

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

January 26th, 2021

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 January 26th, 2021.

The meeting was called to order at 2:00 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 December 2nd, 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 remarked that the situation seems to be improving. On the federal level, there is more confidence that there will be state and local aid, with the most recent bill providing additional rental support for tenants. However, Mr. Enderlin noted, there is still a lot of concern regarding the eviction moratorium and a potential rental cliff. There is reason for hope as the most recent federal bill fixed the 4% tax credit which will bring another \$250 million a year in LIHTC equity to the City. Mr. Enderlin stated that there is also focus on restarting the Federal Financing Bank (FFB) which would be a huge help with the refinancing work that HDC may undertake. Mr. Enderlin continued by noting that HDC, in coordination with the City, is advising staff on a month-to-month basis about returning to the office. Mr. Enderlin further noted that realistically, HDC would be working remotely until at least April. He explained that staff return to the office would depend on how much mask wearing and mitigation such as social distancing are being done to make sure that New York does not experience another coronavirus surge.

Mr. Enderlin then turned to Mr. Froehlich to report on the Corporation’s portfolio. Mr. Froehlich noted that 2020 was a successful year. He informed the Board that despite some concerns and challenges, the Corporation performed very well financially. In addition, 2020 was a major year for debt issuance. Mr. Froehlich reported that HDC was one of the top 20 municipal issuers in the country, and this reflected the amount of effort and work done by our dedicated team. Mr. Froehlich then stated that there is still some pressure in the portfolio, and the Corporation continues to meet regularly to review requests for forbearance or other assistance, such as refinancing, as borrowers seek to address the challenges that they are facing. Mr. Froehlich then stated that HDC will provide all the tools available to address these concerns, including lowering rates, so we should expect this to have some impact on the Corporation’s revenues. Mr. Froehlich further noted that 2021 will be a very active year with a lot of issuance, as evidenced by the approvals at the November Board meeting. Mr. Froehlich then emphasized that today’s financial report

provides good news regarding the Corporation's performance, but these results should be tempered with the continuing challenges that our borrowers are facing.

Mr. Gould then turned to Ms. Cathleen Baumann, Senior Vice President and Treasurer of the Corporation, to present the Corporation's Financial Report for fiscal year 2020. Ms. Baumann noted that 2020 was another successful year for the Corporation. The ongoing economic downturn caused by the coronavirus pandemic has led to some challenges, but the Corporation has adapted and performed very well. Total assets increased to \$21.8 billion an increase of \$1.7 billion or 8.62% from 2019 due to the Corporation's robust mortgage lending and bond financing activities throughout the year. Ms. Baumann further noted that HDC's mortgage loan portfolio has performed well as repayments continue to remain close to pre-pandemic levels. As of the end of the fiscal year, four mortgages had been granted forbearance and one had resumed making their monthly payments. Total liabilities were \$18.5 billion, an increase of \$1.5 billion or 8.90% from 2019 because of the Corporation's ongoing debt and lending activities. Despite the pandemic, bond issuances during FY 2020 continued with little interruptions. Twenty-one new bond series were sold, totaling \$1.8 billion. In addition, debt obligation draws totaled \$17.2 million for the fiscal year, all to create and preserve affordable housing. HDC also signed a new loan participation agreement with the FFB for \$65.6 million. Total net position at fiscal year-end was \$3.4 billion, representing an increase of \$286 million or 9.13% over the prior year. Of this amount, \$244.8 million was generated from the Corporation's normal operating activities and \$41.3 million was funds received from the 421-A Grant Revenue Program with the Battery Park City Authority. Ms. Baumann reported that during the fiscal year, the Corporation early adopted GASB Statement No. 84, *Fiduciary Activities*. In the Corporation's normal course of business, it is in control of custodial assets which it holds and expends for the benefit of others. Those activities are now required to be reported in separate fiduciary fund financial statements. The funds affected by GASB 84 are the funds that we hold for HPD relating to several loan participation agreements with the City through HPD, funds that we hold for construction and permanent servicing for HPD, escrow and reserve funds that we hold on behalf of the Corporation's mortgagors, and the Corporation's OPEB fund. Ms. Baumann took the opportunity to recognize Mary John, HDC's Controller, and Cheuk Yu, HDC's Deputy Controller, for their leadership throughout the year and their perseverance during the audit, as well as the entire HDC Accounting staff for all of their hard work and dedication in completing another successful audit, all while working remotely during the pandemic. Ms. Baumann then noted Mr. Louis Roberts of Ernst & Young would walk the Members through the audit results.

