$ 9,676 | \$ 8,400 | \$ 48,103 | \$ 50,562 |

Securitizations and Gains on the Sale of Mortgage-Backed Securities

During the years ended June 30, 2013 and 2012, the Agency securitized mortgage loans with a principal balance of \$426,137 and \$196,610, respectively, into MBSs through GNMA and FNMA. MBSs are either sold to private investors or purchased by the Agency. Ongoing revenue for the Agency is generated by means of servicing the loans pooled into MBSs, which is reported as program income and fees, and by gains derived from the sale price less the value of the underlying mortgages of the MBSs at the time of settlement. Total gains on the sale of MBSs for the years ended June 30, 2013 and 2012 equaled \$21 million and \$14 million, respectively.

Mortgage-Backed Security Repurchase Reserve

Mortgage loans securitized into MBSs through either GNMA or FNMA (“securitized loans”) are not included in the Agency’s financial statements. If a borrower fails to make a timely payment on a mortgage loan, the Agency must use its own funds to ensure that holders of Agency-issued MBSs receive timely payment. In circumstances of significant borrower delinquency, the Agency will repurchase a securitized loan from its respective MBS. Repurchased mortgage loans are included in the Agency’s financial statements; as a result, the risk of loss associated with these loans is considered in management’s routine evaluation of the allowances for potential loan losses, and the Agency has, therefore, established a repurchase reserve for these securitized loans. Securitized loans repurchased by the Agency totaled \$19,154 and \$6,874 for the years ended June 30, 2013 and 2012,

respectively. The Agency’s repurchase reserve for securitized loans equaled \$2,014 and \$1,273 at June 30, 2013 and 2012, respectively. Repurchase reserve amounts are included within the Agency’s allowances for potential loan loss for those respective years.

Insurance Fund

The Agency provides primary mortgage insurance to certain Single Family Mortgage Loan Program borrowers who are unable to obtain insurance from other sources. The coverage of this insurance ranges from 20% to 35% of the unpaid principal balance, depending on the loan-to-value ratio at origination. At June 30, 2013 and 2012, the total amount of mortgage loans insured by the Insurance Fund equaled \$298,269 and \$404,500, respectively.

Insurance Fund Claims Liability

U.S. GAAP requires the basis for estimating the liability for unpaid claims to include the effects of specific incremental claim adjustment expenses and estimated recoveries. In addition, it requires disclosure of whether other allocated or unallocated claim adjustment expenses are included. The Agency establishes the estimated claims payable liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses, based on the Agency’s past claim experience. Claims are not discounted and are net of estimated recoveries.

Changes in the Insurance Fund’s claim liability consisted of the following for the years ended June 30:

| | 2013 | 2012 |
|---------------------------------------|----------|----------|
| Beginning balance | \$ 3,040 | \$ 2,511 |
| Current year estimated claims payable | 600 | 600 |
| Claim payments | (377) | (71) |
| Total claim liability | 3,263 | 3,040 |
| Less current portion | 300 | 300 |
| Long-term portion | \$ 2,963 | \$ 2,740 |

5 | Mortgage Servicing Rights/Service Release Premiums

The Agency pays a fee to its participating lenders to release mortgage servicing rights pertaining to each mortgage loan it purchases for its Single Family Mortgage Loan Program. During the years ended June 30, 2013 and 2012, the Agency capitalized mortgage servicing rights/service release premiums totaling \$6,643 and \$3,126, respectively. Mortgage servicing rights/servicing release premiums are amortized over the life of the related loans using the effective interest method, and include servicing rights associated with both mortgages owned by the Agency and mortgages sold by the Agency by means of MBS securitization. Amortization of mortgage servicing rights/servicing release premiums equaled \$4,801 and \$1,526 for the years ended June 30, 2013 and 2012, respectively. Unamortized mortgage servicing rights/service release premiums totaling \$34,134 and \$32,740 were outstanding at June 30, 2013 and

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2012, respectively. Included in these amounts were mortgage servicing rights totaling \$7,679 and \$3,384 at June 30, 2013 and 2012, respectively, which relate to loans sold by the Agency for which the Agency retained the servicing rights.

Mortgage servicing rights retained by the Agency upon the sale of the underlying loan are reported at the lower of amortized cost or fair value, where amortized cost equals the remaining unamortized balance of the service release premium paid and fair value equals the present value of the net estimated future servicing

income. For the years ended June 30, 2013 and 2012, no adjustments to the balances of mortgage servicing rights/service release premiums were warranted, as the unamortized balances of the servicing rights were less than the fair values.

6 | Capital Assets

Capital assets activity for the year ended June 30, 2013 and a summary of balances were as follows:

| | July 01, 2012 | Additions | Deletions | June 30, 2013 |
|---------------------------------------|------------------|-----------------|----------------|------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 2,454 | \$ - | \$ - | \$ 2,454 |
| Depreciable Capital Assets: | | | | |
| Building | 29,845 | 263 | (12) | 30,096 |
| Furniture, fixtures, and equipment | 10,348 | 276 | (212) | 10,412 |
| Less accumulated depreciation: | | | | |
| Building | (5,450) | (554) | - | (6,004) |
| Furniture, fixtures, and equipment | (5,673) | (609) | 203 | (6,079) |
| Total depreciable capital assets, net | 29,070 | (624) | (21) | 28,425 |
| Total Capital Assets, net | \$ 31,524 | \$ (624) | \$ (21) | \$ 30,879 |

Capital assets activity for the year ended June 30, 2012 and a summary of balances were as follows:

| | July 01, 2011 | Additions | Deletions | June 30, 2012 |
|---------------------------------------|------------------|-----------------|----------------|------------------|
| Nondepreciable Capital Assets: | | | | |
| Land | \$ 2,454 | \$ - | \$ - | \$ 2,454 |
| Depreciable Capital Assets: | | | | |
| Building | 29,882 | 37 | (74) | 29,845 |
| Furniture, fixtures, and equipment | 10,229 | 337 | (218) | 10,348 |
| Less accumulated depreciation: | | | | |
| Building | (4,889) | (561) | - | (5,450) |
| Furniture, fixtures, and equipment | (5,237) | (654) | 218 | (5,673) |
| Total depreciable capital assets, net | 29,985 | (841) | (74) | 29,070 |
| Total Capital Assets, net | \$ 32,439 | \$ (841) | \$ (74) | \$ 31,524 |

Depreciation expense for the years ended June 30, 2013 and 2012 totaled \$1,163 and \$1,215, respectively.

