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

May 21, 2020

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 Thursday May 21, 2020.

The meeting was called to order at 3:00 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 January 27, 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 noted that he and Mr. Eric Enderlin, President, would provide a COVID-19 update on the Corporation's performance to date during the pandemic.

Mr. Gould then turned to Mr. Enderlin to provide the COVID-19 update. Mr. Enderlin stated that the Corporation has sent periodic updates to all employees to keep everyone apprised on the transition to work-from-home since the order came abruptly. Mr. Enderlin noted that the Corporation prepared for telecommuting by ensuring that staff had the proper training and technology and were able to communicate and work from home efficiently and effectively. Mr. Enderlin further noted that the HDC team has been performing tremendously well across the board, and the IT Department has been remarkable. Mr. Enderlin stated that almost all of HDC's business activities are continuing very well. Mr. Enderlin further noted that HDC Government Affairs employees are now focused on education and advocacy in Washington D.C. and have been participating in efforts to assemble the CARES Bill and various programs that are important for the Corporation and the affordable housing industry. Mr. Enderlin talked about the re-entry process for the Corporation and the different phases that must be achieved before re-entry happens. The Corporation is following City and State guidance, and Mr. Enderlin expected the office re-opening to occur possibly late summer or later.

Mr. Enderlin then turned to Mr. Froehlich for the Asset Management COVID-19 update. Mr. Froehlich noted that the Corporation has been functioning efficiently from home and thanked the IT Team and Mr. Paul Cackler, Chief Information Officer, for the work that the IT team has done helping HDC transition to a remote work environment. Mr. Froehlich noted that the staff has adapted well to working remotely, and all functions are performing very well. Mr. Froehlich stated that the Corporation will enter the bond market next week and proceeded to give the Members further details on the market and what HDC is expecting based on the changes from COVID-19. Mr. Froehlich provided an overview of HDC's Asset Management function and noted that the Corporation is doing well. This will be reflected in the report by Ms. Mary John, Controller, who will provide further details on HDC's successful first half in her report regarding the Corporation's second quarter financials. Mr. Froehlich further noted that the Corporation's finances are generally strong and that the Corporation faces genuine challenges but is well positioned to handle these challenges in the near term. Mr. Froehlich reported on the loan portfolio noting that the Corporation's Asset Management staff is working with borrowers to provide debt relief where necessary. Mr. Froehlich stated that as conditions continue to evolve, the Corporation will continue to work with the City and housing advocates to address those challenges. Ms. Denise Scott, Board Member, asked what the Corporation was expecting for May rent rolls. Mr. Froehlich noted that April went well; May is expected to be a little "rockier" than April, but the portfolio varies and it depends on if or when federal relief funds flow through. Mr. Froehlich further noted that HDC is very much engaged with borrowers and is prepared to handle those issues. Ms. Scott then asked whether the Corporation planned on going out to the bond market with the Federal Reserve's Municipal Liquidity Facility, or is there another part of the City that might rely on that. Mr. Froehlich responded that the Corporation does not need the muni facility and that what is helpful about the muni facility is that it creates liquidity in the market which improves the overall marketplace. Mr. Froehlich noted that the housing market is not considered the problem that it was in 2009 during the last financial crisis, and HDC is a very strong credit and maintains reserves in order to address those stresses. Mr. Kyle Kimball, Board Member, asked whether HDC is participating in the air conditioning voucher program that Con Edison, NYSERDA, and the City are doing. Mr. Froehlich answered that the Corporation had not been contacted about it but will reach out to City Hall and see if HDC can provide any help with the program. Mr. Kimball then asked about the program with the New York City Housing Authority and whether that program is moving along as planned. Mr. Enderlin noted that HDC is still working on closing the Manhattan bundle and also working to formulate the best approach regarding new construction and preservation. Mr. Enderlin stated that the main thing to consider right now is what work can be done safely; there is not much tenant-in-place rehab work that can be performed at this time. Mr. Enderlin further noted that the Corporation is working through those questions and gathering information to make sure that we can move forward. Mr. Enderlin continued stating that the Corporation is putting together a small set of transactions that can close this summer. Mr. Gould then asked Mr. Froehlich whether the forthcoming bond issuance is a general obligation. Mr. Froehlich answered that it's a revenue bond in the Open Resolution totaling under $300 million dollars that the Members approved at the meeting last November.

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 2020 covering the period November 1, 2019 to April 30, 2020. Ms. John noted that the Corporation ended the second quarter with considerable uncertainty as the country faces a historic economic crisis from the effects of the COVID-19 pandemic. Nonetheless, the second quarter results were not materially impacted by the current economic conditions. The Corporation's net position totaled $3.2 billion representing an increase of $139 million or 4.4 % from FYE 2019, generated from normal operating activities. Operating revenues were $303.5 million an increase of $34.7 million, resulting from higher interest income on loans, as the mortgage portfolio increased by $1.4 billion from FYE 2019. Non-operating revenues which are primarily investment earnings were $57.6 million, a decrease of $12.2 million, mainly due to the lower fair market valuation compared to the same period a year ago. Ms. John further noted that operating expenses were $222.1 million, an increase of $6.8 million or 3.2% compared to a year ago. Bond interest together with bond issuance costs comprise 90% of the Corporation's total operating expenses. As of the end of the second quarter, HDC had raised $908.8 million in bonds and other debt obligations. Mortgage commitments on closed loans including $124.6 million in subsidies were in excess of $1 billion. Total assets were $22.7 billion, an increase of $1.3 billion, or 6.0% from FYE 2019. The increase was mainly due to the Corporation's mortgage financing activities. Total liabilities were $19.6 billion, an increase of $1.2 billion or 6.8% from FYE 2019. The increase was due to a combination of bond financing, an increase in mortgagor's funds held in escrow, and the fair market valuation on the interest rate swap portfolio.