Mr. Gould then turned to Mr. Louis Roberts of Ernst & Young to present HDC's Fiscal Year 2020 Audit report. Mr. Roberts first expressed gratitude to the Corporation and its team members for being flexible and working remotely with Ernst & Young to complete the audit which was consistent with what was communicated to the Members back in December. Mr. Roberts noted that Ms. Erin Montgomery, Senior Manager, Ernst & Young will be sharing her screen. Mr. Roberts then turned the Committee's attention to the Executive Summary slide of the Ernst & Young presentation to highlight some findings with respect to key business issues and the pandemic. Mr. Roberts reported that 2020 was a successful year as it relates to the performance of the loan portfolio, bond issuance, refinancing transactions, and the valuation of the investments. There were no trends or transactions that caused Ernst & Young to have to take any deeper dives or consider

additional reserves related to the collectability of mortgage balances. Mr. Roberts then noted that the new adoption of the GASB 84 rule, as Ms. Baumann mentioned, is reflected in the financial statements. Mr. Roberts continued with the results of the audit. He reported that the Corporation's analysis for significant accounting matters is appropriate, and that judgments were consistently used by management to account for significant accounting estimates. Mr. Roberts further noted that there were no corrected misstatements or material uncorrected misstatements. He stated that all internal controls over financial reporting are designed effectively and were not affected by the remote environment. He also reported that there were no instances of fraud or noncompliance with laws and regulations. Mr. Roberts then informed the Board of upcoming GASB pronouncements that may impact the Corporation in fiscal year 2022. Mr. Roberts noted meeting with two HDC senior staff members to discuss GASB 91, Conduit Debt Obligations, which will have an impact on the financial statements in fiscal year 2023. Mr. Gould then requested approval of the Corporation's Financial Statements and the Members approved the 2020 Financial Statements.

Mr. Gould then turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance, to present the Corporation's Annual Investment Report for fiscal year 2020. Ms. Duffy reported on the Corporation's investment results. Earnings on investments totaled \$89.6 million in fiscal year 2020, a decrease of \$20.5 million from fiscal year 2019, due mainly to a decrease in reinvestment rates and a decrease in investment proceeds in FY 2020. HDC funds under management decreased about 22.6% from fiscal 2019 year-end to fiscal 2020 year-end, from \$5.91 billion to \$4.6 billion. The Corporation had a 9.13% growth in net position over the last year. Ms. Duffy then requested approval of the Corporation's Annual Investment Report and Investment Guidelines, and the Members approved the 2020 Annual Investment Report.

Mr. Gould then turned again to Ms. Ellen Duffy to present the Corporation's Debt Report as of December 31, 2020. Ms. Duffy noted that the Corporation issued three series of Open Resolution Bonds totaling \$532.95 million and two series of Housing Impact Bonds in the amount of \$289.07 million. There were bond redemptions in two series of Open Resolution bonds in the amount of \$236.3 million and two stand-alone bond series in the amount of \$10 million. The Corporation's debt outstanding as of December 31, 2020 is approximately \$13.5 billion. The Corporation's statutory debt capacity is \$15.5 billion.

Mr. Gould turned again to Ms. Duffy to provide the Corporation's Investment Report as of January 12, 2021. Ms. Duffy noted that funds under management totaled approximately \$5.26 billion. This report reflects routine investment activity.

