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

October 28th, 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 Friday, October 28th, 2022.

The meeting was called to order at 10:00 a.m. by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the June 1st, 2022 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 then briefly provided an overview of the agenda.

Mr. Gould turned to Ms. Danielle Hurlburt, Ernst & Young, to provide a summary of E&Y's audit plan for Fiscal Year 2022. Ms. Hurlburt referred to the plans and procedures provided to the Committee and noted that they are consistent with prior years. One addition for this year is the use of a data analytics tools in the evaluation of the mortgage receivables accounts. E&Y plans to continue the use of this tool in future years. As in previous years, the results of the audit along with draft financial statements will be provided at the regular January Audit Committee meeting. Ms. Hurlburt noted one accounting change, the adoption in FY 2022 of a new accounting standard by the Corporation, GASB 91, regarding reporting of conduit debt obligations.

Mr. Gould then turned to Mr. Cheuk Yu, Deputy Controller, to present the Third Quarter Financial Report. The third quarter financials of fiscal year 2022 covers the period November 1, 2021 thru July 31, 2022. Mr. Yu shared that as of the end of the third quarter, revenues exceeded expenses by $75.1 million, compared with the same period in FY 2021 when net income was $201.7 million. The decrease was due to the fair value depreciation on investments as a result of rising interest rates. The investment portfolio was marked down by $198.1 million and recorded as an unrealized loss. Currently, HDC has sufficient liquidity with $1.9 billion in demand deposit accounts to meet current obligations including funds already committed for closed mortgage loans. Excluding the effect of the fair value depreciation, the Corporation's net income performance exceeded the results of previous years. Operating income for this period was $237.1 million compared to $175.3 million during the same period last year. Mortgage interest earnings and fees make up 82.2% of operating revenues and increased by 14.4% from a year ago.

Mr. Yu also noted that the Corporation's total assets were at $25.0 billion, an increase of $486.8 million or 2.0% from fiscal year end 2021. The increase was mainly due to the Corporation's on-going lending activities as mortgage loan advances were at $1.8 billion for the period. The mortgage portfolio which totals $20.3 billion and comprises 79.4% of total assets, is currently performing well, and the delinquency rate as of July 31, 2022, was below 2% of monthly billings. Total liabilities were $21.2 billion, a net increase of $411.7

million or 2.0% from fiscal year end 2021 mainly due to HPD grant funds received for mortgage loans under Section 661. Bonds and debt obligations increased by a net of $222.2 million. New issuances were at $1.8 billion, while principal repayments and defeasance totaled $1.6 billion. Net Position at the end of the third quarter was $3.8 billion up by $75.1 million from fiscal year end 2021. Ms. Denise Scott posed a question about the interest rate impact on the investment portfolio and whether it will continue to be offset going forward by the growing business and mortgage interest earnings. Mr. Eric Enderlin, President, noted that the Corporation has the liquidity to meet all obligations. Mr. Enderlin noted the Corporation planned to hold investments to maturity and has no intention to sell, ensuring that the long-term value is not lost. Ms. Mary John, Senior Vice President & Controller, noted that the other side of the negative impact on the investment portfolio due to increased rates was the positive impact on mortgage portfolio interest earnings due to increased rates. Ms. Ellen Duffy, Executive Vice President, Debt Issuance & Finance, noted that the Corporation is investing in very short-term bank deposits and money market accounts as their rates are rising and they are not marked-to-market. Ms. Duffy also noted that for the December bond deal, Debt Issuance plans to use a guaranteed investment contract which is also not marked-to-market. Short-term investments are also being made in repo contracts which are not marked-to-market. Ms. Duffy reiterated that the Corporation has plenty of liquidity and there are a lot of tools available to the Corporation. Mr. Gould noted that the bad debt is minimal. Mr. Enderlin agreed while noting that the Corporation is keeping a close eye on this so as to not be surprised by anything.

Mr. Gould then turned to Ms. Duffy to present the Corporation's debt report. The Corporation's Debt Report is as of September 30, 2022. The last debt report presented to the Audit Committee was as of April 30, 2022. Ms. Duffy noted that during this time, the Corporation issued seven series of Open Resolution bonds in the amount of $670.2 million, and one remarketing in the Open Resolution in the amount of $158 million. There were bond redemptions in seven series of Open Resolution bonds in the amount of $320.9 million, one series in the Multi-Family Secured Resolution (the "Mini-Open") in the amount of $45,000, and one Stand-alone bond redemption in the amount of $5.99 million. The Corporation's debt outstanding as of September 30, 2022 is approximately $14.7 billion. The Corporation's statutory debt capacity was increased from $17 billion to $18 billion in mid-August when the Governor signed the debt limit bill.

Mr. Gould again turned to Ms. Duffy to present the Investment Report. Ms. Duffy noted that the Corporation's Investment Report is as of October 3, 2022. Funds under management totaled approximately $5.2 billion. This report reflects routine investment activity.