Mr. Gould then turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance, to present the Corporation's Debt Report. The Corporation's Debt Report is as of April 30, 2020. The last debt report presented to the Audit Committee was as of December 31, 2019. During this time, the Corporation issued three series and remarketed one series of Open Resolution bonds totaling $145.2 million and two series of bonds in the Housing Impact Bond Resolution in the amount of $375 million. There were bond redemptions in seven series of Open Resolution bonds in the amount of $254.2 million and two stand-alone bond series in the amount of $10.7 million. The Corporation's debt outstanding as of April 30, 2020 is approximately $12.6 billion. The Corporation's statutory debt capacity stands at $14.5 billion.

Mr. Gould again turned to Ms. Duffy for the investment report. Ms. Duffy noted that the Corporation's investment report is as of May 4, 2020. Funds under management totaled approximately $5.6 billion. This report reflects routine investment activity.

Mr. Gould then recognized Ms. Mary Hom, Chief Risk Officer, for the counterparty credit risk exposure report. The report before the Committee was dated April 30, 2020, and the last report to the Audit Committee was dated December 31, 2019. There were no new additions to the approved list of counterparties, and there were two rating agency actions of note: (1) in February, Moody's assigned a A2/P-1 rating to Signature Bank; Signature Bank was previously not rated; and (2) earlier in May, S&P downgraded HSBC Bank USA to A+/A-1 from AA+/A-1+ based on concerns regarding the holding company's restructuring plan announced in February, as well as weaker earnings expectations. S&P maintains a stable outlook at this new rating level. Ms. Hom continued by reporting 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 49% of total investments, versus 48% at the last report, while investments rated triple-B or not rated were 32% of total investments, versus 50% at the last report. Ms. Hom noted that triple-B and not rated investments are fully collateralized by high quality U.S. Treasury or Agency securities and/or Federal Home Loan Bank letters-of-credit. The reduction in this exposure is due to the afore-mentioned rating assignment to Signature Bank by Moody's in February. Finally, Ms. Hom reported that HDC exposure to liquidity providers remained unchanged since the last report.

Mr. Gould then recognized Ms. Hom for the internal audit reports. Ms. Hom reported that there were four completed audit reports – three are the required annual audits of President's Office Expenses, Employee Expenses, and Petty Cash; the fourth is an audit of the Corporation's Bond Issuance Process. In addition, Ms. Hom noted that she will also present an internal assessment of the internal audit function for calendar year 2019. First, on the President's Office Expenses, the objectives were: (1) to determine the accuracy of the President's Office expenses recorded in Oracle and to ensure they were accurately reflected in the general ledger; and (2) to determine whether the expenses classified under the President's Office adhere to the applicable policies and procedures for employee expense reimbursements. Upon completion, there were no matters involving internal controls that were considered material weaknesses. A few enhancements to process controls were recommended, but the Corporation's guidelines were effective and adhered to. Ms. Hom noted that roughly 75% of President's Office expenses were related to training/conferences and legislative travel – areas where we are likely to see a decline given the pandemic. Ms. Hom then reported on the Employee Expenses audit where the objectives were: (1) to evaluate the effectiveness of internal controls over employee expense reimbursements and other related expenses to ensure they were appropriate, properly authorized, and accurately recorded; and (2) to evaluate and test compliance with the Corporation's policies and procedures relating to employee and other related expenses. Upon completion of the audit, we determined that management has effective controls in place to ensure employee reimbursement and vendor payments were properly authorized, appropriate, and accurately recorded. We noted no matters of concern with respect to internal controls. Ms. Hom noted that the top three expense categories were employee development, training/conferences, and membership dues. Ms. Scott asked whether the Corporation expects the employee expense category to increase due to working remotely. Mr. Froehlich responded that generally the tech budget covers working remotely and that's why HDC does not typically have to reimburse employees for tech expenses. The Corporation has provided for employees' tech needs. Ms. Baumann noted that the tech budget is typically $2 million and the COVID-19 tech budget outlays thus far total approximately fifty to sixty thousand dollars because most employees were already set up with laptops and had work-from-home capabilities. Ms. Baumann further noted that the Corporation will be saving on training and conferences since employees will be unable to travel due to COVID-19. Mr. Enderlin noted that when the Corporation performed a quick inventory of who had the ability to work from home back in February, HDC was pleasantly surprised that 75% of the staff was already prepared to work for home. Mr. Enderlin noted that a lot of people are using their own equipment just because they had it and this may raise some questions over time. Mr. Enderlin stated that some companies are talking about fitting out people at home more in terms of space; it's definitely a good long-term question and something to keep an eye on. Mr. Froehlich noted that there are a variety of different ways that employees access the system and essentially everyone is functioning well from home. Mr. Froehlich reiterated that HDC's IT team has really delivered for the Corporation. Mr. Kimball then asked whether the Corporation is working on an active plan for re-entry and what kind of plans are in the works for the fall. Mr. Enderlin noted that the Corporation has been working with City Hall on plans which are very preliminary. Mr. Enderlin further noted that there has been a lot of back and forth drafting plans and a lot of it has been conceptual in nature. HDC's transition out was abrupt but went smoothly, and the re-entry is expected to be smooth as well. Luckily, the Corporation can effectively work from home, so it's a bit of following the numbers and getting back to some level of normalcy when the numbers are safe enough. Mr. Gould then noted that there will be a lot of entities that will say that they worked well from home during the pandemic, and will question whether it's worth it to pay the commercial rent for office space. Mr. Kimball noted that his company did a survey about re-entry and people's needs and their concerns about re-entry, and he would be happy to share that survey and the results with the Corporation. Mr. Enderlin noted that there are a lot of things to think about and work through. Mr. Kimball noted that there might be a big portion of the workforce that may not feel the need to come in short of a vaccine. It's not that they want to quit their jobs, but that they feel it is unnecessary to come into the office when they can do the work from home. Ms. Scott then asked about cyber security and how the Corporation is managing cyber security in a remote work environment. Ms. Scott noted that her company has seen an increase in malicious attempts and asked whether HDC is experiencing that. Mr. Froehlich noted that HDC has seen a little bit of an increase, and there has been some phishing activities. Mr. Cackler noted that the scammers at times reference COVID-19, and the Corporation remains on high alert for that.