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7 | Bonds and Notes Payable

General Fund bonds and notes outstanding for the years ended June 30 consisted of the following:

| Description of Bonds as Issued | Maturity Date | Amounts Outstanding | |
|--|---------------|---------------------|-----------|
| | | 2013 | 2012* |
| Variable Rate Building Development Bonds | 2034 | \$ 20,000 | \$ 20,000 |
| General Obligation Note | 2023 | \$ 20,000 | - |
| Total bonds and notes payable | | 40,000 | 20,000 |
| Less current portion | | 1,000 | - |
| Long-term portion | | \$ 39,000 | \$ 20,000 |

Multifamily Housing Program bonds outstanding for the years ended June 30 consisted of the following:

| Description of Bonds as Issued | Maturity Date | Amounts Outstanding | |
|--|---------------|---------------------|-----------|
| | | 2013 | 2012* |
| Residential Development Refunding Bonds 2002 Issue A/B, 1.80-5.25% | 2024 | \$ - | \$ 12,565 |
| Rental Housing Refunding Bonds | | | |
| Series 2008A/B, variable rate | 2021 | - | 23,360 |
| Series 2008C/D, variable rate | 2020 | - | 51,335 |
| Series 2012, .42-1.57% | 2016 | 42,410 | - |
| Multifamily Development Bonds | | | |

| Description of Bonds as Issued (continued) | Maturity Date | Amounts Outstanding | |
|--|---------------|---------------------|------------|
| | | 2013 | 2012* |
| Issue 1998H, 6.30% | 2028 | \$ - | \$ 4,075 |
| Issue 2005K, variable rate | 2036 | 23,190 | 23,890 |
| Multifamily Development Refunding Bonds | | | |
| Issue 1993A, 5.38% | 2022 | - | 5,000 |
| Issue 2003, Variable Rate | 2019 | 5,445 | 6,775 |
| Subordinate Limited Obligation Bonds | | | |
| Issue 1995, 5.50-6.15% | 2021 | 1,584 | 1,763 |
| Unamortized deferred loss of refundings | | (1,376) | (1,825) |
| Total bonds payable | | 71,253 | 126,938 |
| Less current portion | | 14,872 | 20,324 |
| Long-term portion | | \$ 56,381 | \$ 106,614 |

Single Family Mortgage Loan Program bonds and notes outstanding for the years ended June 30 consisted of the following:

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

| Description of Bonds and Notes as Issued | Maturity Date | Amounts Outstanding | |
|--|---------------|---------------------|-----------|
| | | 2013 | 2012* |
| Single Family Mortgage Revenue Bonds | | | |
| Series 1999 - 65, 3.25-5.25% | 2030 | \$ - | \$ 20,000 |
| Series 1999 - 67, 4.05-7.51% | 2030 | 14,900 | 15,830 |
| Series 2000 - 69, 4.35-6.25% | 2031 | 19,795 | 20,315 |
| Series 2000 - 70, 4.30-5.90% | 2032 | 14,805 | 15,450 |
| Series 2001 - 72, 3.25-5.35% | 2032 | 40,810 | 41,905 |
| Series 2002 - 73, 1.75-5.45% | 2033 | 20,075 | 20,695 |
| Series 2002 - 74, variable rate | 2032 | - | 62,135 |
| Series 2002 - 75, variable rate | 2033 | 30,000 | 77,030 |
| Series 2003 - 77, variable rate | 2033 | 22,515 | 59,930 |
| Series 2003 - 78, variable rate | 2025 | 45,780 | 48,940 |
| Series 2003 - 79, variable rate | 2034 | 57,350 | 63,805 |
| Series 2004 - 81, variable rate | 2034 | 26,675 | 66,460 |
| Series 2004 - 82, variable rate | 2034 | 56,720 | 63,495 |
| Series 2004 - 83, variable rate | 2035 | 33,335 | 40,055 |
| Series 2004 - 84, variable rate | 2034 | 22,715 | 27,495 |
| Series 2004 - 85, variable rate | 2035 | 74,825 | 80,945 |
| Series 2004 - 86, variable rate | 2035 | 33,505 | 42,335 |

| Description of Bonds and Notes as Issued (continued) | Maturity Date | Amounts Outstanding | |
|--|---------------|---------------------|-----------|
| | | 2013 | 2012* |
| Series 2005 - 87, variable rate | 2035 | \$ 84,690 | \$ 87,025 |
| Series 2005 - 88, variable rate | 2037 | 60,410 | 69,470 |
| Series 2005 - 89, variable rate | 2035 | 56,385 | 63,485 |
| Series 2005 - 90, variable rate | 2036 | 93,730 | 97,765 |
| Series 2005 - 91, variable rate | 2036 | 97,255 | 101,260 |
| Series 2006 - 92, variable rate | 2036 | 109,160 | 113,095 |
| Series 2006 - 93, variable rate | 2037 | 56,835 | 69,415 |
| Series 2006 - 94, variable rate | 2037 | 35,925 | 83,185 |
| Series 2006 - 95, variable rate | 2037 | 54,730 | 116,030 |
| Series 2006 - 96, 3.60-5.72% | 2037 | 122,300 | 133,500 |
| Series 2007 - 97, 3.50-5.50% | 2037 | 116,360 | 127,665 |
| Series 2007 - 98, variable rate | 2037 | 90,540 | 130,585 |
| Series 2007 - 99, 3.70-5.30% | 2038 | 40,670 | 95,425 |
| Series 2007 - 100, 3.40-5.35% | 2038 | 32,445 | 65,700 |
| Series 2007 - 101, variable rate | 2038 | 20,600 | 22,495 |
| Series 2007 - 102, variable rate | 2038 | 48,545 | 55,425 |
| Series 2008 - 103, 2.00-5.70% | 2038 | 14,930 | 53,545 |
| Series 2009 - 105, .80-5.00% | 2039 | 117,440 | 186,480 |

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

| Description of Bonds and Notes as Issued <i>(continued)</i> | Maturity Date | Amounts Outstanding | |
|---|---------------|---------------------|---------------------|
| | | 2013 | 2012* |
| Series 2009 - 106, .50-4.80% | 2040 | \$ 224,995 | \$ 236,410 |
| Series 2009 - 107, 3.96% | 2041 | 574,800 | 596,780 |
| Series 2010 - 108, .375-4.75% | 2028 | 126,175 | 131,520 |
| Series 2010 - 109, .45-4.50% | 2028 | 90,115 | 97,280 |
| Series 2010 - 110, .45-4.75% | 2039 | 219,725 | 233,965 |
| Series 2011 - 112, .375-5.00% | 2028 | 142,635 | 152,675 |
| Series 2011 - 113, .50-4.85% | 2041 | 78,665 | 81,120 |
| Series 2012 - 114, .40-3.70% | 2042 | 226,310 | - |
| Series 2013 - 115, .20-4.35% | 2043 | 137,905 | - |
| 2007 Note Purchase Agreement, 2.5% | 2017 | 2,500 | 2,500 |
| 2009 Note Purchase Agreement, 2.5% | 2019 | 1,000 | 1,000 |
| 2009 Note Purchase Agreement, 2.5% | 2024 | 2,500 | 2,500 |
| | | <u>3,594,080</u> | <u>3,974,120</u> |
| Unamortized deferred loss of refundings | | (11,262) | (13,102) |
| Unamortized bond premium | | 8,652 | 10,426 |
| Total bonds and notes payable | | <u>3,591,470</u> | <u>3,971,444</u> |
| Less current portion | | 65,910 | 61,940 |
| Long-term portion | | <u>\$ 3,525,560</u> | <u>\$ 3,909,504</u> |

* - (from previous page) See **Reclassifications** section of **NOTE 2 - Summary of Significant Accounting Policies** respective of unamortized underwriters' fees.

Interest paid on indexed floating-rate tax-exempt bonds is closely correlated with either the Securities Industry and Financial Markets Association Municipal Swap

("SIFMA") rate or the London Interbank Offered Rate ("LIBOR"). Rate resets typically occur quarterly, monthly, or weekly.

