



MEMORANDUM

To: Audit Committee

From: Mary Hom
Chief Risk Officer

Date: November 22, 2021

Re: Internal Audit Report

Since the last report to the Audit Committee on October 5, 2021, one internal audit was completed. A copy of the report is attached, and a summary is as follows:

2021 Underwriting Standards

Objective:

Our audit objectives were to:

- Determine if credit memos were properly approved and signed;
- Determine if the underwriting of loans was done in accordance with the applicable term sheet and reflected in the credit memo; and
- Review accuracy of amounts, terms, and critical information recorded in underwriting and supporting documentation.

Audit Results:

We noted no material misstatements or inaccuracies in the data reviewed. We found that critical underwriting documents were completed, credit memos were properly approved, and key aspects of program term sheets were followed. Opportunities exist to further enhance controls for underwriting loans and maintaining loan records, and management is addressing these enhancements in the implementation of a new software to manage development pipeline and process.

Agile Audit	UNDERWRITING STANDARDS	
Audit Tests	<ol style="list-style-type: none"> 1. Determine if credit memos were properly approved and signed 2. Determine if the underwriting of loans was done in accordance with the applicable term sheet and reflected in the credit memo 3. Review accuracy of amounts, terms, and critical information recorded in underwriting and supporting documentation 	
Scope	Calendar year 2020 credit memos and underwriting	
Methodology	<ol style="list-style-type: none"> 1. Methodology is limited to performing stated audit tests on selected projects to determine the completeness, accuracy, and validity of the information/data recorded, and provide testing results 2. Three projects were selected as a sample: <ol style="list-style-type: none"> a. Bronx Point b. Parkchester Gardens c. 500 East 165th Street 	
Audit Summary	<p>We noted no material misstatements or inaccuracies in the data reviewed. We found that critical underwriting documents were completed, credit memos were properly approved, and key aspects of program term sheets were followed. Opportunities exist to further enhance controls for underwriting loans and maintaining loan records. The following testing results provide insight into what was found, any associated risks, and recommendations to mitigate those risks.</p>	
Testing Results		
<u>Audit Test</u>	<u>Result</u>	<u>Recommendation</u>
Determine if credit memos were properly approved and signed	From the sample projects selected, all associated credit memos were properly approved and signed	N/A
Determine if the underwriting of loans was done in accordance with the applicable term sheet and reflected in the credit memo	One project LTV exceeded the term sheet maximum (discretion is allowed)	While discretion is allowed with Credit Committee approval, the exception should be noted in the final credit memo.
Review the accuracy of loan amounts, terms, and critical information in underwriting and supporting documentation	<ol style="list-style-type: none"> 1. Some aspects of the project intake template were not completed (and deemed unnecessary); however, the credit memos were sufficiently completed to reasonably approve the project. 2. Differences in loan amounts between credit memos, final loan agreements and underwriting documents have an allowable threshold of 10%. For larger projects, this threshold can account for a significant dollar amount difference. 	<ol style="list-style-type: none"> 1. Documents required as part of the project intake form should be re-assessed to determine if they are currently applicable and necessary to accurately record and approve a project. 2. Development and HDC management should re-assess the 10% allowable difference threshold to determine the impact to the validity of a project's approval. Additionally, management should consider documenting and approving larger dollar amount differences.
<p>Management Response: <i>Development is currently working with IT to procure and implement a new software system (Builders Patch) to manage Development pipeline and project intake, and to standardize credit memos and underwriting templates. As part of this implementation, we will incorporate a checklist to address term sheet requirements. The 10% allowable difference threshold will be examined by Credit Risk.</i></p>		