

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

January 28, 2025

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the “Corporation”) was held at the Corporation’s office at 120 Broadway on Tuesday, January 28, 2025.

The meeting was called to order at 4:00 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 November 25, 2024 meeting. The minutes were approved.

Mr. Gould then turned to Ms. Cathy Baumann, Executive Vice President and Chief Financial Officer, to provide an overview of the agenda. Ms. Baumann began by noting that the Corporation had another successful year with the balance sheet remaining strong. Ms. Baumann thanked Mr. Cheuk Yu, Vice President and Controller, for his leadership and the accounting team’s hard work ensuring a smooth audit. Ms. Baumann then provided an overview of the agenda.

Mr. Gould turned to Mr. Yu to present the Corporation’s Annual Financial Statement for Fiscal Year (“FY”) 2024. Mr. Yu noted that during this fiscal year, the Corporation had another successful year. The Corporation’s financial performance hit another high with \$28.8 billion in total assets under management. Mr. Yu noted that in an environment of continuing elevated interest rates and moderate inflation, the Corporation continued to issue bonds unimpeded, demonstrating its resilience. This allowed the Corporation to continue its commitment to creating and preserving affordable housing in the City and ongoing support for the City’s housing initiatives. The Corporation successfully issued a total of \$1.8 billion in bonds during FY 2024, navigating financial market volatility and increased borrowing costs. The proceeds from these bonds were utilized to provide financing for both new construction and rehabilitation loans, resulting in \$1.6 billion in new commitments, further strengthening the Corporation’s role in addressing the demand for affordable housing. Additionally, the Corporation committed \$205.7 million in subsidy loans financed with a combination of corporate reserves and bond proceeds. HDC also continued its commitment to the NYCHA PACT program by financing four additional projects this fiscal year, bringing the total Bonds issued under the PACT Bond Resolution to \$1.4 billion since its inception.

Mr. Yu continued by reporting that total revenues of the Corporation increased to \$1.3 billion, an increase of \$399.6 million from FY 2023. Net operating income was \$363.6 million generated from interest on loans and mortgage-related fees, less bonding costs, and other expenses. Operating expenses increased by \$76.1 million or 16.5% from FY 2023. Non-operating income increased to \$366.5 million, an increase of \$254 million from FY 2023. The increase was mainly due to a combination of realized investment earnings, recapture of unrealized loss on investment, and receipt of the first installment of funds from the new Battery Park City agreement. Realized investment earnings were \$161 million compared to \$109.2 million in FY 2023.

Total assets and deferred outflows increased to \$28.8 billion, an increase of \$4.3 billion or 17.6% from fiscal year end 2023. The increase was primarily a result of the Corporation's continued strong mortgage lending and bond financing activities throughout the year. The mortgage loan portfolio, which comprises 76.7% of total assets, was \$22.1 billion, an increase of \$3 billion or 15.5% from the previous year. The portfolio continues to perform well as repayments remain relatively strong.

Total liabilities were \$23.7 billion, an increase of \$3.7 billion or 18.3% from fiscal year end 2023. Bonds and Debt Obligations outstanding were \$14.6 billion, a net increase of \$1.3 billion from fiscal year end 2023. The year saw continued bond issuances despite the elevated interest rates. Nineteen new bond series were sold, totaling \$1.8 billion. The Corporation had a total of \$385.1 million in bond principal payments for the year, of which \$188.8 million were bond redemptions and \$196.3 million were scheduled debt service principal payments. Additionally, there were \$57 million in debt obligation redemptions and repayments and \$6.5 million in Federal Financing Bank repayments.

Total net position of the Corporation was \$4.8 billion, representing an increase of \$740 million or 18% from the prior year. This increase was generated from normal operating activities and an increase in investment income which was less affected this year by the fair market value adjustment that we saw in the prior year.

Mr. Yu closed his remarks by thanking Mr. Mussa Sanoe, Director of Accounting, and the entire accounting team for their dedicated efforts during the audit.

Ms. Denise Scott, Board Member, asked whether the increased operating expenses were due to new hires. Mr. Yu noted that it wasn't, and the percentage increase is in line with previous years. Mr. Gould asked whether the Corporation is still planning to increase the bonding capacity to \$20 billion. Ms. Ellen Duffy, Executive Vice President of Capital Markets and Investments, replied affirmatively and noted that the legislative process is underway to permit the increase from \$19 billion to \$20 billion.