Moving to the Petty Cash audit, Ms. Hom reported that the objectives were to determine whether adequate controls exist to ensure that: (1) the cash asset was safeguarded and maintained in the proper amount; (2) petty cash disbursements were in compliance with the Corporation's policies and procedures; and (3) the Imprest Fund was properly authorized, processed, and reconciled. Upon completion of the audit, we found that petty cash disbursements were in compliance with policies and procedures; and we noted no matters of concern regarding internal controls. Finally, on the Bond Issuance Process audit, the objectives were: (1) to ensure that there are effective bond issuance practices, proper oversight, and governance; (2) to determine the accuracy of bond proceeds and the initial transfers at debt issuance and closing; (3) to ensure compliance with volume cap regulations and the use of such source as part of the bond issuance; and (4) to analyze the cost of issuance and assess reasonableness. Upon completion, we determined that HDC has adequate controls and procedures in place over the bond issuance process, and that there is proper oversight and governance. Specifically, it was noted that (1) board approvals were in place; (2) bond amounts, ratings, and interest rates reconciled with the corresponding bonds' Official Statements; (3) all third parties were properly approved; (4) Bond Purchase Agreements (BPA) were signed by authorized principal officers, and signed New York City Comptroller's certifications were on file; (5) volume cap allocation and listing of projects were properly declared and filed in IRS Form 8038; (6) bond proceeds were confirmed and recorded in the general ledger and deposited in the corresponding BPA bank account; and (7) data analysis showed that the average cost of issuance for the five Open Resolution bonds issued during the scope period was within a reasonable range relative to similar bond issuers. Taking a look at the report, Ms. Hom noted that bond ratings have been stable, and bond issuance amounts have been increasing over the last few years. Finally, the average cost of issuance data showed that expenses compared well versus similar issuers.

Ms. Hom then reported on the annual internal assessment of the internal audit function. This internal assessment report is part of the Corporation's Quality Assurance and Improvement Program which mandates that the internal audit function perform periodic self assessments. The report highlighted the structure and activities of the internal audit department for the calendar year 2019, including all audits completed, relevant departmental changes, governance and oversight activities, and updates regarding employee development and ongoing training that helps to ensure that staff remains current on all internal audit best practices. Noting no additional questions, Ms. Hom concluded her report.

Mr. Gould then recognized Ms. Hom for presentation of the Audit Committee Charter. Ms. Hom recommended that the Members approve the Audit Committee Charter presented before them. The Corporation's Audit Committee Charter requires an annual review by the Audit Committee to determine the Charter's adequacy. The last time the Audit Committee approved revisions to the Charter was May 30, 2019. There have been no changes since last year's revisions were approved by the Members. Mr. Gould then motioned for an approval of the Audit Committee Charter. Ms. Scott seconded the motion and the Audit Committee Charter was approved by the Members.

At 3:43 p.m., with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted,

Violine Roberty

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May 21st, 2020

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
Eric Enderlin	NYC Housing Development Corp.
Richard Froehlich	NYC Housing Development Corp.
Jim Quinlivan	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Cathy Baumann	NYC Housing Development Corp.
Terry Gigliello	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.
Trisha Ostergaard	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Violine Roberty	NYC Housing Development Corp.