Debt Service Requirements

The approximate principal and interest payments required on all outstanding bonds and notes over the next five years and thereafter are as follows:

| Fiscal Year Ending | General Fund | | Multifamily Housing Program | | Single Family Mortgage Loan Program | | Total |
|--------------------|------------------|-----------------|-----------------------------|-----------------|-------------------------------------|---------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2014 | \$ 1,000 | \$ 404 | \$ 14,872 | \$ 671 | \$ 65,910 | \$ 102,454 | \$ 185,311 |
| 2015 | 2,350 | 847 | 14,467 | 549 | 94,730 | 101,444 | 214,387 |
| 2016 | 2,365 | 756 | 14,198 | 392 | 117,290 | 99,166 | 234,167 |
| 2017 | 2,380 | 666 | 7,320 | 201 | 120,910 | 96,351 | 227,828 |
| 2018 | 2,400 | 576 | 1,433 | 136 | 127,945 | 93,393 | 225,883 |
| 2019-2023 | 12,260 | 1,524 | 4,874 | 443 | 732,130 | 411,427 | 1,162,658 |
| 2024-2028 | 3,790 | 76 | 5,220 | 294 | 732,885 | 309,638 | 1,051,903 |
| 2029-2033 | 3,455 | 42 | 6,550 | 166 | 698,255 | 201,716 | 910,184 |
| 2034-2038 | 10,000 | 7 | 3,695 | 24 | 666,460 | 99,267 | 779,453 |
| 2039-2043 | - | - | - | - | 237,565 | 14,583 | 252,148 |
| | <u>\$ 40,000</u> | <u>\$ 4,898</u> | <u>\$ 72,629</u> | <u>\$ 2,876</u> | <u>\$ 3,594,080</u> | <u>\$ 1,529,439</u> | <u>\$ 5,243,922</u> |

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

Early Extinguishment of Debt

During the years ended June 30, 2013 and 2012, the Agency redeemed principal amounts of certain bonds totaling \$705,230 and \$431,750, respectively, prior to their scheduled maturity, through the use of mortgage prepayments and excess funds. Net losses of \$3,646 and \$2,549 on early extinguishments of debt have been recorded as an expense for the years ended June 30, 2013 and 2012, respectively. Losses arise because of the immediate recognition of deferred bond issuance costs and discounts that would have otherwise been amortized over the life of the related bond issues had they not been retired.

Advance Refunding

In prior years, the Agency effected an advanced refunding where the proceeds of issued bonds were used to defease outstanding debt of the Agency. The Agency defeased Multifamily Residential Development Bonds, Issue H in prior years. The result is an in-substance defeasance whereby the Agency purchased securities, which were deposited into an irrevocable trust with an escrow agent, to provide for future debt service payments on the refunded bonds. The defeased principal outstanding equaled \$2,725 at June 30, 2013 and 2012.

Current Refunding

During the year ended June 30, 2013, the Agency performed the following refunding activities:

| | Series Issued | Series Refunded | Amount Issued/Refunded | Economic Gain/(Loss)* | Debt Service Payments Decrease/(Increase) |
|--------------------------------------|---------------|-----------------|------------------------|-----------------------|---|
| Rental Housing Refunding Bonds | 2012 | 2008 | \$ 47,785 | \$ 1,006 | \$ 1,024 |
| Single Family Mortgage Revenue Bonds | 114 | 65A | 11,285 | 1,794 | 2,253 |
| | 114 | 65B | 6,440 | 805 | 837 |
| | 114 | 74B | 60,540 | 10,018 | 15,401 |
| | 114 | 75B | 45,860 | 7,116 | 11,605 |
| | 114 | 79A | 5,585 | 292 | 300 |
| Total Series 114: | | | \$ 129,710 | \$ 20,025 | \$ 30,396 |

| <i>(continued)</i> | Series Issued | Series Refunded | Amount Issued/Refunded | Economic Gain/(Loss)* | Debt Service Payments Decrease/(Increase) |
|--------------------------------------|---------------|-----------------|------------------------|-----------------------|---|
| Single Family Mortgage Revenue Bonds | 115 | 77B | \$ 36,095 | \$ (2,727) | \$ (5,748) |
| | 115 | 81C | 36,070 | (174) | (386) |
| | 115 | 86B | 6,335 | (17) | (39) |
| | 115 | 89 | 7,100 | 125 | 286 |
| | 115 | 95C | 12,665 | 753 | 1,209 |
| | 115 | 98C | 24,050 | 1,705 | 4,140 |
| | 115 | 100C | 5,590 | 414 | 1,018 |
| Total Series 115: | | | \$ 127,905 | \$ 79 | \$ 480 |

* Represents the difference between the present value of the refunded debt service payments and new debt service payments

The Agency did not refund any bonds during the year ended June 30, 2012.

Hedging Derivative Instrument Payments and Hedged Debt

Debt service requirements of the Agency's outstanding variable-rate debt and net swap payments of the associated hedging derivative instruments at June 30, 2013 are displayed in the following schedule. The following incorporates variable

rate values at June 30, 2013, which are subject to change in future periods. The net swap payment equals the difference between the fixed rate of interest paid to the counterparties and the variable rate of interest received by the Agency. See Note 8 for further information on derivative instruments.

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

June 30, 2013 and 2012

| Fiscal Year Ending June 30 | Hedged Variable Rate Bond Principal | Hedged Variable Rate Bond Interest | Net Swap Payments | Total |
|-------------------------------|---|--|----------------------|---------------------|
| 2014 | \$ 5,805 | \$ 2,914 | \$ 29,305 | \$ 38,024 |
| 2015 | 12,295 | 2,897 | 28,469 | 43,661 |
| 2016 | 22,755 | 2,870 | 27,550 | 53,175 |
| 2017 | 28,160 | 2,803 | 26,434 | 57,397 |
| 2018 | 32,310 | 2,725 | 25,274 | 60,309 |
| 2019-2023 | 217,565 | 12,243 | 107,797 | 337,605 |
| 2024-2028 | 247,455 | 9,365 | 75,759 | 332,579 |
| 2029-2033 | 201,425 | 5,582 | 40,492 | 247,499 |
| 2034-2038 | 162,660 | 1,179 | 6,629 | 170,468 |
| | <u>\$ 930,430</u> | <u>\$ 42,578</u> | <u>\$ 367,709</u> | <u>\$ 1,340,717</u> |

Conduit Debt Obligations

The Agency did not issue any conduit debt obligations during the year ended June 30, 2013.

During the year ended June 30, 2012, the Agency issued Series 2011-S Special Limited Obligation Multifamily Housing Development Notes in the amount of \$8,000 to fund the construction and renovation of Cumberland Gardens - Phase 1 in Allentown, Pennsylvania. The notes are special limited obligations of the

Agency payable solely from the trust estate pledged by the Allentown public housing authority and secured by the property financed.

In prior years, the Agency issued series 2003J, 2008M, and 2008O Special Limited Obligation Bonds to provide financing to local public housing authorities for construction or preservation of affordable housing within the Commonwealth of Pennsylvania. The bonds are secured by the properties financed and are payable solely from income generated by the local public housing authorities. The Agency also issued series 2005A Capital Fund Securitization Revenue

Bonds to provide for financial assistance to various local public housing authorities. The bonds are secured by the properties financed and are payable solely from appropriations to be paid by the United States Department of Housing and Urban Development.

These conduit debt obligations do not constitute a debt or pledge of the faith and credit of the Agency and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2013 and 2012, conduit debt outstanding aggregated \$84,129 and \$86,778, respectively.

