NYC HDC
NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

TO: Members of the Audit Committee

FROM: Ellen Duffy

SUBJECT: Revised Bond Reserve Policy

DATE: November 23, 2021

Senior Management is requesting the Members approval of the Corporation's revised Bond Reserve Policy. The original policy and Memo are attached. On April 2, 2013, senior management requested that a policy correlating with the size of certain corporate obligations be formally approved by the Members. This policy was originally called the Rating Agency Reserve but has been renamed the Bond Reserve because this reserve is not required by the rating agencies.

In addition to changing the name of this reserve, senior management is changing the percentage funded due to the Open Resolution's continued performance, growth, and strength. Considering what the Corporation has set aside in its Bond Reserve over the years relative to the bonds outstanding in the Open Resolution, the average reserve balance over the last six years was 2.23% of the long-term bonds outstanding. In 2013, when this policy was first approved, we assumed a 5% annual growth rate. However, over the past six years the Corporation's growth in long term bonds outstanding has been 14.8%. During this time, S&P upgraded the Open resolution from a AA to a AA+ rating

Based on the strong performance of the Corporation's diversified and seasoned mortgage portfolio, and the rating agencies assessment that the Open Resolution has very strong coverage, liquidity, and overcollateralization, senior management recommends lowering the required Bond Reserve balance to between 1.50% to 2.00% of the long-term bonds outstanding in the Open Resolution.

After debt service on the Open Resolution was paid on November 1, 2021 and certain redemptions made, the amount of long-term bonds outstanding in the Open Resolution is approximately $8.0 billion. Due to the higher amount of bonds outstanding, the strong, diversified cash flow in the Open Resolution, and the $49 million of guaranty and working capital reserves currently cash funded, HDC Staff recommends that the Reserve should be increased from $140 million to $150 million at this time.

<u>Recommendation and Action by Members</u>

Staff recommends that the Members approve the attached Revised Bond Reserve Policy.

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Bond Reserve Policy

In addition to the Debt Service Reserve Fund account requirement on all bond resolutions, the Corporation also has a Bond Reserve account ("Reserve") set aside in order to provide additional assurance that the Corporation's ongoing debt service obligations can be paid, if necessary. The Reserve also gives comfort to the rating agencies and supports HDC in maintaining its strong AA rating.

The Corporation normally sets aside its reserves pursuant either to HDC policy, Board resolutions or agreements. Therefore, a revised policy for the Bond Reserve Account must be formally documented and approved.

The amended policy we propose is as follows:

- The Reserve will be based on the Open Resolution's long-term bonds outstanding
- The Reserve amount should range between 1.50% to 2.00% of the long-term bonds outstanding
- The Reserve amount will be evaluated by senior management at each semi-annual debt service date (May 1st and November 1st) after the debt service is paid to make sure the balance falls within the range
- The Reserve will be held in a sub account of the Corporate Services Fund
- Additional reserves, outside of the Bond Reserve, may be required for special bond deals or if the Corporation pledges its general obligation in support of a specific transaction
- On an annual basis, the percentage and dollar amount of the Reserve will be reported to the Audit Committee
- Any change to the Bond Reserve policy must be presented to and approved by HDC's Audit Committee Members

Revised 11//2021
Originally approved 4/2013

NEW YORK CITY
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MEMORANDUM

TO: Members of the Audit Committee

FROM: Richard Froehlich

SUBJECT: Approval of Rating Agency Reserve Policy

DATE: April 2, 2013

Senior management is requesting the Members' approval of the Corporation's formalization of a rating agency reserve policy.

The Corporation normally sets aside its reserves pursuant either to HDC policy, board resolutions or agreements. HDC established a rating agency reserve many years ago that was originally created to support the Corporation's independent credit rating from each of Standard & Poor's and Moody's. At several intervals over the years senior management has increased this reserve in an unofficial relationship with the Corporation's increase in obligations. Senior management is requesting that a policy correlating with the size of certain corporate obligations now be formally approved by the Members.

The reserve is set aside to cover the Corporation's general obligations and also may provide additional assurance that semi-annual debt service on the Open Resolution could be paid if for some reason it cannot be paid out of the debt service reserve account in the bond resolution. The reserve has also given comfort to the rating agencies of the Corporation's additional resources and supports HDC in maintaining its strong AA and Aa2 rating from the agencies, respectively.

During FY 2012, HDC issued almost $1.23 billion in bonds while maintaining its AA and Aa2 credit ratings. The continued growth of the Corporation over the years is reflected in many areas throughout the financial statements including the amount of bonds outstanding, which has more than doubled from $3.3 billion at the end of FY 2003 to over to $8.79 billion at the end of FY 2012. The Open Resolution, the workhorse of the Corporation, has seen even larger percentage growth in its bonds outstanding. The parity resolution has more than quadrupled from $1.048 billion at the end of FY 2003, to over $4.3 billion at the end of FY 2012.

The Corporation maintained a rating agency reserve in FY 2012 of $72.5 million based on $3.033 billion long term bonds outstanding in the Open Resolution, approximately a

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2.4% reserve. As of February 28th, 2013 the long term bonds outstanding in the Open Resolution were about $3.1 billion. Based on this balance a 2.25% reserve would amount to $70 million, a 2.5% reserve would be $78 million, and a 2.75% reserve would amount to $85 million. Based on these projections as well as the Corporation's planning and budget for the year, staff recommends that the reserve should be increased to $80.0 million for FY 2013.

Taking into account what the Corporation has set aside in its rating agency reserve over the years relative to the bonds outstanding in the Open Resolution, the average reserve balance over the last five years was 2.77% of the long term bonds outstanding. Assuming 5% growth each year, the ten year average of the reserve balance is about 2.58% of the long term bonds outstanding. Based on the strong performance of the Corporation's mortgages and the related debt issued, senior management believes that an appropriate range of required ratings agency reserve balance would be between 2.25% to 2.75% of the long term bonds outstanding in the Open Resolution.

Recommendation and Action by Members

Staff recommends that the Members approve the attached ratings agency reserve policy.

Rating Agency Reserve Policy

In addition to the Debt Service Reserve Fund account requirement on all bond resolutions, the Corporation also has a Rating Agency Reserve account set aside to provide additional assurance that the semi-annual debt service can be paid, if necessary. The reserve also gives comfort to the rating agencies and supports HDC in maintaining its strong AA rating.

The Corporation normally sets aside its reserves pursuant either to HDC policy, Board resolutions or agreements. Therefore a policy for the rating agency reserve must be formally documented and approved.

The policy we propose is as follows:

- The reserve will be based on the Open Resolution's long term bonds outstanding
- The reserve amount should range between 2.25% to 2.75% of the long term bonds outstanding
- The reserve amount will be evaluated by senior management at each semi-annual debt service date (May 1st and Nov 1st), after the debt service is paid and prior to pulling out any surplus, to make certain that the balance falls within the range
- Additional reserves may be required for special bond deals or if the Corporation pledges its general obligation in support of a specific transaction
- On a semi-annual basis, the percentage and dollar amount of the reserve will be reported to the Audit Committee
- Any change to the rating agency reserve policy must be presented to and approved by HDC's Audit Committee Members