

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

***June 2<sup>nd</sup>, 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 Wednesday, June 2<sup>nd</sup>, 2021.

The meeting was called to order at 10:07 a.m. by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the April 6<sup>th</sup>, 2021 meeting. The minutes were approved.

Mr. Gould turned to Mr. Eric Enderlin, President of the Corporation, to provide an overview of the agenda. Mr. Enderlin provided an overview of the agenda and noted that he 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 Corporation is hopeful that this might be one of the last times we provide such a serious or thorough COVID update. There is concern as to what might happen in the fall and the potential for COVID variants, but there is reason to be optimistic. A recent report out of North Carolina indicated that keeping distancing and masking will save quite a few infections during winter. New York City has been focused on getting vaccination rates up. Most of HDC’s staff have returned to the office in stages, and we continue to social distance. Mr. Enderlin commended the Office Services staff as they have done a great job in bringing staff back to the office safely.

Mr. Enderlin then turned to Mr. Richard Froehlich, First Executive Vice President, to report on the Corporation’s portfolio. Mr. Froehlich noted that the portfolio continues to perform well. The State has unveiled its emergency rental assistance program, and that will provide more of an opportunity to work with borrowers and their tenants to ensure that tenants apply for the assistance available. From the perspective of the Corporation’s borrowers, they generally are current on their payments and are doing well overall. There are a few borrowers who tapped into reserves, but that has stopped at this time. Mr. Froehlich noted that the second quarter financial presentation will make clear that the Corporation’s financials are strong, and the Corporation is doing well overall. Mr. Enderlin added that he has talked to some developers who noted that most projects are reporting for May 2021 a 92% to 99% collection rate. There is still a big gap from last year, and most people have done reasonably well, but there are still a number who fell deeply behind on their rents. The affordable housing portfolio has done well in New York City; it’s mostly the market rate buildings in the City that have seen both economic vacancy and significant physical vacancy.

Ms. Denise Scott, Board Member, asked whether the Corporation is seeing a significant number of commercial vacancies in the portfolio and whether there are any concerns. Mr. Enderlin answered no; due to careful underwriting, the Corporation has not relied heavily on the commercial components and has kept exposure to a minimum. Mr. Enderlin noted

that there is an impact to commercial spaces overall in the City and the world, but not a major impact on HDC.

Mr. Gould then turned to Ms. Mary John, Controller, to report on the Corporation's unaudited financial statements for the second quarter of fiscal year 2021, covering the period November 1, 2020 through April 30, 2021. Ms. John noted that as the economy continues to recover from the worst of the economic downturn related to the COVID-19 global pandemic, the Corporation continues to grow its balance sheet with bond issuances exceeding \$1.5 billion as of the end of the second quarter. The new money raised will be used to finance 12 new construction loans as well as preservation and refinancing loans closed during the period. Total assets (including deferred outflows) of \$23.5 billion, increased by \$1.5 billion, or 7.0%, from FY 2020. The increase was primarily due to the growth in the mortgage portfolio by a net of \$1.4 billion from the end of FY 2020. The Corporation's mortgage portfolio continues to perform well, with only one loan currently in forbearance as of April 30<sup>th</sup>. Total liabilities (including deferred inflows) of \$19.9 billion, increased by \$1.4 billion, or 7.8%, from FY 2020 mainly due to the increase in bonds and debt obligations payable by a net of \$1.1 billion. The Corporation had total revenues of \$311.7 million at the end of the second quarter, a decrease of \$49.2 million over the same period last year. The lower revenues were due to the fair market valuation on the outstanding investment portfolio which decreased by \$51.9 million from a year ago. Management intends to hold the investment securities to maturity. As a result, the likelihood of this loss being realized is minimal. Ms. John further noted that the net position as of April 30<sup>th</sup>, 2021 was at \$3.5 billion, an increase of \$93.5 million since the end of FY 2020. Ms. John further noted that net income for the period was \$93.5 million which is comprised of operating revenues of \$332.8 million, an increase of \$29.4 million or 9.7%. Operating expenses were \$218.2 million, a decrease of \$3.9 million, and non-operating expenses were \$21.1 million (primarily realized investment income and unrealized investment fair value loss). Mr. Froehlich provided an explanation regarding the mark-to-market loss number being rather high. Mr. Froehlich noted that the Corporation has about \$1.1 billion invested in Agency callable securities and that's why HDC is seeing that big paper loss. The income the Corporation will see on those Agency securities is an annualized \$19 million. If the Corporation invested that cash very short at money market rates, we would earn \$3 million or less. This is a conscious decision to get actual revenue at a higher level, but unfortunately as interest rates increased, the valuation was impacted. The Corporation is getting actual revenue versus a paper loss.

