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

January 13th, 2023

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, January 13th, 2023.

The meeting was called to order at 11:32 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 November 30th, 2022 meeting. The minutes were approved.

Ms. Ruth Moreira, First Executive Vice President of Development, began the meeting by thanking everyone for their contributions to the success of the Corporation in 2022 in spite of many challenges, which the Corporation expects will continue in 2023. Ms. Moreira noted that the Corporation is looking forward to a full pipeline in 2023.

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 then turned to Ms. Mary John, Controller, to present the Corporation's Annual Financial Report for Fiscal Year ("FY") 2022. Ms. John noted that in spite of the ongoing economic headwinds caused by inflation and the increase in interest rates, that has presented some challenges, the Corporation continues to fulfill its mission to create and preserve affordable housing with few interruptions.

During FY 2022, the Corporation early adopted Governmental Accounting Standards Board (GASB) Statement No. 91, Conduit Debt ("GASB 91"). As a result, Conduit Bonds and the related mortgage loans were excluded from the basic financial statements. Consequently, $3.2 billion of assets and an equal amount of liabilities were carved out from the balance sheet and added as an addendum. However, there was no change to the Corporation's Net Position. Fiscal year 2021 statements were restated to conform with the current year's presentation.

In FY 2022, total assets increased to $21.5 billion, an increase of $793.0 million or 3.82% from 2021, as restated. The increase was due to the strong mortgage lending and bond financing activities throughout the year. HDC's mortgage loan portfolio, which comprises 78.6% of total assets was $16.9 billion, an increase of $1.6 billion or 10.6% from the previous year. The portfolio continues to perform well as repayments continue to remain relatively strong with the delinquency rate at less than 2% of monthly billings. As of the end of the fiscal year, there were no mortgages in forbearance. Total liabilities were $17.7 billion, an increase of $537.5 million or 3.14% from 2021 as a result of the Corporation's ongoing debt and lending activities. Despite rising interest rates, bond issuances continued throughout the year with little interruption. Sixteen new bond series were sold, totaling $1.5 billion. Additionally, HDC signed a new loan participation agreement with the

Federal Financing Bank ("FFB") for $46.6 million. The Corporation had a total of $1.1 billion in bond repayments for the fiscal year of which $875.7 million were bond redemptions and $231.2 million were scheduled debt service principal payments. Additionally, there were $47.4 million in debt obligation redemptions and $5.8 million of FFB repayments. Total Net Position of the Corporation was $3.68 billion, representing a decrease of $16.8 million or 0.45% over the prior year. This decrease was solely due to the recording of an unrealized loss of $368.4 million fair market value adjustment on the investment portfolio. Investment Income is recorded as non-operating. Since the Corporation intends to hold these investments to maturity, the likelihood of realizing this loss is minimal as the Corporation has sufficient liquidity. Operating Income was $296.8 million which is generated from interest on loans and mortgage-related fees less bonding costs, and operating expenses. This is an increase of $52.3 million or 21.4% from last year's operating income and is related to the Corporation's normal operating activities. Ms. John closed her remarks by thanking Mr. Cheuk Yu, Deputy Controller, and the rest of the accounting staff for their work throughout the audit.

Ms. Denise Scott, Board Member, posed a question to Ms. John regarding the exclusion of bonds and loans from the balance sheet and whether this was a new practice or if this was something the Corporation has historically done. Ms. John noted that this is a new GASB pronouncement that the Corporation adopted this year. GASB 91 provides criteria bonds must meet for exclusion and the Corporation's excluded bonds are mostly enhanced by Fannie Mae and Freddie Mac, so the Corporation does not bear the risk. Ms. John added that while these are excluded from the balance sheet, the Corporation does keep a record and have separate financials for these items.

Mr. Gould then turned to Ms. Danielle Hurlburt, Ernst and Young ("E&Y"), to present E&Y's Audit for FY 2022. Ms. Hurlburt introduced Mr. Rob Heffelman, Senior Manager, to share the E&Y presentation. Ms. Hurlburt reminded the Committee of the guidelines of the audit and noted that these are consistent with audits completed in prior years. Ms. Hurlburt then presented the executive summary of the audit results which display clean results and she noted E&Y expects to issue an unmodified opinion. Ms. Hurlburt noted that she anticipates the report to be completed by the end of January, timing consistent with previous years.

Ms. Hurlburt went on to discuss the digital audit and the use of data analytics in the audit, noting that it is consistent with prior years. Ms. Hurlburt then presented the areas of emphasis for the audit, - noted that the procedures are consistent with prior years and that to date, there are no findings. Ms. Hurlburt explained that areas of the audit where E&Y relies on confirmation from external parties has been fully completed apart from mortgage receivables which is 80% complete. Ms. Hurlburt thanked the Corporation's accounting staff for their support of the audit process.

Mr. Gould then called for the approval of the Corporation's Financial Statements for FY 2022. The motion was approved.