Bond Covenants

Significant bond covenants of the Agency include a capital reserve requirement for both the Multifamily Housing Program bonds and Single Family Mortgage Loan Program bonds and a self-insurance requirement for the Single Family Mortgage Loan Program bonds. The capital reserve requirement for the Multifamily Housing Program bonds obliges the Agency to maintain a balance of funds equal to one year's debt service. The capital reserve requirement for the Single Family Mortgage Loan Program bonds obliges the Agency to maintain a balance of funds equal to at least 3% of the aggregate principal amount of all Single Family Mortgage Loan Program bonds outstanding plus one million dollars. The self-insurance requirement for the Single Family Mortgage Loan Program bonds obliges the Agency to maintain a balance of funds equal to the following percentages of outstanding principal amounts of mortgage loans funded from the following respective series:

| | |
|----------------------------------|-------|
| Series I and J: | 2.00% |
| Series K: | 1.10% |
| Series L through Series 2006-96: | 2.00% |

The Agency is not expected to fund or maintain the self-insurance requirement under the Single Family Mortgage Loan Program bond indenture in any amount with respect to any series of bonds issued after November 2006.

All bond covenant requirements regarding restricted cash and assets were met at years ended June 30, 2013 and June 30, 2012.

Bonds Authorized But Not Yet Issued

On June 13, 2013, the Agency Board authorized the issuance of Single Family Mortgage Revenue Bonds Series 2013-116 in an amount not to exceed \$300,000. Series 2013-116 had not been issued as of the date of these basic financial statements.

8 | Derivatives

In order to both reduce the Agency's overall cost of borrowing long-term capital and protect against the potential of rising interest rates, the Agency entered into pay-fixed, receive-variable interest rate swap agreements. The objective of the swaps is to hedge against changes in the cash flows of the associated variable-rate bonds series.

Swaps are recorded and reported as either a hedging derivative instrument or investment derivative instrument based upon the effectiveness of the agreements to hedge against interest rate exposure associated with variable-rate debt.

The regression analysis method is used to determine whether the swaps are an effective hedge. The fair value of hedging derivative instruments is reported as Derivative Instrument – Interest Rate Swaps and Deferred Swap Borrowing. The changes in fair values are reported as Deferred Outflow of Resources. A swap deemed an ineffective hedging mechanism is considered to be an investment

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derivative instrument. The fair value of investment derivative instruments is reported Derivative Instrument – Interest Rate Swaps and Deferred Swap Borrowing; however, the changes in fair value are no longer a deferred outflow of resources, but recognized as investment revenue or expense.

Fair values are obtained from mark to market statements provided by a third party and represent mid-market valuations that approximate the current economic value using market averages, reference rates, and/or mathematical models. The fair value represents the current price to settle the swaps in the marketplace if the swaps were to be terminated.

Because interest rates have generally decreased since the swaps became effective, all of the Agency's swaps have a negative fair value as of June 30, 2013. Changes in fair values are countered by reductions or increases in total

interest payments required under variable-rate bonds. Given that payments on the Agency's variable-rate bonds adjust to changing interest rates, the associated debt does not have corresponding increases in fair value.

Each of the Agency's swaps requires the Agency to post collateral in the event the fair value of the swap falls below specific thresholds of negative worth. As of June 30, 2013, the Agency was not required to post collateral for any of its outstanding swaps.

Hedging Derivative Instruments

The objective of the Agency's hedging derivative instruments is to hedge against changes in the cash flows on the associated variable-rate bonds series. The terms and other information of the Agency's hedging derivative instruments outstanding for June 30, 2013 were as follows:

| Bond Series | Notional Amount | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-----------------------|-----------------|----------------|---------------|-----------------|-----------------------------|
| 1999-67B | \$ 14,700 | 7/2002 | 4/2029 | 5.950% | 100% of USD-LIBOR + 50 bps |
| 2001-72C | 7,285 | 9/2001 | 10/2023 | 5.695 | 100% of USD-LIBOR |
| 2003-77B ¹ | 22,515 | 4/2013 | 10/2033 | 2.470 | Enhanced LIBOR |
| 2003-79B ¹ | 57,350 | 10/2010 | 10/2033 | 3.992 | 65% of USD-LIBOR + 0.25 bps |
| 2004-81C ¹ | 26,220 | 4/2013 | 10/2034 | 3.346 | Enhanced LIBOR |
| 2004-82B | 29,470 | 5/2004 | 10/2030 | 3.643 | 61% of USD-LIBOR + 0.39 bps |
| 2004-82C ¹ | 32,195 | 4/2013 | 10/2034 | 3.420 | 61% of USD-LIBOR + 0.39 bps |

| Bond Series (continued) | Notional Amount | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-------------------------|-----------------|----------------|---------------|-----------------|-----------------------------|
| 2004-83B | \$ 12,495 | 8/2004 | 10/2019 | 3.410% | 65% of USD-LIBOR + 0.25 bps |
| 2004-83C ¹ | 24,790 | 4/2012 | 10/2028 | 3.830 | 65% of USD-LIBOR + 0.25 bps |
| 2004-84D ¹ | 22,715 | 4/2012 | 10/2034 | 3.320 | Enhanced LIBOR |
| 2004-85B | 11,885 | 11/2004 | 4/2019 | 3.168 | 65% of USD-LIBOR + 0.25 bps |
| 2004-85C ¹ | 44,645 | 4/2013 | 10/2035 | 3.291 | 65% of USD-LIBOR + 0.25 bps |
| 2004-86B ¹ | 33,505 | 4/2013 | 10/2033 | 3.397 | Enhanced LIBOR |
| VRDB2004 | 20,000 | 2/2004 | 1/2034 | 3.945 | 65% of USD-LIBOR + 0.25 bps |
| 2005-87B | 23,035 | 3/2005 | 10/2023 | 3.460 | 65% of USD-LIBOR + 0.25 bps |
| 2005-87C ¹ | 47,300 | 4/2013 | 10/2035 | 3.328 | 65% of USD-LIBOR + 0.25 bps |
| 2005-88B | 39,290 | 5/2005 | 10/2035 | 3.500 | 61% of USD-LIBOR + 0.39 bps |
| 2005-88C ¹ | 27,930 | 4/2013 | 10/2035 | 2.726 | 61% of USD-LIBOR + 0.39 bps |
| 2005-89 ¹ | 48,915 | 4/2013 | 10/2035 | 3.605 | Enhanced LIBOR |
| 2005-90C ¹ | 56,585 | 4/2012 | 4/2035 | 3.692 | 65% of USD-LIBOR + 0.25 bps |
| 2005-91B | 70,000 | 12/2005 | 10/2036 | 3.953 | Enhanced LIBOR |
| MF2005-K ¹ | 23,190 | 3/2005 | 1/2036 | 5.183 | 100% of USD-LIBOR |
| 2006-92B | 42,870 | 3/2006 | 10/2036 | 3.996 | 65% of USD-LIBOR + 0.25 bps |
| 2006-93B | 37,185 | 5/2006 | 4/2037 | 4.266 | 61% of USD-LIBOR + 0.39 bps |

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June 30, 2013 and 2012

| Bond Series (continued) | Notional Amount | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-------------------------|-----------------|----------------|---------------|-----------------|-----------------------------|
| 2006-94B | \$ 35,165 | 7/2006 | 4/2027 | 4.152% | 69% of USD-LIBOR |
| 2006-95C ¹ | 6,850 | 4/2013 | 4/2026 | 3.519 | 65% of USD-LIBOR + 0.25 bps |
| 2007-98C ¹ | 17,905 | 4/2013 | 10/2037 | 4.105 | 61% of USD-LIBOR + 0.39 bps |
| 2007-99C | 15,000 | 9/2007 | 10/2023 | 3.885 | 69% of USD-LIBOR |
| 2007-100C | 22,935 | 4/2013 | 4/2036 | 4.131 | 65% of USD-LIBOR + 0.25 bps |