Mr. Gould then called upon Ms. Mary Hom, Chief Risk Officer, for the Counterparty Credit Risk Exposure report. Ms. Hom noted that the report before the Committee is an unaudited report detailing the Corporation's counterparty exposure as of December 31, 2020. The previous report to the Audit Committee was dated October 31, 2020. There were no rating agency actions of note, but there were two new approved counterparties: Dime Savings Bank and Hanover Bank. Dime Savings Bank was formed in Brooklyn in 1864 and is currently in the process of merging with Bridgehampton National Bank, a bank already on HDC's approved list. The combined entity will have approximately \$11 billion in total assets and will be known as Dime Community Bank. Hanover Bank is a small,

privately-held community-focused financial institution based in Mineola, Long Island with approximately \$850 million in total assets. Hanover is in the process of merging with Savoy Bank, and when the merger is completed in the first half of 2021, the combined entity will have approximately \$1.6 billion in total assets. Both Dime and Hanover are not rated by Moody's or S&P, but HDC investments in both banks are fully-collateralized by FHLB letters-of-credit. Ms. Hom continued by noting that HDC's counterparty exposure remains diversified with the largest exposures continuing to be with FHLMC and FNMA. Investments rated double-A or higher were 44% of total investments, versus 45% at the last report. Investments rated triple-B or not rated were 32% of total investments, versus 29% 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 exposure to liquidity providers increased to \$348.8 million due to the issuance of the 2020 Series I-3 bonds.

Mr. Gould then called upon Ms. Hom for the Internal Audit report. Ms. Hom noted that since the last report to the Audit Committee on December 2, 2020, the Project Loan Setup and President's Office Expenses audits were completed, and the Code of Ethics – Annual Employee Certification was completed as well. On Project Loan Setup, Ms. Hom reported that the objectives were: (1) To determine if there are current and effective project loan setup policies and procedures; (2) To assess efficiency of department processes for setting up and managing project loans; (3) To determine if users have appropriate setup and restrictions to Benedict software in accordance with their job responsibilities; and (4) To determine accuracy of loan data on origination documents, Benedict software, and loan data reports. Upon completion of the audit, there were no matters noted involving internal controls that were considered material weaknesses. We found that the project loan setup process was properly assigned and segregated. Opportunities exist to further enhance controls for the project loan setup process, and these opportunities have been communicated to the various departments that participate in the process to determine the feasibility of these enhancement opportunities.

Moving to the President's Office Expenses audit, Ms. Hom noted that the objectives were to: (1) Determine accuracy of the President's Office expenses recorded in Oracle and ensure they are accurately reflected in the General Ledger; and (2) Determine whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements. Upon completion of this audit, there were no matters involving internal control and its operation that were considered to be material weaknesses. In summary, the Corporation's guidelines were effective, and the President's Office expenses were generally processed with supporting documentation and correctly recorded according to the policies in the Employee Handbook. Ms. Hom reminded the Committee that this audit is required to be performed each year pursuant to the 2003 Memorandum of Understanding (MOU) with the New York City Department of Investigation (DOI).

Ms. Hom concluded her Internal Audit remarks with a report on the Code of Ethics Annual Employee Certification. Pursuant to the HDC Audit Committee Charter, Internal Audit is required to provide the Audit Committee with an annual report attesting that each HDC employee has affirmed or reaffirmed acknowledgement of the Corporation's Code of Ethics and Conflicts of Interest policy. Ms. Hom reported that this process was completed,

and Internal Audit received and examined a detailed report from the Corporation's Human Resources department on January 14, 2021 supporting this affirmation.

Mr. Gould then called on Ms. Hom to present the Annual Audit Committee Report for 2020. Pursuant to the New York City Comptroller's Directive 22, the Audit Committee is required to publish an annual report detailing its activities and decisions for the prior calendar year. This report is a compilation of the Minutes from the Audit Committee meetings that occurred during the 2020 calendar year. Upon approval, a copy of this report will be submitted to the Secretary for the Audit Committee of New York City. Ms. Hom then requested the Members approval of the Annual Audit Committee Report, and the Members approved the report.

At 2:30 p.m., with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted,



Ana Meza

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January 26th, 2021

ATTENDANCE LIST (VIRTUAL MEETING)

NAME

AFFILIATION

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.
Cheuk Yu	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.