

**MINUTES OF THE MEETING OF
THE NEW YORK CITY HOUSING DEVELOPMENT CORPORATION
AUDIT COMMITTEE**

December 2nd, 2020

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the “Corporation”) was held virtually on WebEx on December 2nd, 2020.

The meeting was called to order at 1:30 p.m. by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the October 29th, 2020 meeting. The minutes were approved.

Mr. Gould turned to Mr. Richard Froehlich, First Executive Vice President and Chief Operating Officer, to provide an overview of the agenda. Mr. Froehlich provided an overview of the agenda and noted that he and Mr. Eric Enderlin, President, would provide a short COVID-19 update on the Corporation’s performance.

Mr. Gould turned to Mr. Enderlin to provide the COVID-19 update. Mr. Enderlin noted that everyone is in a “watchful waiting” period. There is hopeful news for the COVID-19 vaccine that’s coming, but this has not changed the Corporation’s timeline too much. HDC is expected to continue working remotely until at least the end of the year at which time the Corporation will re-evaluate and plan accordingly. HDC is continuing as it has been with 99+% of the Corporation’s business operating well remotely. HDC recently closed on a 1,700 unit NYCHA deal, and the Corporation is moving forward with the pipeline. Construction has resumed and has been operating well. Construction sites have proved largely safe for workers with on-site COVID testing provided. There are changes at the federal level with the election, and there are some talks about reviving a modified relief bill for \$908 billion, smaller than what was passed previously but still helpful. There is also support for fixing the 4% tax credit and reviving the Federal Financing Bank which would be important for economic development. There might be GSE action as well in the future. Mr. Enderlin concluded noting that Mr. Froehlich can add more on the GSEs.

Mr. Enderlin then turned to Mr. Froehlich to report on the Corporation’s portfolio. Mr. Froehlich noted that HDC’s portfolio is continuing to perform well. HDC is currently working on the annual audit and financially we’ve been successful all year long. Mr. Froehlich stated that HDC and the City obviously need more from the federal government, but the Corporation is well-positioned and has been articulating the things it needs to the state and the federal government as clearly as possible. HDC closed on the NYCHA Manhattan bundle that Mr. Enderlin mentioned which was our first risk-sharing deal with Fannie Mae. We expect to do more of these types of transactions. The GSEs are important partners of the Corporation and important counterparties as well. The Corporation does a lot with the GSEs, and they enhance a lot of HDC’s portfolio. Mr. Froehlich also noted that HDC will continue to be available for our borrowers and to offer assistance as needed. He concluded by noting that HDC has been very pleased with how things have gone during the pandemic which is a testament to our underwriting and asset management.

Ms. Denise Scott, Board Member, noted that there have been talks about returning to work, and she asked what protocols will be in place for the workforce and whether public transportation will be safe. Ms. Scott then asked, how HDC plans on supporting the workforce and providing flexibility for staff who may not think it's a good idea to return to work. Mr. Enderlin responded that HDC is talking a lot about this issue internally and has formed an internal working group. Although staff have been told there would be no return before January, realistically, it may end up being in the middle of the year and on a voluntary basis for a while. HDC is taking its cue from City Hall. The Department of Health is running the vaccine program with guidance from various other health officials. City Hall and internal folks at HDC are also working on the plan. Mr. Gould added that some companies are looking to return in the middle of next year if the vaccine gets fully deployed and people feels it's safe. Mr. Kyle Kimball, Board Member, noted that his company decided that employees will not return to the office until July 2021, and after July, it will be voluntary for the rest of the year. Mr. Enderlin noted that it's good to have information as to what other corporations are doing and thanked the Board Members for sharing the information.

Mr. Gould then turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance, to present the Corporation's Debt Report as of October 31, 2020. Ms. Duffy noted that the Corporation issued one series of Open Resolution bonds totaling \$64.04 million. There were bond redemptions in one series of Open Resolution bonds in the amount of \$10.96 million and in one stand-alone bond series in the amount of \$13.3 million. The Corporation's debt outstanding as of October 31, 2020 is approximately \$13.1 billion. The Corporation's statutory debt capacity is \$15.5 billion. Mr. Gould asked whether there are any plans to increase the debt capacity limit. Mr. Enderlin responded that HDC will be requesting to increase the debt limit by \$1.5 billion, especially with upcoming NYCHA deals.

Mr. Gould then turned again to Ms. Duffy to provide the Corporation's Investment Report as of November 16, 2020. Ms. Duffy noted that funds under management totaled approximately \$5.1 billion. This report reflects routine investment activity. Ms. Duffy continued her report with a review of the Rating Agency Reserve Fund, which was previously approved by the Audit Committee. Ms. Duffy noted that after debt service on the Open Resolution was paid on November 1, 2020 and certain redemptions were made, the amount of long-term bonds outstanding in the Open Resolution is approximately \$7.0 billion. Based on this balance a 2.00% reserve would amount to \$140.3 million, a 2.25% reserve would be \$157.9 million, and a 2.50% reserve would amount to \$175.4 million. During FY 2020, the Reserve was funded in the amount of \$135 million. Due to the higher amount of bonds outstanding, the strong, diversified cash flow in the Open Resolution, and the \$25.6 million of guaranty reserves currently cash-funded, HDC Staff recommends that the Reserve should be increased to \$140 million at this time.