¹ = Indicates embedded options without a payment to the counterparty
 USD LIBOR = 1-month London Interbank Offered Rate in American Dollars
 Enhanced LIBOR = 67% of 1-month USD LIBOR

The notional amounts, fair value balances, and the changes in fair values of hedging derivative instruments outstanding as of June 30, 2013 were as follows:

| Bond Series | Notional Amount | Changes in Fair Value | | Fair Values at June 30, 2013 | |
|-------------|-----------------|-----------------------|----------|------------------------------|------------|
| | | Classification | Amount | Classification | Amount |
| 1999-67B | \$ 14,700 | Deferred outflow | \$ 1,456 | Hedging derivative | \$ (3,547) |
| 2001-72C | 7,285 | Deferred outflow | 572 | Hedging derivative | (1,395) |
| 2002-75A | - | Deferred outflow | 658 | Hedging derivative | - |
| 2003-77B | 22,515 | Deferred outflow | 456 | Hedging derivative | (207) |
| 2003-79B | 57,350 | Deferred outflow | 3,209 | Hedging derivative | (7,181) |
| 2004-81C | 26,220 | Deferred outflow | 1,045 | Hedging derivative | (2,080) |

| Bond Series (continued) | Notional Amount | Changes in Fair Value | | Fair Values at June 30, 2013 | |
|-------------------------|-----------------|-----------------------|--------|------------------------------|------------|
| | | Classification | Amount | Classification | Amount |
| 2004-82B | \$ 29,470 | Deferred outflow | \$ 928 | Hedging derivative | \$ (1,155) |
| 2004-82C | 32,195 | Deferred outflow | 53 | Hedging derivative | (846) |
| 2004-83B | 12,495 | Deferred outflow | 391 | Hedging derivative | (503) |
| 2004-83C | 24,790 | Deferred outflow | 1,568 | Hedging derivative | (3,687) |
| 2004-84D | 22,715 | Deferred outflow | 991 | Hedging derivative | (2,014) |
| 2004-85B | 11,855 | Deferred outflow | 348 | Hedging derivative | (434) |
| 2004-85C | 44,645 | Deferred outflow | 849 | Hedging derivative | (2,896) |
| 2004-86B | 33,505 | Deferred outflow | 1,665 | Hedging derivative | (3,177) |
| VRDB2004 | 20,000 | Deferred outflow | 609 | Hedging derivative | (563) |
| 2005-87B | 23,035 | Deferred outflow | 693 | Hedging derivative | (1,200) |
| 2005-87C | 47,300 | Deferred outflow | 907 | Hedging derivative | (3,213) |
| 2005-88B | 39,290 | Deferred outflow | 1,078 | Hedging derivative | (2,199) |
| 2005-88C | 27,930 | Deferred outflow | 250 | Hedging derivative | (168) |
| 2005-89 | 48,915 | Deferred outflow | 1,703 | Hedging derivative | (2,496) |
| 2005-90C | 56,585 | Deferred outflow | 1,500 | Hedging derivative | (3,206) |
| 2005-91B | 70,000 | Deferred outflow | 2,011 | Hedging derivative | (5,528) |
| MF2005-K | 23,190 | Deferred outflow | 2,391 | Hedging derivative | (5,059) |

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(In thousands of dollars)

June 30, 2013 and 2012

| Bond Series <i>(continued)</i> | Notional Amount | Changes in Fair Value | | Fair Values at June 30, 2013 | |
|--------------------------------|-----------------|-----------------------|-----------|------------------------------|-------------|
| | | Classification | Amount | Classification | Amount |
| 2006-92B | 42,870 | Deferred outflow | 1,247 | Hedging derivative | (3,458) |
| 2006-93B | 37,185 | Deferred outflow | 1,060 | Hedging derivative | (3,097) |
| 2006-94B | 35,165 | Deferred outflow | 1,317 | Hedging derivative | (4,142) |
| 2006-95C | 6,850 | Deferred outflow | 44 | Hedging derivative | (301) |
| 2007-98C | 17,905 | Deferred outflow | 1,740 | Hedging derivative | (1,079) |
| 2007-99C | 15,000 | Deferred outflow | 765 | Hedging derivative | (2,160) |
| 2007-100C | 22,935 | Deferred outflow | 1,547 | Hedging derivative | (2,968) |
| | | Totals | \$ 33,051 | | \$ (69,959) |

Credit Risk

At June 30, 2013, the Agency was not exposed to credit risk on its swaps because all agreements had negative fair values. The Agency's swaps rely upon the performance of counterparties. If interest rates rise and the fair values of the swaps become positive, the Agency may be exposed to credit risk on those agreements – the risk that the counterparty fails to perform according to contractual obligations.

Basis Risk and Interest Rate Risks

The Agency is exposed to basis risk to the extent the changes in the index rates associated with the Agency's variable-rate bonds do not exactly offset the

changes in the index rates associated with the corresponding swaps.

The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR index decreases, the Agency's net payments on the swaps increase.

Rollover Risk

Rollover risk is the risk that a swap associated with a bond issue does not extend to the maturity of that debt, thereby creating unhedged variable-rate debt.

The following swaps expose the Agency to rollover risk:

| Associated Bond Issue | Debt Maturity Dates | Swap Termination Dates |
|-----------------------|---------------------|------------------------|
| 2001-72C | 10/2032 | 10/2023 |
| 2004-83B | 10/2025 | 10/2019 |
| 2004-85B | 10/2031 | 04/2019 |
| 2005-87B | 10/2031 | 10/2023 |
| 2005-88C | 04/2037 | 10/2035 |
| 2005-90C | 04/2036 | 04/2035 |
| 2007-100C | 10/2036 | 04/2036 |

Termination Risk

The Agency maintains the option to terminate its swaps at any time, while the Agency or the counterparty may terminate a swap if either party fails to perform under the terms of the agreement. If a swap has a negative fair value at the time of termination, the Agency would be liable to the counterparty for an amount equal to that negative fair value. In certain instances, the Agency has embedded par termination rights within its swaps which enable it to exercise terminations without liability for negative fair value.

Investment Derivative Instruments

The balances of the variable rate bonds associated with swaps 2004-84C, 2008-104#1, 2008-104#2, 2008-104#4, RH2008A&B, RH2008C, and RH2008D were either redeemed in total or refunded by fixed-rate bonds; therefore, the associated swaps are no longer a hedge against variable rate debt. As a result, these swaps are considered investment derivative instruments.

The terms and other relevant information respective of the aforementioned investment derivative instruments outstanding at June 30, 2013 were as follows:

| Bond Series | Notional Amount | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-------------|-----------------|----------------|---------------|-----------------|------------------------|
| 2004-84C | \$ 6,425 | 9/2004 | 4/2018 | 3.115 | Enhanced LIBOR |
| 2008-104#1 | 3,495 | 12/2007 | 10/2013 | 4.471 | 100% of USD-LIBOR |
| 2008-104#2 | 3,975 | 3/2007 | 10/2014 | 4.922 | 100% of USD-LIBOR |
| 2008-104#4 | 15,615 | 9/2007 | 4/2015 | 5.149 | 100% of USD-LIBOR |

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| Bond Series (continued) | Notional Amount | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-------------------------|-----------------|----------------|---------------|-----------------|-------------------------|
| RH2008A&B ¹ | \$ 22,470 | 12/2011 | 1/2021 | 3.407% | 67% of 1 Week USD-LIBOR |
| RH2008C ¹ | 30,135 | 6/2003 | 7/2020 | 3.457 | 70% of USD-LIBOR |
| RH2008D ¹ | 18,080 | 6/2011 | 7/2020 | 3.440 | 70% of USD-LIBOR |

USD LIBOR = 1-month London Interbank Offered Rate in American Dollars
Enhanced LIBOR = 67% of 1-month USD LIBOR

Because of early redemptions of the associated variable-rate debt, swap 2004-82B had an outstanding notional amount in excess of the related hedged variable-rate bond balance at June 30, 2013. The portion of the swap's notional

amount in excess of the outstanding variable-rate debt is considered an investment derivative instrument for financial reporting purposes.