Mr. Gould then turned to Ms. Danielle Hurlburt, Ernst & Young ("E&Y"), to present E&Y's Audit Reports for FY 2024. Ms. Hurlburt presented a review of the executive summary of the audit results and noted that they found all items to be appropriately consistent with prior years with no differences to the reports provided by the HDC. Ms. Hurlburt noted that E&Y expects to issue unmodified opinions as they have in prior years. Ms. Hurlburt concluded noting that the E&Y team received full cooperation from HDC staff during the audit process and, while E&Y did its standards checks for instances of fraud, they found nothing to report to the Audit Committee Members.

Ms. Hurlburt then turned to Mr. Rob Heffelman, E&Y, to present the areas of emphasis, a summary of the most material audit procedures that were conducted. Mr. Heffelman highlighted that success in all these areas of emphasis would not have been possible without the assistance of Mr. Yu and Mr. Sanoe, and the entire accounting team's diligent responses, thus allowing E&Y to conduct their audit procedures in a timely manner. Mr. Heffelman noted that for the cash and investments performance, E&Y set a standard set of confirmation procedures and found no discrepancies that would result in any material adjustments and don't expect any changes by finalization. Mr. Heffelman noted that despite the Due to New

York City and Payable to Mortgagor balances increasing significantly in FY 2024, this does not necessarily mean an increase in audit work since the overall risk profile related to that has not changed, and E&Y's procedures are responsive to an increased balance when the profile doesn't change. The team conducted a standard amount of testing on this noting no differences.

Mr. Heffelman noted that testing for uniform guidance is still underway; however, this will not be an issue for the timeline. As of this point, Mr. Heffelman noted that E&Y has found no differences or discrepancies that need to be reported and expect the results to be unmodified. Ms. Hurlburt concluded by noting that the remaining findings are not significant and the E&Y team is close to concluding their reports.

Ms. Baumann returned to Ms. Scott's question on increased operating expenses and noted that Mr. Yu is correct, and the amount is consistent with prior years and is mostly attributable to the bond interest expense and the increase in rates.

Mr. Gould called for the approval of the Corporation's Financial Statements for FY 2024. The motion approved.

Mr. Gould called on Ms. Duffy to present the Corporation's Annual Investment Report for Fiscal Year ("FY") 2024. Ms. Duffy remarked that the Corporation is submitting its Annual Investment Report for the Corporation and its subsidiaries pursuant to Section 2925 of the Public Authorities Law of New York State. The report presents the Corporation's investment record for fiscal year 2024. As required by statute, the report includes: the investment record of the Corporation, the Investment Guidelines as approved by the Audit Committee Members on January 18, 2024 and ratified by the Board Members on March 27, 2024 and the results of the annual independent audit. This report also includes descriptive charts on HDC's investments and investing environment, and a Counterparty Credit Risk Exposure Summary.

Ms. Duffy further noted that the realized earnings on investments totaled \$160.97 million in fiscal year 2024, an increase of \$51.78 million from fiscal year 2023, due mainly to steady reinvestment rates and a greater amount of investment proceeds. The current yield curve environment and changing market conditions are factors to consider in the Corporation's ongoing investment strategy. Ms. Duffy stated that because of the Corporation's commitments, the majority of investments must be held for the short term, which provides sufficient liquidity for the Corporation. In response to the current interest rate environment, the Corporation continued to invest primarily in collateralized demand deposits, certificates of deposit, guaranteed investment contracts, and direct purchases of U.S. Treasury and Agency obligations to optimize yield. As required by GASB No. 31, the Corporation has recorded a fair value adjustment in its investment portfolio. The Corporation recorded a net appreciation of \$147.65 million for fiscal year 2024. As part of the Corporation's investment policies, it looks to invest its bond and corporate related reserves in securities with the intent to hold the investment to maturity. As a result, any unrealized appreciation or depreciation is only reported as an accounting gain or loss at this time.

Ms. Duffy noted that the Corporation's funds under management increased approximately 33.12% from fiscal year-end 2023 to fiscal year-end 2024, from \$4.1 billion to \$5.5 billion.