Mr. Gould then called on Ms. Mary Hom, Chief Risk Officer, for the counterparty credit risk exposure report. Ms. Hom noted that the report before the Committee is as of October 31, 2020, and the previous report to the Audit Committee was dated September 30, 2020. There were no new additions to the list of counterparties, and there were no rating agency actions of note. HDC's counterparty exposure remains diversified with the largest exposures continuing to be with FHLMC and FNMA. Investments rated double-A or

higher were 45% of total investments, versus 48% at the last report. Investments rated triple-B or not rated were 29% of total investments, versus 28% at the last report, and are fully collateralized by high quality U.S. Treasury/Agency securities and/or FHLB letters-of-credit. Ms. Hom concluded her report by noting that HDC's exposure to liquidity providers was unchanged since the last report.

Mr. Gould then called on Ms. Hom to present the Internal Audit report. Ms. Hom reported that since the last report to the Audit Committee on October 29, 2020, the Petty Cash audit was completed. The primary audit objectives were to determine whether adequate internal controls exist to ensure that: (1) the cash asset was safeguarded and maintained in the proper amount; (2) petty cash disbursements were in compliance with the Corporation's policies and procedures; and (3) the Imprest Fund was properly authorized, processed, and reconciled. Ms. Hom reported that the Corporation's guidelines were found to be effective; no matters were found involving internal controls and their operation that were considered to be material weaknesses. With respect to the specific audit results, Ms. Hom reported that the petty cash disbursements were in compliance with policies and procedures; the petty cash on hand was kept in a secured lockbox and maintained in the proper amount; and all expenditures were properly authorized, processed, and reconciled. The Petty Cash audit was performed virtually, and there were just five transactions during the scope period. Ms. Hom reminded the Committee that this is a required audit which must be performed each year pursuant to the 2003 MOU with DOI. Ms. Scott asked since HDC is working remotely, how did the staff perform the Petty Cash audit? Ms. Hom responded that there were five transactions, and a few were before the shut down, and the few that occurred during the shut down were for Office Services staff who are working in the office. Office Services staff are the custodians of the Petty Cash. Internal Audit contacted them and did a virtual meeting and count of the Petty Cash.

Mr. Gould then asked whether there were significant risks on the few mortgagees that have had some difficulties. Mr. Froehlich responded that there were a few projects that asked for forbearance, but there are no significant risks, and overall the portfolio is performing well. Mr. Enderlin added that due to low interest rates, the Corporation is expected to get some request for refinancing, but this is not a distress situation as much as a "smart" move by borrowers because interest rates are low. There is extra vigilance because income support ends later this month. There is a huge "rent cliff" before us, a significant potential problem, but HDC is hoping it does not happen and that the federal government steps in with relief.

Mr. Gould then called on Ms. Hom to present the Internal Audit Plan for 2021. Ms. Hom reported that after careful performance of the annual risk assessment process (which included individual discussions with Members of the Audit Committee, as well as team discussions with the various departments across the Corporation), Internal Audit has developed a plan that seeks to maximize the areas of risk that will be reviewed during the year. This proposed plan includes a combination of assurance audits which HDC has typically performed, along with the introduction of a couple of new concepts to HDC's Internal Audit department, namely agile auditing and continuous monitoring. Agile audits are shorter, more efficient audits that seek to examine very specific areas of risk that can be quickly examined and reported upon. The concept of continuous monitoring seeks to monitor areas of risk on a continuous basis in real-time without having to perform a full-

blown audit every couple of years. The introduction of these two concepts will enhance Internal Audit's ability to assess and monitor more areas of risk throughout the Corporation. The proposed Internal Audit plan for 2021 includes: (1) five assurance audits; (2) the outsourcing of two assurance audits; (3) two advisory engagements; (4) four agile audits; (5) two special projects; and (6) the commencement of continuous monitoring of the HDC investment portfolio. Ms. Hom then thanked the Members as well as the leadership and staff of the Corporation for their input in the creation of this plan. Noting no further questions, Ms. Hom then requested approval of the 2021 Internal Audit Plan, and the Members approved the Plan.

Under other business, Mr. Gould then turned to Mr. Louis Roberts of Ernst & Young (E&Y) to present the status of HDC's fiscal year 2020 audit. Mr. Roberts noted that things are moving quickly with the audit. E&Y completed meetings with management to go through the walkthroughs of the significant processes, keeping a focus on whether there has been any impact on internal controls within the remote environment. There have been no changes, and controls are designed effectively. E&Y received a draft of the financial statements last week, and E&Y is reviewing; they will be providing feedback remotely. E&Y started having video conferences with the HDC Accounting staff to provide weekly updates. Mr. Roberts thanked the Corporation for being able to accommodate that request. Mr. Roberts concluded noting that, as to timing, progress on the audit is consistent with past years.

At 2:00 p.m., with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted,



Violine Roberty

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ATTENDANCE LIST (VIRTUAL MEETING)

<u>NAME</u>	<u>AFFILIATION</u>
Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Kyle Kimball	Audit Committee Member
Louis Roberts	Ernst & Young
Erin Montgomery	Ernst & Young
Alex Civitano	Ernst & Young
Eric Enderlin	NYC Housing Development Corp.
Richard Froehlich	NYC Housing Development Corp.
Susannah Lipsyte	NYC Housing Development Corp.
Cathy Baumann	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Terry Gigliello	NYC Housing Development Corp.
Elizabeth Strojan	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Paul Cackler	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Patrick Ogoke	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Ana Meza	NYC Housing Development Corp.
Violine Roberty	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.