Mr. Gould then turned to Ms. Ellen Duffy to present the Corporation's Debt Report as of April 30, 2021. Ms. Duffy noted that the last debt report presented to the Audit Committee was as of February 28, 2021. During this time, the Corporation issued six series of Open Resolution bonds totaling \$678.5 million, two stand-alone bond series in the amount of \$48.3 million, and remarketed two series of Open Resolution bonds totaling \$38.4 million. There were no bond redemptions in March or April. The Corporation's debt outstanding as of April 30, 2021 is approximately \$14.08 billion. The Corporation's statutory debt capacity is \$15.5 billion. Mr. Gould asked if the Corporation is still planning on applying for a debt capacity increase. Ms. Duffy answered that yes, HDC has applied for \$17 billion and the bill is still going through the legislature.

Mr. Gould turned again to Ms. Duffy to provide the Corporation's Investment Report as of May 17, 2021. Ms. Duffy noted that funds under management totaled approximately \$5.34 billion. This report reflects routine investment activity.

Mr. Gould then called upon Ms. Mary Hom, Chief Risk Officer, to present the counterparty credit risk exposure report. Ms. Hom reported that the report today details the Corporation's counterparty exposure as of April 30, 2021. The previous report to the Audit Committee was dated February 28, 2021. There were no rating agency actions of note, and there were no new approved counterparties. HDC's counterparty exposure remains diversified with the largest exposures continuing to be with FNMA and FHLMC. Investments rated double-A or higher were 48% of total investments, versus 47% at the last report. Investments rated triple-B or not rated were 32% of total investments, versus 31% at the last report, and are fully collateralized by high quality U.S. Treasury or Agency securities and/or FHLB letters-of-credit. Ms. Hom concluded her report by noting that HDC's exposure to liquidity providers was unchanged at approximately \$348 million.

Hearing no questions, Mr. Gould then called upon Ms. Hom to present the Internal Audit reports. Ms. Hom reported that in accordance with The International Professional Practices Framework, or IPPF, the conceptual framework that organizes authoritative guidance provided by The Institute of Internal Auditors, HDC has conducted its Internal Audit Internal Assessment for 2020. This assessment is part of HDC's Quality Assurance and Improvement Program as dictated by the IPPF and helps to ensure that HDC's internal audit function operates effectively. The attached assessment outlines the structure and activities of the internal audit department for calendar year 2020, including all audits completed, projects and initiatives, governance and oversight activities, and updates regarding employee development and ongoing training that helps to ensure that staff remains current on internal audit best practices. As COVID impacted HDC in 2020 and the department had some staffing challenges, the focus shifted to those areas Internal Audit felt needed attention, such as updating the Corporation's Business Continuity Plan. Another focus was starting and coordinating the work of HDC's PII Working Group. The PII Working Group finalized the Corporation's Privacy Policy last summer, and earlier this year, finalized the Corporation's PII Policy. Ms. Hom concluded by noting that this group will continue its work into 2021 as HDC seeks to roll out training to staff around identifying and securing PII.

Mr. Gould then called upon Ms. Hom to present the Audit Committee Charter. Ms. Hom recommended that the Members approve the Audit Committee Charter as presented today. HDC's Audit Committee Charter requires an annual review by the Committee to determine the Charter's adequacy. The last time the Audit Committee reviewed and approved the Audit Committee Charter was May 21, 2020. There has been one revision to the Charter on page 4 regarding the addition of a complaint intake form on the Corporation's website. Mr. Gould then called for a motion to approve the Audit Committee Charter. Mr. Kyle Kimball made a motion to approve the Audit Committee Charter and the motion was seconded by Ms. Denise Scott. The Audit Committee Charter was approved.

