

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

***January 18th, 2024***

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 Thursday, January 18, 2024.

The meeting was called to order at 5:00 pm by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the November 30, 2023 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 provided an overview of the agenda.

Mr. Gould then turned to Ms. Mary John, Senior Vice President and Controller, to present the Corporation’s Annual Financial Statement for Fiscal Year (“FY”) 2023. Ms. John summarized that despite the economic challenges during the fiscal year related to inflation and high interest rates, the Corporation had another successful year financially, continuing its commitment to improving the number of affordable housing units in the City. Notwithstanding the increasing borrowing costs, the Corporation was able to navigate the volatility in the financial markets to successfully issue a total of \$2 billion in bonds for the fiscal year. The new bond proceeds were utilized to finance \$1.8 billion in new commitments for both new construction and rehabilitation loans.

Additionally, the Corporation committed \$249 million of its subsidies to finance 1% loans, reducing the cost of capital to the Corporation’s mortgages. In addition to that, the Corporation was also able to issue \$320 million for the PACT Edenwald bonds in the Housing Impact Bond Resolution, bringing that amount to \$1.1 billion since its inception.

Ms. John continued by reporting that revenues of the Corporation increased to \$880.4 million, an increase of \$143.6 million from FY 2022. Net operating income was \$296 million generated from interest on loans and mortgage-related fees, less bonding costs, and other expenses. Operating expenses increased by \$78.9 million or 20.57%. Non-operating income, which is mainly comprised of investment income, saw a remarkable increase from the prior year as interest rates increased. Realized investment income was \$109.2 million compared to \$52.8 million in FY 2022.

Total assets increased to \$24.5 billion, an increase of \$2.9 billion or 13.63% from FYE 2022. 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 78.14% of total assets, was \$19.1 billion, an increase of \$2.2 billion or 13% from the previous year. The portfolio continues to perform well as repayments remain relatively strong.

Total liabilities were \$20.1 billion, an increase of \$2.4 billion or 13.56% from FYE 2022. Bonds and Debt Obligations outstanding was \$13.27 billion in the enterprise fund a net increase of \$1.26 billion from FYE 2022. The year saw continued bond issuances despite the hike in interest rates. Fifteen new bond series were sold, totaling \$2 billion. The Corporation had a total of \$675 million in bond principal payments for the year, of which \$449.2 million were bond redemptions and \$225.8 million were scheduled debt service principal payments. Additionally, there were \$85 million in debt obligation redemptions and \$6.2 million in FFB repayments.

Total net position of the Corporation was \$4.1 billion, representing an increase of \$416.4 million or 11.29% from the prior year. This increase was generated from normal operating activities and better investment income which was less affected by the fair market value adjustment that we saw in the prior year.

Ms. John closed her remarks by thanking Mr. Cheuk Yu, Deputy Controller, and the accounting team for their dedicated efforts during the audit.

Mr. Gould then turned to Ms. Danielle Hurlburt, Ernst and Young (“E&Y”), to present E&Y’s Audit Reports for FY 2023. Ms. Hurlburt began by introducing Mr. Rob Heffelman, Senior Manager at E&Y, noting his role in the process. Ms. Hurlburt reflected on the audit result materials and noted that the audit services findings are consistent with prior years concurring with Ms. John’s financial statements. Ms. Hurlburt then presented the executive summary of the audit results which displays no findings to report to the Members. Ms. Hurlburt went on report that her team continues to utilize data analyst tools in addition to traditional audit procedures of sampling and testing of transactions. Ms. Hurlburt concluded that there are open items that will continue to be reviewed until they issue the audit report by the end of January.

Ms. Hurlburt then turned to Mr. Heffelman to present the significant audit areas, and he noted that the areas of emphasis continue to be consistent, except that, in contrast to last year, there were no adoptions of significant GASB standards to report. Mr. Heffelman also explained that E&Y has been focused on reducing confirmation requests made to mortgage holders for the balances they owe the Corporation. By working with the data analytics procedures to evaluate the risk profile and predictability of the portfolio, E&Y can compare actual to predicted performance which provides a high level of assurance and avoids requests for information from outside the Corporation. Mr. Heffelman further noted that a similar approach was taken with bond obligations and confirmations. Results have been consistent with prior years. Mr. Heffelman closed his remarks thanking the Corporation’s accounting staff for their consistent support of the audit process.

Mr. Marc Norman, Board Member, posed a question confirming that the report hasn’t changed year to year. Mr. Heffelman noted that the areas of emphasis have not changed, only E&Y’s approach. Mr. Norman followed up with another question asking if this encompasses the safety and security of the data. Mr. Heffelman noted that the E&Y team performs inquiries of the IT group to understand their environment while noting that E&Y is not opining on the IT environment. Mr. Heffelman further noted that no IT areas have been identified as significant areas of risk. Mr. Gould posed a question if a change of interest rates raises any concerns. Mr. Heffelman noted that there are no significant areas

of concern because E&Y observes the impact of these changes flowing appropriately in the financial statements. Ms. Hurlburt then took over to present required communications, stating that there were no significant findings to report. Ms. Hurlburt noted that E&Y does conduct fraud inquiries with the staff throughout the procedures, and there's nothing to communicate.