The terms and other information of hedging derivative instruments that have notional amounts exceeding their related outstanding debt at June 30, 2013 were as follows:

| Bond Series | Notional Amount Exceeding Outstanding Debt | Effective Date | Maturity Date | Fixed Rate Paid | Variable Rate Received |
|-------------|--|----------------|---------------|-----------------|--------------------------|
| 2004-82B | \$ 2,145 | 5/2004 | 10/2030 | 3.643% | 61% of USD-LIBOR + 39bps |

¹ = Indicates embedded options without a payment to the counterparty
USD LIBOR = 1-month London Interbank Offered Rate in American Dollars
bps = Basis points

The changes in fair value of the investment derivatives for the year ended June 30, 2013 are shown as follows and are presented as a net increase (decrease) in fair value of swaps on the Statements of Revenues, Expenses and Changes in Net Position.

| Bond Series | Notional Amount | Changes in Fair Value | | Fair Values at June 30, 2013 | |
|-------------|-----------------|-----------------------|--------|------------------------------|------------|
| | | Classification | Amount | Classification | Amount |
| 2004-81B | \$ - | Investment revenue | \$ 13 | Investment derivative | \$ - |
| 2004-82B | 2,145 | Investment revenue | 47 | Investment derivative | (65) |
| 2004-84C | 6,425 | Investment revenue | 199 | Investment derivative | (245) |
| 2005-88B | - | Investment revenue | 46 | Investment derivative | - |
| 2008-104#1 | 3,495 | Investment revenue | 510 | Investment derivative | (75) |
| 2008-104#2 | 3,975 | Investment revenue | 315 | Investment derivative | (158) |
| 2008-104#4 | 15,615 | Investment revenue | 1,089 | Investment derivative | (893) |
| RH2008A,B | 22,470 | Investment revenue | 834 | Investment derivative | (1,995) |
| RH2008C | 30,135 | Investment revenue | 1,137 | Investment derivative | (2,687) |
| RH2008D | 18,080 | Investment revenue | 679 | Investment derivative | (1,602) |
| Totals | \$ 4,869 | | | | \$ (7,720) |

Credit Risk

At June 30, 2013, the Agency was not exposed to credit risk because all of its swaps had negative fair values.

Interest Rate Risk

The Agency is exposed to interest rate risk on all of its swaps. As the LIBOR index decreases, the Agency's net payments on the swaps increase.

Termination Events

At various times during the year ended June 30, 2013 the Agency exercised options, which had been embedded within effective hedging derivative instruments, in efforts to take advantage of the economic benefits associated with reducing the semiannual fixed payments to counterparties for 7 (seven) of its swaps. Swaps 2003-77B, 2004-81C, 2004-82C, 2004-85C, 2005-87C, 2005-88C, and 2006-95C were amended during the year ended June 30, 2013.

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The aforementioned options were embedded within the respective swaps at the time the agreements were entered into, and there existed a cost to the Agency to have these rights embedded. As a result, these options were considered to be an additional element of value within each swap. Exercising these options, however, ultimately changed the critical terms of the associated swap. U.S. GAAP dictates that such changes trigger a termination of hedge accounting. In the instance of a termination event, amounts previously deferred and reported as an accumulated decrease in the fair value of hedging derivatives are to be recognized as an item of income or expense – depending on the fair value of the swap at the time of termination. Simultaneously, the fair values

of swaps at the time of termination are to be reclassified from Derivative Instrument – Interest Rate Swaps to Deferred Swap Borrowings. The balance of the deferred swap borrowings are then amortized and recognized as a component of operating income over the lives of the underlying swaps in order to recoup the effects of termination events over time. Amortization of deferred swap borrowing balances for the years ended June 30, 2013 and 2012 equaled \$769 and \$1,134, respectively.

Deferred swap borrowing activity for the years ended June 30, 2012 and 2013 reflected the following:

| | Multifamily Housing Program | Single Family Mortgage Loan Program | Total |
|--|-----------------------------------|---|-------------|
| Deferred Swap Borrowing Balance at June 30, 2011 | \$ - | \$ - | \$ - |
| Interest Rate Swap Values at Time of Termination | (3,034) | (34,953) | (37,987) |
| Gain/(Loss) on 2011/2012 Swap Terminations | (26) | 10,733 | 10,707 |
| Amortization | 313 | 821 | 1,134 |
| Deferred Swap Borrowing Balance at June 30, 2012 | \$ (2,747) | \$ (23,399) | \$ (26,146) |
| Gain on 2012/2013 Swap Terminations | - | 3,370 | 3,370 |
| Amortization | 323 | 446 | 769 |
| Deferred Swap Borrowing Balance at June 30, 2013 | \$ (2,424) | \$ (19,583) | \$ (22,007) |

Gains or losses resulting from termination events occurring during the year ended June 30, 2012 were reported as special items on the Statements of Revenues, Expenses, and Changes in Net Position because they were infrequent in occurrence. The Agency maintains contractual rights to exercise options of this nature within nearly all of its swaps. Because similar events occurred during the year ended June 30, 2013 and are anticipated to occur during the remaining lives of the associated swaps, provided it is economically advantageous for the Agency to exercise the embedded options, these events can no longer be deemed special items. As a result, amounts deriving from termination events occurring during the year ended June 30, 2013 are reported as gains on swap terminations. Gains on swap terminations during the year ended June 30, 2013 totaled \$3,370. The equivalent transactions reported as a special item for the year ended June 30, 2012 totaled \$27,280.

Consistent with the year ended June 30, 2012, the amended swaps continued to be effective hedging derivative instruments as of June 30, 2013.

The effects of the termination events described above and the ultimate effects on the Agency's net position represent non-cash transactions. At no time did the Agency either receive, relinquish or exchange cash or any other monetary assets as a result of swap termination events.

9 | Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2013 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|--------------|--------------|-------------------|------------------------|
| Bonds payable, net | \$ 4,112,382 | \$ 418,255 | \$ 853,914 | \$ 3,676,723 | \$ 81,782 |
| Notes payable | 6,000 | 20,000 | - | 26,000 | - |
| Development reserves and escrow deposits | 158,315 | 299,903 | 313,999 | 144,219 | 63,229 |
| Other liabilities | 263,815 | 418,125 | 412,319 | 269,621 | 8,763 |
| Total net long-term liabilities | \$ 4,540,512 | \$ 1,156,283 | \$ 1,580,232 | \$ 4,116,563 | \$ 153,774 |

NOTES TO FINANCIAL STATEMENTS

(In thousands of dollars)

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Long-term liability activity for the year ended June 30, 2012 was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|---------------------|---------------------|------------------------|
| Bonds payable, net* | \$ 4,592,511 | \$ 81,087 | \$ 561,216 | \$ 4,112,382 | \$ 82,264 |
| Notes payable | 6,000 | - | - | 6,000 | - |
| Development reserves and escrow deposits | 174,166 | 290,473 | 306,324 | 158,315 | 72,624 |
| Other liabilities | 245,057 | 435,061 | 416,303 | 263,815 | 7,014 |
| Total net long-term liabilities | \$ 5,017,734 | \$ 806,621 | \$ 1,283,843 | \$ 4,540,512 | \$ 161,902 |

* Consistent with the reclassification of unamortized balances of underwriters' fees at June 30, 2012, described in **Note 2 – Summary of Significant Accounting Policies**, \$20.3 million of unamortized underwriters' fees previously reported as unamortized bond discounts and premiums have been reclassified from a component of Bonds Payable, Net to Deferred Costs of Bond Issuance, a component of Other Noncurrent Assets, at July 1, 2011 for purposes of this schedule and consistency of presentation.