Mr. Gould then called on Ms. Ellen Duffy, Executive Vice President of Capital Markets and Investments, to present the Corporation's Annual Investment Report. 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 ("PAL") of New York State. The Report presents the Corporation's investment record for FY2022. As required by statute, the report includes: the investment record of the Corporation, the Investment Guidelines as approved by the Members on January 14, 2022, and the results of the annual independent audit in draft form. 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 earnings on investments totaled $52.76 million in fiscal year 2022, an increase of $780,000 from FY 2021, due mainly to an increase in reinvestment rates during FY 2022. The current inverted yield curve environment and higher short-term rates 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 in order 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 depreciation of $368.4 million for FY 2022. 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 decreased approximately 25.86% from fiscal year-end 2021 to fiscal year-end 2022, from $4.9 billion to $3.7 billion. This is mainly due to less debt issuance and increased mortgage loan advances. The Corporation had a 0.45% decrease in net position over the last year due to the unrealized loss on the fair value adjustment in its investment portfolio as described above. Consolidated investment income was $52.76 million. Of this amount, $34.43 million or 65.26% of the consolidated investment income was attributable to bond programs and HPD related investments, and therefore was not available to the Corporation. An additional $2.54 million was earned by and retained within REMIC and HAC. The remaining $15.79 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 14, 2022 and ratified by the Board on March 15, 2022. 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

2022 Annual Investment Report and readopt the Investment Guidelines without any changes to them at this time.

Mr. Gould called for the approval of the Corporation's Annual Investment Report for FY 2022. The motion was approved.

Mr. Gould again turned to Ms. Duffy to present the Corporation's Debt Report. The Corporation's Debt Report is as of November 30, 2022. The last debt report presented to the Audit Committee was as of October 31, 2022. Ms. Duffy noted that during this time, the Corporation did not issue any bonds. There were bond redemptions in three series of Open Resolution bonds in the amount of $44.59 million. The Corporation's debt outstanding as of November 30, 2022 is approximately $14.5 billion. The Corporation's statutory debt capacity stands at $18 billion.

Mr. Gould again turned to Ms. Duffy to present the Corporation's Investment Report. The Corporation's Investment Report is as of December 14, 2022. Ms. Duffy noted that funds under management totaled approximately $4.8 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 Corporation's Counterparty Credit Risk Exposure Report is dated as of December 31, 2022. The previous report to the Audit Committee was dated October 31, 2022. There were no rating agency actions of note, and there was one new approved counterparty – East West Bank. East West Bank is a California-based savings bank that has several branches in New York City. The Bank is rated BBB+ by S&P and is approved for money market investments that are collateralized by a FHLB letter-of-credit.

Ms. Hom noted 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 23 projects. Investments rated double-A or higher were 56% of total investments, versus 58% at the last report. Investments rated triple-B or not rated were 18% of total investments, versus 14% at the last report, and these investments are fully collateralized by high quality U.S. Treasury or Agency securities and/or FHLB letters-of-credit. Ms. Hom concluded by noting that HDC exposure to liquidity providers increased $100 million to approximately $484 million due to the issuance of the 2022 Series F-3 bonds.

Mr. Gould then called on Ms. Hom to present the Internal Audit Report. Since the last report to the Audit Committee, Internal Audit completed the annual employee certification of the Code of Ethics and one internal audit. 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. This process was completed for 2022.

Ms. Hom noted that with respect to audit activity, Internal Audit completed the Petty Cash audit. Audit objectives here were to determine whether adequate internal controls exist to ensure that the cash asset was safeguarded and maintained in the proper amount, petty cash disbursements were in compliance with the Corporation's policies and procedures, and the Imprest Fund was properly authorized, processed, and reconciled. Ms. Hom noted that

Internal Audit found the Corporation's guidelines for Petty Cash to be effective and found no matters involving internal controls and its operation that we consider to be material weaknesses. The team established that: the petty cash disbursements were in compliance with policies and procedures, the petty cash on hand was kept in a secured lockbox and maintained in the proper amount, and that all expenditures were properly authorized, processed, and reconciled. Ms. Hom reminded the Members that the Petty Cash audit is required to be performed each year pursuant to the 2003 Memorandum of Understanding between HDC and the City's Department of Investigation.

Mr. Gould again turned to Ms. Hom to present the Annual Audit Committee Report for 2022. 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. The report is a compilation of the Minutes from the Audit Committee meetings that occurred during the year ended December 31, 2022. Ms. Hom noted that a copy of the report will be submitted to the Secretary for the Audit Committee of New York City.

Mr. Gould called for the approval of the Annual HDC Audit Committee Report for 2022. The motion was approved.

Ms. Scott posed a concern regarding the potential elimination of 50% of vacant staff positions at HPD in addition to continued concerns regarding the slow pace in activity. Ms. Moreira acknowledged Ms. Scott's concerns and noted that the Corporation has picked up some of the workload from HPD. Ms. Moreira noted that the Corporation is in constant communication with HPD to assist wherever possible and to encourage the hiring that is necessary to advance the scope of work. Ms. Moreira added that 2023 is going to be very busy year, specifically noting that on the PACT front there is an aggressive agenda. Ms. Moreira noted that NYCHA and the Corporation are planning to take on some of the burden of work from HPD.

Mr. Gould posed a question as to whether the Corporation is going to get involved with the Governor's new announced housing plans and if the Corporation will be involved in the proposed conversion of office buildings to affordable housing. Ms. Moreira noted that the financing will be between the state, city, and HPD, and that the Corporation will not be directly involved at this level. Ms. Moreira further noted that a lot is on the agenda for 2023 that the Corporation is optimistic about, including a potential replacement for the 421a tax abatement. Ms. Moreira noted on the office conversions that the Corporation has a team beginning to plan this in conjunction with HPD, and that discussions have been had with OMB, but the emphasis at this time is on the resurrection of a tax abatement to help achieve affordability. The Corporation's possible role in financing office conversions has not been determined yet.

At 12:05PM, 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
Rob Heffelman	Ernst & Young
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.
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.
Cheuk Yu	NYC Housing Development Corp.