The Corporation had an 18.03% increase in net position over the last year due to an improved fair value adjustment in its investment portfolio as described above. Consolidated investment income was \$160.97 million for FY 2024. Of this amount, \$104.01 million or 64.61% of the consolidated investment income was attributable to bond programs, and therefore was not available to the Corporation. An additional \$4.09 million was earned by and retained within REMIC and HAC. The remaining \$52.87 million of earnings is pledged to ongoing affordable housing programs of the Corporation. The Corporation did not incur or pay any fees, commissions, or charges for investment services. Treasury operations are conducted by the Corporation's Cash Management Division, which uses electronic and telephone bidding processes to competitively purchase securities that meet the Corporation's Investment Guidelines and funding needs. Oversight is provided internally by an Investment Committee and by various reviews by HDC's Credit Risk and Internal Audit units. There are also investment and Credit Risk reports presented at each meeting of the Corporation's Audit Committee, and an annual examination by our external auditors, Ernst & Young. The Corporation's Investment Guidelines were last approved by the Audit Committee Members on January 18, 2024, and ratified by the Board on March 27, 2024. The Investment Guidelines are being updated at this time to reflect HDC staff title changes in Section II of the Guidelines.

Ms. Duffy noted that upon approval by the Audit Committee and ratification by the Board, the report will be submitted to the Mayor and to both the City and State Comptrollers, as required by the Public Authorities Law. With there being no further questions, Ms. Duffy requested that the Audit Committee Members approve the 2024 Annual Investment Report and approve the Investment Guidelines with the changes indicated in Section II.

Mr. Gould posed a question on how the Corporation came across the Bank of the Ozarks. Ms. Duffy noted that Bank OZK has a New York location and offers competitive rates for money market deposits and are fully collateralized with a Federal Home Loan Bank municipal letter-of-credit ("MULOC"). Ms. Duffy noted that the Corporation requires all of the smaller banks to collateralize and that these banks provide good rates, allow for diversification, and provide the liquidity the Corporation needs as there are limits for the amount that can be invested to each bank.

Ms. Scott asked if the Corporation services HPD 15-year reserves. Mr. Eric Enderlin, President, confirmed that HDC does. Mr. Marc Norman, Board Member, posed a question whether NYCHA's bond proceeds are typically reflected in the investment report. Mr. Enderlin noted that while these aren't in the weekly reports, they will be in the annual investment reports. Ms. Duffy added that the Corporation issues bonds in the Impact Resolution to finance the loans that are generated for the NYCHA PACT program. Ms. Duffy noted that these conversions are from Section 9 public housing subsidies to Section 8, noting that the Corporation has done four different projects in 2024. Mr. Enderlin added that the Corporation does large deals with NYCHA but the investment piece is still relatively small since the Impact Resolution is relatively new.

Mr. Gould called for approval of the Corporation's Annual Investment Report including the updated Investment Guidelines for FY 2024. The motion was approved.

Mr. Gould again turned to Ms. Duffy to present the Corporation's Debt Report. Ms. Duffy stated that the Corporation's Debt Report is as of December 31, 2024. The last report presented to the Audit Committee was as of October 31, 2024. During this time, Ms. Duffy noted that the Corporation issued four series of Open Resolution bonds totaling \$428.9 million. The Corporation also issued two series of stand-alone bonds in the amount of \$550 million. The Corporation redeemed \$596.57 million of bonds in two stand-alone bond resolutions and \$25.8 million of a Back-to-Back debt obligation. The Corporation's debt outstanding as of December 31, 2024, is approximately \$17.3 billion. The Corporation's statutory debt capacity is \$19 billion.

Mr. Gould again turned to Ms. Duffy to present the Corporation's Investment Report. Ms. Duffy stated that the Corporation's Investment Report is as of January 6, 2025. Funds under management totaled approximately \$6.967 billion. Ms. Duffy concluded that this report reflects routine investment activity.

Mr. Gould then called on Ms. Mary Hom, Chief Risk Officer, for the Corporation's Counterparty Credit Risk Exposure Report. Ms. Hom noted that the report is dated December 31, 2024. The previous report to the Audit Committee was dated October 31, 2024. There were no new approved counterparties, and there were no rating agency actions of note.

Ms. Hom stated that HDC's counterparty exposure remains diversified with the largest exposures being with FNMA, FHLMC, and Wells Fargo. The Wells Fargo exposure is primarily in the form of construction letters-of-credit covering 20 projects and six interest rate hedges.