10 | Restricted and Designated Net Position

The Multifamily Housing and the Single Family Mortgage Loan Program's June 30, 2013 net position restrictions equaling \$492 and \$135,813, respectively, are restricted pursuant to the Agency's agreements with its bondholders;

provisions are present within certain Multifamily Housing Program bond issues and the Single Family Mortgage Loan Program bond indenture.

The Agency has designated certain amounts of the unrestricted net position of the Agency's various programs for purposes indicated in the following table. These designations of net position are not binding and may be changed by the Agency.

| General Fund: | 2013 | 2012 |
|---|------------------|------------------|
| Homeownership Choice to fund housing opportunity in urban areas | \$ 7,500 | \$ 15,000 |
| Special Initiatives to provide below market rate financing | - | 11,850 |
| Single Family Insurance to fund special hazard losses by homeowners | 16,500 | 16,500 |
| Homebuyer Counseling for education of first-time homebuyers | 1,500 | 3,000 |
| Multifamily Insurance for Agency insured or coinsured developments | 10,000 | 10,000 |
| Total | \$ 35,500 | \$ 56,350 |
| Multifamily Housing Program: | | |
| Penn HOMES Program to lower development costs for apartments | \$ 75,000 | \$ 70,900 |
| Preservation from physical deterioration, financial, or social distress | 3,000 | 3,000 |
| Energy Efficiency Improvements – energy usage reduction initiatives | 250 | - |
| Total | \$ 78,250 | \$ 73,900 |

| Single Family Mortgage Loan Program: | 2013 | 2012 |
|---|-----------------|------------------|
| Closing Cost Assistance | \$ 5,000 | \$ 19,500 |
| Utility Company Initiative to provide energy efficiency improvements | 500 | - |
| Additional Single Family Insurance to reduce the risk of default on loans | 2,455 | 2,455 |
| Total | \$ 7,955 | \$ 21,955 |
| Insurance Fund: | | |
| Risk Retention to provide single family mortgage insurance | \$ 41,856 | \$ 40,170 |

11 | Interfund Balances and Interfund Transfers

To meet liquidity requirements of the individual funds and programs, the Agency transfers monies among its funds and programs for mortgage-related activities, debt service payments, or to reimburse the General Fund for payments of shared services. Amounts due to or from other funds result mainly from the timing difference between when services are provided and when reimbursements are made. Interfund balances and transfers are summarized as follows for the years ended June 30, 2013 and 2012:

NOTES TO FINANCIAL STATEMENTS

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| Due from other funds: | 2013 | 2012 |
|-------------------------------------|------------------|-----------------|
| General Fund | \$ 126,267 | \$ 49,514 |
| Multifamily Housing Program | 21,808 | 30,123 |
| | <u>148,075</u> | <u>79,637</u> |
| Due to other funds: | | |
| Single Family Mortgage Loan Program | \$ 148,075 | \$ 79,637 |
| Interfund transfers in: | | |
| General Fund | \$ - | \$ 6,100 |
| Single Family Mortgage Loan Program | 28,317 | 2,730 |
| | <u>\$ 28,317</u> | <u>\$ 8,830</u> |
| Interfund transfers out: | | |
| General Fund | \$ 24,564 | \$ - |
| Multifamily Housing Program | 3,753 | 8,830 |
| | <u>\$ 28,317</u> | <u>\$ 8,830</u> |

Excess Benefit Plan (“Excess Plan”), which are both defined benefit single employer plans. The Plan and Excess Plan do not issue stand-alone statements.

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

All participants in the Plan who will receive retirement benefits in an amount that is less than the benefits otherwise payable under the terms of the Plan due to limitations on benefits imposed by Internal Revenue Code (“IRC”) Section 415 shall automatically participate in the Excess Plan. Participation in the Excess Plan will cease for any year in which the retirement benefits from the Plan do not exceed the limitation imposed by IRC Section 415, provided such funding has been transferred to the Plan. Pension payments under the Excess Plan are paid in the same form as the pension benefits payable under the Plan.

Funding Policy

Employees hired on or after January 01, 2009 contribute 3% of compensation to the Plan. Employees hired on or before December 31, 2008 do not contribute to the Plan or Excess Plan. Contribution requirements and benefit provisions of the Plan and Excess Plan are established and may be amended by the Members of the Board.

Annual Pension Cost and Net Pension Asset

The Plan and Excess 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.

The Agency’s annual pension costs and net pension assets of the Plan and Excess Plan for the years ended June 30 were as follows:

| | 2013 | 2012 |
|-------------------------------------|-------------------|-------------------|
| Annual required contribution (ARC) | \$ 3,082 | \$ 2,961 |
| Interest on net pension asset | (281) | (183) |
| Adjustment to ARC | 425 | 276 |
| Annual pension cost | 3,226 | 3,054 |
| Contributions made | (4,253) | (4,365) |
| Increase in net pension asset | (1,027) | (1,311) |
| Net pension asset beginning of year | (3,981) | (2,670) |
| Net pension asset end of year | <u>\$ (5,008)</u> | <u>\$ (3,981)</u> |

The net pension asset is included within other noncurrent assets of the General Fund.

Three-Year Trend Information for the Plan and Excess Plan

| Calendar Year Ended | Annual Pension Cost (“APC”) | Percentage of APC Contributed | Net Pension (Asset) |
|----------------------------|------------------------------------|--------------------------------------|----------------------------|
| December 31, 2012 | \$ 3,226 | 132% | \$ (5,008) |
| December 31, 2011 | 3,054 | 143 | (3,981) |
| December 31, 2010 | 2,880 | 138 | (2,670) |

Funded Status and Funding Progress

As of January 1, 2013, the most recent actuarial valuation date, the Plan and Excess Plan were 73.3% funded. The actuarial accrued liability for benefits was \$72,630, and the actuarial value of assets was \$53,212, resulting in an unfunded actuarial accrued liabilities (“UAAL”) of \$19,418. The covered payroll (annual payroll of active employees covered by the Plan and Excess Plan) was \$16,588 and the ratio of the UAAL to the covered payroll was 117.1%.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of Plan and Excess Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

In the actuarial valuation as of January 01, 2013, the aggregate actuarial cost method is used. The actuarial assumptions include a 7.5% investment rate of

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(In thousands of dollars)

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return, projected salary increases of 4.5% per year, and no post-retirement benefit increases. Both the rate of return of investments and projected salary increases include a moderate rate of inflation component based on historical averages. The actuarial value of assets is determined using techniques that spread the effects of short-term volatility in the market value of investments smoothly over a five-year period. Because the aggregate actuarial cost method does not identify or separately amortize the UAAL, information about the Plan and Excess Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose.