Mr. Gould then called for the approval of the Corporation's Financial Statements for FY 2023. 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 of New York State. The report presents the Corporation's investment record for FY 2023. 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 13, 2023 and ratified by the Board Members on March 31, 2023, 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 \$109.2 million in FY 2023, an increase of \$56.44 million from FY 2022, due mainly to an increase in reinvestment rates. 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 appreciation of \$5.05 million for FY 2023. 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 12.32% from FYE 2022 to FYE 2023, from \$3.7 billion to \$4.1 billion. The Corporation had an 11.29% increase in net position over the last year due to an improved fair value adjustment in its investment portfolio as previously described. Consolidated investment income was \$109.2 million. Of this amount, \$80.51 million or 73.73% of the consolidated investment income was attributable to bond programs, and therefore was not available to the Corporation. An additional \$2.88 million was earned by and retained within REMIC and HAC. The remaining \$25.81 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 13, 2023, and ratified by the Board on March 31, 2023. The Investment Guidelines are updated at this time to reflect the Corporation's staff title changes in Section II of the Guidelines and a blacklined version of the Guidelines is included in the Members' package.. 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 2023 Annual Investment Report and approve the Investment Guidelines with the changes indicated in Section II.

Mr. Gould called for approval of the Corporation's Annual Investment Report including the updated Investment Guidelines for FY 2023. The motion was approved.

Mr. Gould again called on Ms. Duffy to present the Corporation's Debt Report. Ms. Duffy stated that the Corporation's Debt Report is as of December 31, 2023. The last report presented to the Audit Committee was as of October 31, 2023. Ms. Duffy highlighted changes in the report for the Audit Committee. The volume cap allocation was corrected to reflect a NYS instead of a NYC allocation. Ms. Duffy further noted that during this time, the Corporation issued five series of Open Resolution bonds in the amount of \$425.9 million and remarketed one series of Open Resolution bonds in the amount of \$116 million. There was one Open Resolution bond redemption in the amount of \$22.5 million. Two stand-alone series of bonds in the amount of \$8.4 million, were also redeemed. The Corporation's debt outstanding as of December 31, 2023, is approximately \$16 billion. The Corporation's statutory debt capacity is \$19 billion. Mr. Norman asked how often the statutory limit increases. Ms. Duffy noted that this is a legislative change and that the Corporation has requested an increase every year for the last several years due to needs for NYCHA financing and volume cap. Ms. Duffy noted that the Corporation is planning to skip returning for a legislative change for next year based on having plenty of capacity at this time.

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 8, 2024. Funds under management totaled approximately \$6 billion. 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, 2023. The previous report to the Audit Committee was dated October 31, 2023. Ms. Hom stated that while there were no new approved counterparties, there was one rating agency action of note – S&P upgraded Deutsche Bank from A- to A, citing the Bank's strengthened earnings while maintaining solid capital and liquidity profiles.

Ms. Hom continued stating 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 24 projects and five interest rate hedges. Investments rated double-A or higher were 46% of total investments, versus 48% at the last report, while investments rated triple-B or not rated were 40% of total investments, versus 37% at the last report. All investments rated triple-B or not rated are fully collateralized by high quality U.S. Treasury/Agency securities and/or FHLB letters-of-credit. Ms. Hom reported that HDC exposure to liquidity providers increased to \$740 million from \$592 million due to the issuance of the 2023 Series E-3 bonds and the remarketing of the 2018 Series L-1 bonds. Ms. Hom concluded her report by noting that HDC exposure to swap providers was unchanged at \$1.76 billion.

Mr. Norman posed a question asking if limits are set for counterparties. Ms. Hom noted that the Corporation does not set percentage or dollar limits; however, these exposures are closely monitored and are collateralized, primarily by FHLB letters of credit. Mr. Norman asked if BBB or notrated counterparties would be flagged if those increased closer to 50% of total investments. Ms. Hom noted that the Corporation would be assessing those exposures and noted that while these counterparties are rated BBB or NR, the collateral behind them is rated AA or better. Ms. Duffy noted that historically bank deposits are covered by government securities or FHLB letters of credit and that all deposits are currently covered by FHLB letters of credit. Ms. Hom further noted that a counterparty rated NR does not necessarily mean they are not credit worthy, just that they have no debt that is rated and that these entities are evaluated on a quarterly basis. Ms. Duffy noted any bank the Corporation invests in has to go through Credit for approval.

Mr. Gould again turned to Ms. Hom to present the Internal Audit Report. 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 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 2023.

Ms. Hom noted that with respect to audit activity, Internal Audit completed the 2023 Investments (continuous monitoring) audit. Audit objectives were to: determine whether the HDC investment portfolio complies with all aspects of HDC's Investment Guidelines; and determine whether investments were accurately recorded on custodial bank statements. Ms. Hom continued stating that Internal Audit monitored the investment portfolio throughout the year on a quarterly basis and found that the HDC investment portfolio complied with all aspects of the HDC Investment Guidelines. Additionally, the investment portfolio was supported by custodial bank statements and regularly reconciled. Internal controls include segregation of duties, Investment Guidelines annually reviewed and approved by the Audit Committee, bi-weekly Investment Committee meetings, daily mark-to-market, monthly reconciliation, monthly review of the investment portfolio and approval of all financial counterparties by the Credit Risk unit, Quarterly Internal Audit review, and Audit Committee oversight with quarterly reports from the EVP.

Mr. Gould again turned to Ms. Hom to present the HDC Audit Committee Report for 2023. 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, 2023. Ms. Hom noted that 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 2023 Annual Audit Committee Report.

Mr. Gould called for the approval of the HDC Audit Committee Report for 2023. The motion was approved.

At 5:37 p.m, with no further business, the meeting was adjourned.

Respectfully submitted,

*Austin Chin*

Austin Chin

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**January 18th, 2023**

**ATTENDANCE LIST (HYBRID (LIVE/VIRTUAL) MEETING)**

**NAME**

**AFFILIATION**

Harry Gould	Audit Committee Member
Marc Norman	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.
Mary Hom	NYC Housing Development Corp.
Kimberly Huang	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Sophia Klein	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Morgana Laurent	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.
Elizabeth Rohlfig	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.