Investments rated double-A or higher were 45% of total investments, versus 44% at the last report. Investments rated triple-B and lower or not rated were 39% of total investments, versus 41% at the last report. Ms. Hom reminded the Members that all investments rated triple-B and lower or not rated are fully collateralized by Federal Home Loan Bank municipal letters-of-credit ("MULOC") and/or U.S. Treasury/Agency securities. The weighted average maturity of the investment portfolio was unchanged at approximately 1.8 years. Ms. Hom concluded her report by noting that HDC exposure to liquidity providers was approximately \$788 million. Interest rate hedges outstanding totaled approximately \$1.6 billion.

Mr. Gould again turned to Ms. Hom to present the Internal Audit Report. Ms. Hom updated the Members on staffing developments in the Internal Audit department. Ms. Hom stated that Internal Audit is currently understaffed as one of the auditors left the Corporation in early December. Ms. Hom noted that the team is in the beginning of the hiring process now for a junior internal auditor, and the team also expects to bring an intern onboard as well for the spring semester. Internal Audit is typically a small team of three auditors, so being down one auditor has impacted usual production.

Ms. Hom noted that since the last report to the Audit Committee, Internal Audit completed the annual employee certification of the Code of Ethics and two internal audits. With respect to the Code of Ethics, each year, HDC employees are required to affirm and certify that they have read and understand the HDC Code of Ethics. As of last week, 98% of HDC staff have completed this certification.

Ms. Hom noted that with respect to the two completed internal audits projects, since the last report to the Audit Committee, Internal Audit completed the Employee Expenses and President's Office Expenses audits. For both audits, the objectives were to: evaluate the effectiveness of internal controls; evaluate the accuracy of the recording of expenses; and test and evaluate compliance with the Corporation's policies and procedures relating to employee and other related expenses.

For both audits, Ms. Hom reported no matters involving internal controls and its operation that were considered material weaknesses. Internal Audit found the Corporation's guidelines were effective and that the employee and President's Office expenses were generally processed with supporting documentation, correctly recorded, and complied with the policies in the Employee Handbook. Ms. Hom concluded by reminding the Members that the Employee Expenses and President's Office Expenses audits are required to be performed each year pursuant to the 2003 Memorandum of Understanding between HDC and the City's Department of Investigation.

Ms. Scott posed a question as to whether any staff have credit cards or if they just get reimbursed for expenses. Ms. Hom noted that the Corporation has a corporate credit card and there is only one holder of that card. Ms. Hom noted that the executive assistants are authorized to use it primarily for travel expenses. This is to ensure that employees are not out of pocket for too long on large expenses.

Mr. Gould again turned to Ms. Hom to present the HDC Audit Committee Report for 2024. Ms. Hom remarked that 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 calendar year ended December 31, 2024. Ms. Hom noted that upon approval by the Members, a copy of this report will be submitted to the Secretary for the Audit Committee of New York City. With there being no further questions, Ms. Hom requested that the Audit Committee Members approve the 2024 Annual Audit Committee Report.

Mr. Gould called for the approval of the HDC Audit Committee Report for 2024. The motion was approved.

At 4:40 p.m., with no further business, the meeting was adjourned.

Respectfully submitted,

Austin Chin

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AUDIT COMMITTEE**

January 28th, 2025

ATTENDANCE LIST (HYBRID (LIVE/VIRTUAL) MEETING)

<u>NAME</u>	<u>AFFILIATION</u>
Harry Gould	Audit Committee Member
Marc Norman	Audit Committee Member
Denise Scott	Audit Committee Member
Danielle Hurlburt	Ernst & Young
Rob Heffelman	Ernst & Young
Barry Gottfried	Stifel
Cathy Baumann	NYC Housing Development Corp.
Wanjiru Bila	NYC Housing Development Corp.
Jeremy Boyer	NYC Housing Development Corp.
Paul Cackler	NYC Housing Development Corp.
Austin Chin	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Eric Enderlin	NYC Housing Development Corp.
Horace Greene	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Kimberly Huang	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Kaushik Lad	NYC Housing Development Corp.
Susannah Lipsyte	NYC Housing Development Corp.
Uyen Luu	NYC Housing Development Corp.
Carol Micalizzi	NYC Housing Development Corp.
Ruth Moreira	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.
Aaron Pincus	NYC Housing Development Corp.
Elizabeth Rohlfing	NYC Housing Development Corp.
Mussa Sanoe	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Steve Splawinski	NYC Housing Development Corp.
Bobby Toth	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.