Mr. Gould then called on Ms. Hom regarding a request to move the meeting into Executive Session. Ms. Hom reported that the next Internal Audit report to the Committee pertains to the Corporation's cyber security protocols. Since this information is highly sensitive, Ms. Hom requested that the Audit Committee move to Executive Session for the purpose of presenting and discussing this report. Mr. Gould made a motion to move to Executive Session. The motion was seconded by Ms. Denise Scott, and the meeting was moved into Executive Session at 10:22 a.m.

At 10:32 a.m., the Audit Committee returned from Executive Session, and Mr. Gould noted that the Committee made no decisions and did not vote on any matters while in Executive Session.

Mr. Gould then turned the committee's attention to Ms. Cathleen Baumann, Senior Vice President and Treasurer of the Corporation for other business. Ms. Baumann reported that HDC and HPD, in conjunction with our partners, are making significant strides in housing homeless New Yorkers. In 2020, over 1,200 homeless households were placed in HDC/HPD assisted developments. Projections indicate that over the next twelve months, 3,300 homeless referrals will be housed in our developments. This success is due in part to changes in our marketing guidelines, which now require 15% of units be set aside for homeless households, as well as the creation of augmented City Family Homelessness & Eviction Prevention Supplement vouchers.

HPD currently handles all homeless placements in HDC's affordable housing portfolios. The HPD Homeless Placement Services' team matches homeless applicants to available units, assists landlords through the qualification process, and tracks every step of the applicant's process through tenancy, all in coordination with the New York City Human Resources Administration and the New York City Department of Homeless Services. Substantial increases in homeless placements have created staffing capacity issues for HPD's Asset Management team that jeopardize the timely placement of homeless applicants, and this requires an immediate solution. As such, HPD has requested that HDC temporarily assist HPD with the homeless placement process for the anticipated 1,000 HDC-financed homeless set-aside units becoming available over the next twelve months.

HDC researched alternatives to address this HPD capacity issue which included: creating a new division at HDC modeled after HPD's Homeless Placement group, contracting with a third-party vendor, and increasing capacity at HPD through the hiring of temporary staff. The first two options presented logistical and technical challenges that would delay relief and exacerbate the timely placement of homeless households. This includes time needed for a hiring process, a very steep learning curve with a newly created division at HDC, and the near impossibility of connecting to DHS' IT systems, since HDC is not setup on the City's IT systems.

Therefore, HDC determined that the best solution would be to provide HPD with support staff through temporary hiring contracts over the next twelve months. Given HPD's existing infrastructure and expertise in placing homeless households, this is the most efficient solution at this time.

In addition, keeping HPD as the primary agency for the coordination and placement of the City's most vulnerable population has the added benefit of eliminating any confusion for landlords, agency partners, and housing applicants, as the homeless placement process remains centralized with HPD. Most importantly, this option keeps the pipeline moving, avoids a backlog in homeless placements, and helps ensure that homeless households move into permanent housing more rapidly.

As a result of this solution, a Memorandum of Understanding (MOU) between HPD and HDC has been executed providing for the hiring of five (5) temporary employees through their existing vendor for a period of twelve months at a cost of \$330,000 to HDC. As this will cross two fiscal years, HDC will incur a cost of approximately \$165,000 this fiscal year and again next fiscal year, which will be charged to the Temporary Staff line on the Corporation's operating budget.

Ms. Scott asked whether this includes an effort to move families out of the temporary hotels into permanent or supportive housing. Ms. Scott noted that during COVID, a lot of people were housed in hotels. Mr. Enderlin answered that this could be part of the effort, but it's part of the bigger homeless placement piece between HPD and DHS. The primary function is to keep the pipeline and the marketing and placement moving expeditiously. Ms. Scott noted that this is likely to be controversial. Mr. Gould noted that there have been several press articles on converting the hotels into permanent housing and asked whether this has momentum. Mr. Enderlin answered that HDC has looked at this, and it's difficult to gauge at this point. The Corporation is working on one hotel project which the Members will see eventually, but it does not look like something with a lot of traction broadly at this time.

At 10:39 a.m., with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted,



Violine Roberty

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**June 2nd, 2021**

**ATTENDANCE LIST (VIRTUAL MEETING)**

<b><u>NAME</u></b>	<b><u>AFFILIATION</u></b>
Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Kyle Kimball	Audit Committee Member
Louis Roberts	Ernst & Young
Erin Montgomery	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.