Mr. Gould then recognized Ms. Mary Hom, Chief Risk Officer, for the counterparty credit risk exposure report. Ms. Hom reported that the report before the Audit Committee is dated as of September 30, 2022. The previous report to the Audit Committee was dated April 30, 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 being to FNMA, FHLMC, and Wells Fargo. The Wells Fargo exposure is primarily in the form of construction letters-of-credit covering 22 projects. Investments rated double-A or higher were 59% of total investments, versus 60% at the last report. Investments rated triple-B or not rated were 13% of total investments, versus 17%

at the last report, and are 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's exposure to liquidity providers increased to approximately $384 million from $355 million at the last report due to the issuance of the 2022 Series C-3 bonds.

Mr. Gould then called on Ms. Hom to provide the Internal Audit report. Ms. Hom began her report by updating the Committee on three Internal Audit matters. First, since the last meeting, HDC filed its Financial Integrity Statement and Internal Controls Checklist with the NYC Comptroller's Office and the Mayor's Office of Operations in compliance with the Comptroller's Directive #1 regarding internal controls. This Financial Integrity Statement is posted on the HDC website. Second, HDC posted a Request for Proposals seeking an outside vendor to perform the five-year Quality Assessment Review ("QAR") of the Internal Audit function in accordance with HDC's Quality Assurance and Improvement Program ("QAIP") as well as the International Standards for the Professional Practice of Internal Auditing that recommends that an external assessment be performed every five years. The last time a QAR was conducted at HDC was in 2017 – five years ago. BDO has been selected to perform the QAR and hopes to complete this review by the end of this calendar year. Third, Ms. Hom provided a brief update on the audit plan. Due to staffing issues, Ms. Hom reported that the audit plan will not be completed as originally presented to the Audit Committee earlier this year. The current organizational plan calls for a staff of two auditors; however, HDC has been down one auditor for the last seven months. Finding a replacement has proven to be a challenge, and staff will continue to search for an appropriate replacement. With respect to audit planning for 2023, risk assessment discussions are complete, and Ms. Hom thanked the Audit Committee Members for their participation in HDC's risk assessment process. Comments are being assessed, and staff contemplates moving from a static audit plan set at the beginning of each calendar year to a more dynamic approach that will assess risk and plan accordingly on a more periodic basis. More details on audit planning will be reported at the next Audit Committee meeting.

Ms. Hom then reported on three audits that were completed since the last report to the Audit Committee on June 1, 2022. First, Ms. Hom reported on the 2022 Office Card Access agile audit. Internal Audit performed various audit tests, including verifying all active key card access was valid; determining if key card access was removed on a timely basis for terminated employees or individuals no longer requiring access; determining if adequate procedures and appropriate oversight of key card activity is in place; and determining whether or not inventory of stored cards for future use are kept safely. There were no matters involving internal controls that were considered a material weakness. Key card access was found to only be provided to active employees, building management, and affiliates that required access. Terminated employees' key cards were de-activated in a timely manner, and inventory of stored access cards was appropriately secured. Internal Audit provided management with a list of best practices to consider as the Corporation moves to new office space in 2023.

The next completed audit was the 2022 Construction Loan Monitoring audit. The objectives were to: (1) determine if there are written construction loan policies and procedures; (2) assess the accuracy, validity, and adequacy of documentation for construction loan draw requests; and (3) determine if appropriate general ledger accounts have been set up to accurately record construction loan disbursements, and bank reconciliations are maintained for accounts used to fund disbursements. Upon completion of this audit, there were no matters involving internal controls that were considered to be a material weakness. Responsibilities for monitoring construction, disbursing funds to borrowers, and maintaining bank reconciliations are adequately segregated with sufficient reporting to monitor all activities. Documentation supporting draw requests was accurate with appropriate signatures recorded. Enhancement opportunities were presented to management, and management is reviewing the feasibility of these proposed enhancements.

The third audit was the Payroll/Timekeeping and Employee Benefits Administration audit. This audit was outsourced to BDO USA LLP. BDO was selected in September 2021 through the Request for Proposals ("RFP") process to perform an internal audit of HDC's Payroll/Timekeeping and Employee Benefits Administration. The audit commenced in February 2022, and the final report was issued in May 2022. BDO assisted HDC with comprehensive reviews of HDC's payroll and timekeeping, including supporting systems and technology, and employee benefits administration with the goal of making strategic recommendations that are in alignment with HDC goals and objectives, as well as to best practices. Upon completion of the audit, BDO reported no "significant" or "high" risk factors that need to be addressed. In the area of payroll and timekeeping, BDO noted three areas of "moderate" risk regarding systems and access, and management has since addressed these risks by taking the necessary actions to mitigate them. In addition, two process improvements were suggested, and management is examining both suggestions for implementation. Ms. Hom concluded her report by noting that in the area of employee benefits administration, BDO noted no observations and made no additional recommendations.

Upon completion of the Internal Audit report, Mr. Gould disclosed that his firm has hired BDO in the past. Mr. Gould further noted that he did not have any role in the selection of BDO for HDC's Internal Audit projects or HDC's five-year Quality Assessment Review.

