

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

June 1st, 2022

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 1st, 2022.

The meeting was called to order at 10:04 a.m. by Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the March 15th, 2022 meeting. The minutes were approved.

Mr. Gould then turned to Ms. Cathy Baumann, Executive Vice President and Treasurer, to provide an overview of the agenda. Ms. Baumann then briefly provided an overview of the agenda.

Mr. Gould then turned to Ms. Mary John, Senior Vice President and Controller, to report on the Second Quarter Financial Report for Fiscal Year 2022. Ms. John noted that the second quarter financials cover the period November 1, 2021, through April 30, 2022. As of the end of the second quarter, expenses exceeded revenues by \$38.7 million, compared with the same period in FY 2021 when net income was \$93.5 million. The decrease was due to the fair value depreciation on the investment portfolio, a result of rising interest rates. Under the Financial Accounting Standards Board’s rule, investments should be reported at fair market value. As a result, the investment portfolio was marked down by \$219.9 million and recorded as an unrealized loss. Currently, HDC has sufficient liquidity with \$2.1 billion in short term investments to meet current obligations and funds already committed for closed mortgage loans. Excluding the effect of the fair value depreciation, the Corporation’s net income performance was in line and in fact surpassed the previous year’s. Operating income for this period was \$157.9 million compared to \$114.7 million during the same period last year. The main driver of HDC’s profit continues to be mortgage interest earnings and fees, which increased by 15.25% from a year ago. Total assets were at \$24.6 billion, an increase of \$156.4 million or 0.6% from fiscal year end 2021. The increase was mainly due to the Corporation’s on-going lending activities, as mortgage loan advances were at \$1.3 billion for the period. The mortgage portfolio which totals \$20.1 billion and comprises 79.6% of total assets, is currently performing well, and the delinquency rate as of April 30, 2022 was below 2% of monthly billings. Total liabilities were \$21.0 billion, a net increase of \$195.2 million or 0.9%, mainly due to the PACT mortgage loan proceeds held in escrow for future advances. Bonds and debt obligations increased by a net of \$61.1 million. New issuances were at \$1.3 billion, while principal repayments and defeasance totaled \$1.23 billion. Net Position at the end of the second quarter was \$3.7 billion down by \$38.7 million, from fiscal year end 2021.

Mr. Gould then turned to Ms. Ellen Duffy, Executive Vice President of Debt Issuance and Finance, to present the Corporation’s Annual Debt Report as of April 30, 2022. Ms. Duffy noted that the last debt report presented to the Audit Committee was as of January 31, 2022.

During this time, the Corporation issued three series of Open Resolution bonds in the amount of \$245 million, one series of bonds in the amount of \$104.3 million in the Housing Impact Bond Resolution, and one series of bonds in the amount of \$398.3 million of Capital Fund Grant Program Revenue Bonds for NYCHA. This was a refunding. There were bond redemptions in two series of Open Resolution bonds in the amount of \$107.1 million and two series of stand-alone bond in the amount of \$93.7 million. The Corporation's debt outstanding as of April 30, 2022, is approximately \$14.5 billion. The Corporation's statutory debt capacity is \$17 billion.

Mr. Gould turned again to Ms. Duffy to provide the Corporation's Investment Report as of May 9, 2022. Funds under management totaled approximately \$5.1 billion. This report reflects routine investment activity.

Mr. Gould then called on Ms. Mary Hom, Chief Risk Officer, for the Counterparty Credit Risk Exposure Report. Ms. Hom reported that the report is dated April 30, 2022, and the previous report to the Audit Committee was dated February 28, 2022. 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 60% of total investments, versus 58% at the last report while investments rated triple-B or not rated were 17% of total investments, versus 21% at the last report, and these investments were fully collateralized by high quality U.S. Treasury/Agency securities and/or FHLB letters-of-credit. Ms. Hom concluded her report by noting that HDC exposure to liquidity providers was \$355.0 million, unchanged since the last report.

Mr. Gould then called on Ms. Hom for the Internal Audit Reports. Ms. Hom reported that since the last report to the Audit Committee on March 15, 2022, two internal audits and the 2021 Internal Assessment were completed. On the Corporate Fleet Management agile audit, various tests were performed to determine compliance and controls around the corporate fleet of vehicles which included: (1) examining whether or not only authorized employees had access to the vehicles; (2) were the vehicles used for business purposes; (3) did employees properly complete sign out logs; (4) were the vehicles leased in accordance with HDC's Procurement Policy; and (5) is there an up-to-date parking garage agreement. Upon completion of the audit, there were no matters involving internal controls that were considered a material weakness. Critical aspects of the HDC vehicle usage policy were followed.

The second completed audit was the IT Equipment Delivery and Inventory audit. The objectives here were to: (1) determine that new IT equipment purchased was received as ordered; (2) determine that IT equipment returned from employees was received and documented; and (3) determine the accuracy and validity of inventory records for IT equipment. Upon completion of this audit, there were no matters involving internal control and its operation that were considered to be material weaknesses. There are opportunities to strengthen controls for managing IT inventory, including enhancing data entry of equipment into inventory, continuing to develop software solutions for documenting return of equipment, and updating policies and procedures to be in line with current business practices for inventory management. Management is amenable to these recommendations and has begun to address these enhancement opportunities.

Finally, 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 2021. 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 assessment outlines the structure and activities of the internal audit department for calendar year 2021, 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.

Mr. Gould then called on Ms. Hom to present the Audit Committee Charter. Ms. Hom noted that the Corporation's Audit Committee Charter requires an annual review by the Committee to determine and reaffirm the Charter's adequacy. The last time the Audit Committee reviewed and approved the Audit Committee Charter was June 2, 2021. There are no proposed revisions to the Charter at this time. Ms. Hom then requested approval of the Audit Committee Charter. Mr. Gould requested a motion by the Committee, and the Audit Committee Charter was approved.

Mr. Gould asked if there were any other questions. Ms. Denise Scott posed a question to Mr. Enderlin on whether he had a roster of potential appointees to the board to which Mr. Enderlin replied that he did. Ms. Scott also asked Mr. Enderlin about the impact of rising interest rates and other costs in general, in terms of both the investment side of the portfolio and the maintenance side. Mr. Enderlin pointed to a few findings presented in Mary John's report regarding the unrealized loss on the investment portfolio, a situation that has occurred before in rising rate environments. He also noted the interest rate volatility on the debt issuance side and how he is coordinating with the Capital Markets team to monitor rates closely. Mr. Enderlin reported that the Corporation is looking into how the costs have impacted the construction side, such as with storage fees for stockpiled materials, as well as operating costs. Mr. Enderlin noted that this is a challenging situation as projects do not always have access to an increase in income due to regulation and other external factors. Mr. Enderlin reiterated that HDC is looking at various places where it impacts the portfolio and noted that the M&O standards have been increased. Mr. Enderlin concluded by stating that the corporation will continue to keep an eye on the situation as there is still significant uncertainty.

At 10:17 a.m., with no further business, the meeting was adjourned.

Respectfully submitted,

Austin Chin

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ATTENDANCE LIST (VIRTUAL MEETING)

NAME

AFFILIATION

Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Danielle Hurlburt	Ernst & Young
Cathy Baumann	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.
Terry Gigliello	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Susannah Lipsyte	NYC Housing Development Corp.
Ruth Moreira	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.