13 | Postemployment Benefits Other than Pensions

Plan Description

The Agency sponsors a single-employer defined benefit plan, which includes the Pennsylvania Housing Finance Agency Postemployment Benefits Plan ("OPEB Plan"), to provide certain other postemployment health care benefits ("OPEB") to all former employees who are members of the Employees' Retirement Plan currently receiving retirement income. Such benefits are available to members' spouses during the life of the retiree. Specific details of the Plan include the provision of limited hospitalization, major medical insurance, physician services, and prescription drug coverage. The Agency is under no statutory or contractual obligation to provide these postretirement healthcare benefits. Because the Plan consists solely of the Agency's commitment to provide OPEB through the payment of premiums to insurance companies on behalf of its eligible retirees, no stand-alone financial report is either available or generated for the OPEB Plan.

Funding Policy

The Agency currently funds OPEB on a pay-as-you-go basis by purchasing commercial health insurance. Premiums paid for the OPEB Plan are partially funded by retirees desiring such coverage in accordance with rates established by the Agency. Contribution requirements and benefit provisions of the OPEB Plan are established by and may be amended by the Board.

For the year ended June 30, 2013, contribution rates for OPEB Plan members equaled 5% of the insurance premium per participant per month. OPEB Plan members receiving benefits paid \$36, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling \$717. As a result, the Agency's net outlay for OPEB insurance premiums equaled \$681.

For the year ended June 30, 2012, contribution rates for OPEB Plan members equaled 5% of the insurance premium per participant per month. OPEB Plan members receiving benefits paid \$32, which was used to offset the Agency's total outlays to insurance carriers for premiums equaling \$637. As a result, the Agency's net outlay for OPEB insurance premiums equaled \$605.

Annual OPEB Cost and Net OPEB Obligation

The calculation of the Agency's annual OPEB cost is based upon the actuarially determined annual required contribution ("ARC") of the Agency. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years.

The Agency's annual OPEB costs and net OPEB obligation for the years ended June 30 were as follows:

| | 2013 | 2012 |
|---------------------------------------|-----------|-----------|
| Annual required contribution (ARC) | \$ 5,042 | \$ 5,042 |
| Interest on net OPEB obligation | 783 | 526 |
| Adjustment to ARC | (1,042) | (718) |
| Annual OPEB expense | 4,783 | 4,850 |
| Contributions made | (717) | (637) |
| Increase in net OPEB obligation | 4,066 | 4,213 |
| Net OPEB obligation beginning of year | 17,501 | 13,288 |
| Net OPEB obligation end of year | \$ 21,567 | \$ 17,501 |

OPEB obligations are included as other noncurrent liabilities of the General Fund and HEMAP.

Three-Year Trend Information for OPEB

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|--|---------------------|
| June 30, 2013 | \$ 4,783 | 15% | \$ 21,567 |
| June 30, 2012 | 4,850 | 13 | 17,501 |
| June 30, 2011 | 4,166 | 14 | 13,288 |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the OPEB Plan was not funded. This resulted in an actuarial accrued liability for benefits and unfunded actuarial accrued liability ("UAAL") of \$43,472. The covered payroll (annual payroll of active employees covered by the OPEB Plan) equaled \$15,900, and the ratio of the UAAL to the covered payroll equaled 273.4%. Amounts determined regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information illustrating whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive OPEB Plan as understood by the Agency and OPEB Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Agency and OPEB Plan members to that point. There are no legal or contractual funding limitations that would potentially affect the projection of benefits for financial accounting purposes. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

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June 30, 2013 and 2012

For the actuarial valuation dated July 1, 2011, the entry age normal cost method was used. Because the Agency funds its OPEB on a pay-as-you-go basis, the OPEB Plan has no assets (investments) used specifically for paying the post-retirement medical benefits; therefore, the actuarial assumptions included a 4.5% discount rate, which approximates the expected rate of return on non-pension investments held by the Agency, a moderate inflation rate based on historical averages and an annual healthcare cost trend rate of 8% in 2011, decreasing by 0.5% per year to 5.5% in 2016 and thereafter. The UAAL is amortized as a level dollar amount over thirty years on an open basis.

14 | Significant Contingencies and Commitments

Federally Assisted Programs

In the normal course of operations, the Agency receives funding from various federal government agencies. These funds are to be used for designated purposes only. If a grantor determines that funds have not been used for their intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the Agency for its related disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Agency's grant programs is predicated upon the grantor's historical satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

Risk Management

The Agency is exposed to various risks of loss from theft of, damage to, or the destruction of assets; injuries to staff or visitors; loss related to torts, errors

and omissions, and employee dishonesty. All risks are managed through the purchase of various commercial insurance policies. The Agency bears a \$1 deductible per claim for commercial property coverage and a \$100 deductible per claim for fidelity bond coverage. There have been no settlements, actual losses in excess of coverage or decrease in insurance coverage within the last three years.

Litigation

In the normal course of business, the Agency may be involved in various claims or suits. In the opinion of the Agency's management, the amount of such losses that might result from claims or suits, if any, would not materially affect the Agency's financial position.

Commitments

Outstanding commitments by the Agency to make or acquire Single Family Mortgage Program and HEMAP loans were approximately \$31,231 and \$9,500, respectively, at June 30, 2013.

15 | Significant Effects of Subsequent Events

Subsequent events have been evaluated through November 18, 2013, the date these basic financial statements were issued. Nothing requiring disclosure in these basic financial statements was noted.

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Employees' Retirement Plan and Government Excess Benefit Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b - a) / (c) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 01/01/2013 | \$ 53,212 | \$ 72,630 | \$ 19,418 | 73.3% | \$ 16,588 | 117.1% |
| 01/01/2012 | 49,073 | 67,072 | 17,999 | 73.2 | 15,697 | 114.7 |
| 01/01/2011 | 44,969 | 61,750 | 16,781 | 72.8 | 15,566 | 107.8 |

Schedule of Funding Progress for the Pennsylvania Housing Finance Agency Postemployment Benefits Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b - a) / (c) |
|--------------------------|-------------------------------|---|-----------------------------|----------------------|---------------------|---|
| 07/01/2011 | \$ - | \$ 43,472 | \$ 43,472 | - % | \$ 15,900 | 273.4% |
| 07/01/2009 | - | 36,652 | 36,652 | - | 15,320 | 239.2 |
| 07/01/2007 | - | 28,072 | 28,072 | - | 13,382 | 209.8 |

Donna Sciortino (left) and Amy Diehl work in the agency's Finance Division. Donna is PHFA's manager of investments and has worked at the agency for 40 years. Amy is an investment officer and has been with the agency for 12 years.



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THE PENNSYLVANIA HOUSING FINANCE AGENCY

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Chris Anderson, Communications Officer I
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Robert Chapman, Billing Processor
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Scott Elliott, Director of Communications
William W. Fogarty, Director of Government Affairs
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Brian J. Good, Servicing Officer II
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Karen Smith is the assistant manager of counseling and education at PHFA. She's been with the agency for 24 years.



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 \$11.2 billion of funding for nearly 152,900 single-family home mortgage loans, helped fund the construction of 122,590 rental units, and saved the homes of more than 46,550 families from foreclosure. PHFA programs and operations are funded primarily by the sale of securities, not by public tax dollars. PHFA 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. It also is being posted on our website to minimize the number of printed paper copies.

THE FUTURE BELONGS TO THOSE WHO BELIEVE
IN THE BEAUTY OF THEIR DREAMS.

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