Mr. Gould then turned to Ms. Cathleen Baumann, Executive Vice President & Chief Financial Officer, to provide an update on HDC's Corporate Credit Card Policy. At the HDC Audit Committee meeting held on October 5, 2021, the Members approved the adoption of a corporate credit card policy. The main purpose of the policy is to eliminate the financial burden on HDC staff who currently use their personal credit cards during HDC business related travel. Since the meeting last year, there have been a few minor changes to the policy. The main change is related to using a travel coordination vendor. The original policy presented to the Members stated that a travel coordination vendor will be used. However, upon discussions with the vendor it was determined that the costs related to using a travel vendor were too high to justify the benefits. The amount of travel that HDC does each year is fairly low and does not meet the thresholds of the monthly charges of a travel management vendor. Among the benefits a travel vendor provides are tools to make travel arrangements, capture travel data and receipts for reporting, and integrate expenses into an accounts payable system. All of which are nice perks to have with the credit card but are not necessary, especially given the fact that HDC currently has systems in place to report and record travel. As a result, senior management has decided to forego a travel management vendor and continue to handle travel arrangements in-house. The other minor changes to the policy are related to title changes since the last meeting to reflect promotions of senior staff.

Mr. Gould then turned to Mr. Alex Medina, Senior Vice President, Asset Management, to provide an update on the Homeless Placements Memorandum of Understanding (MOU) with HPD. Mr. Medina noted that the Corporation continues to work with the New York City Department of Housing Preservation and Development (HPD) in its effort to expedite and streamline housing placement within HDC's portfolio. The increase in homeless set-aside units anticipated in HDC's new construction pipeline along with the re-rental of existing homeless units requires more capacity than HPD's Homeless Placement Services (HPS) has available. These capacity constraints would adversely impact one of New York City's most vulnerable populations as well as the financial stability of HDC developments. In order to accommodate for this ongoing matter, HDC has agreed to extend our existing Memorandum of Understanding (MOU) between the agencies through June 30, 2023. This extension preserves the existing five (5) HPD temporary employees currently working on HDC homeless placements at a total cost of $330,000. Given HPD's existing infrastructure and expertise in placing homeless households, HDC has concluded that this is the most effective solution to ensuing that our homeless units are leased as quickly as possible.

Mr. Medina noted that keeping the homeless placement process centralized is important in avoiding confusion among the agency's joint partners. In addition, alternative solutions have been deemed not feasible as they would create undue financial, technical, and legal hurdles otherwise needed for HDC (or a third party) to create its own homeless placement division and gain access the New York City Department of Homeless Services IT systems.

Mr. Gould then turned to Ms. Baumann to provide an update on the HPD Census Payment. The Corporation wanted to inform the Members about a recent emergency payment made by HDC to the US Census Bureau on behalf of HPD. On August 10th, 2022, a Memorandum of Understanding was executed between HDC and HPD, and on August 12th, 2022, HDC issued payment to the US Census Bureau for $2,000,000. The MOU stipulated that HPD was to reimburse HDC for the full amount upon registration by the New York City Comptroller's Office of a contract between HPD and the Census Bureau, which occurred on September 28th, 2022, and HDC was reimbursed in full. All future payments related to this contract are expected to be made by HPD directly to the US Census Bureau.

As background, HPD is required to conduct the Housing and Vacancy Survey as required by Section 3 of the Local Emergency Housing Rent Control Act of 1962. HPD is required to pay the Census Bureau to conduct the Survey work under the contract between HPD and the Census Bureau, which has to be registered by the New York City Comptroller's Office. The Census Bureau is the only entity who performs this work, and there is no other option for a vendor to conduct the survey. Due to a delay in registration of the contract, HPD determined that it would be unable to make the payment due date of August 12, 2022. The Census Bureau stated to HPD that if the payment was not made by the due date, they would have to re-assign survey workers to another project, which would have led to a 9- to 12-month delay in starting and finalizing the work. This delay would have resulted in the work not being completed within the required timeframe under the legislation, which without an amendment to extend, would have resulted in the expiration of Rent Stabilization, even though the eventual completion of the survey most likely would have demonstrated a continuation of the emergency, necessitating extension of the Rent Stabilization Law. The expiration of Rent Stabilization would result in a significant and unprecedented increase in the already significant demand in New York City for the development of newly constructed affordable housing, and the preservation of existing market-rate housing into rental housing units affordable to low- and moderate-income residents.

As a last resort, HPD asked HDC to make a payment of $2,000,000 on HPD's behalf to the Census Bureau. In order to avoid the expected negative consequences to the New York City housing market, which would result in a strain on HDC's financial and staffing resources, HDC agreed to make this emergency payment.

Ms. Scott noted that making the payments on HPD's behalf was a good decision for the Corporation.

At 10:36 a.m., with no further business, the meeting was adjourned.

Respectfully submitted,

Jeremy Boyer

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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.
Alex Medina	NYC Housing Development Corp.
Ruth Moreira	NYC Housing Development Corp.
Trisha Ostergaard	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Elizabeth Strojan	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.