

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

August 5th, 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 August 05, 2020.

The meeting was called to order at 2:30 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 May 21, 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 provided an overview of the agenda and noted that he and Mr. Eric Enderlin, President, would provide a COVID-19 update on the Corporation’s performance.

Mr. Gould then turned to Mr. Enderlin to provide a brief update on COVID-19. Mr. Enderlin stated that the Corporation is participating in ongoing watchful waiting because most of what is happening is dependent on the federal level in terms of ongoing income support and tenants paying rents to our projects, and HDC’s ability to service debt through that. As the Members heard in May at the last Audit Committee meeting, HDC has done a great job working remotely. Everything that HDC needs to do to conduct its business is being done effectively in the remote work environment. All of the HDC teams and staff have been incredible and have adapted well to the situation. Mr. Enderlin noted that he will provide additional information at the scheduled board meeting. Mr. Froehlich then continued with the update noting that the Corporation is functioning well and the Members will see this reflected in the financial summary report to be presented by Mr. Cheuk Yu, Deputy Controller. HDC finances are strong and the Corporation’s borrowers are generally up-to-date in paying their debt service. HDC has had to provide some additional support in allowing projects to draw on reserves, but overall it has been a smooth process. Mr. Froehlich stated that HDC is watchful and concerned and is hoping that Congress will act shortly to provide additional support to help tenants in New York City and all over the country.

Mr. Gould then turned to Mr. Cheuk Yu, Deputy Controller, to report on the Corporation’s financial activities as of June 30th. Mr. Yu noted that the Corporation’s financial activities continue to exhibit few negative effects from the ongoing economic decline due to the COVID-19 pandemic although HDC remains concerned as the pandemic is expected to extend into the months ahead. Mortgage loan repayments as of June 30th were relatively back to normal. One exception to the positive news was lower earnings on investments as rates have seen a noticeable decline over the past four months. The financial activities of the first eight months of the fiscal year resulted in an increase in net position of \$174.4 million. Total revenues were \$463.2 million, an increase of \$12.2 million over the same period a year ago. Interest on loans was \$325.3 million, an increase of \$32.5 million from June 2019 as a result of the increase in the mortgage loan portfolio by \$1.6 billion. Fees

and charges were \$48.4 million, a decrease of \$17.3 million, mainly due to lower loan origination fees and bond financing fees. Investment earnings, including the fair market valuation, were \$70.9 million, a decrease of \$17.7 million in total. The decrease includes a \$7.1 million decrease in realized investment earnings as a result of lower interest rates. Mr. Yu further noted that despite the better-than-expected recent results, the Corporation remains vigilant and will continue to track the key economic indicators that may affect repayments on the mortgage portfolio, and in turn, the ability to maintain this level of profitability. Total assets were \$22.9 billion, including \$17 billion in mortgage loans and loan participating interests, and \$5.5 billion of investments. Total assets increased by \$1.3 billion, mainly due to \$2.0 billion in mortgage loan advances, offset by \$460 million in principal repayments. Total liabilities were \$19.6 billion including \$12.7 billion in bonds and debt obligations, payables to the City of \$4.8 billion and payable to mortgagors of \$1.2 billion. Bond and debt obligation issuances were \$1.2 billion, while repayments were \$936 million. Net position was at \$3.3 billion, an increase of \$174 million of net income from normal operating activities.

Mr. Gould then turned to Mr. Froehlich to present the Corporation's Debt Report. Mr. Froehlich noted that the Corporation's Debt Report is as of June 30, 2020. The last debt report presented to the Audit Committee was as of April 30, 2020. During this time, the Corporation issued four series of Open Resolution Bonds totaling \$301.5 million and two series of stand-alone bonds in the amount of \$95.9 million. There were bond redemptions in five series of Open Resolution bonds in the amount of \$101.5 million and five stand-alone bond series in the amount of \$95.9 million. The Corporation's debt outstanding as of June 30, 2020 was approximately \$12.7 billion. The Corporation's statutory debt capacity stands at \$14.5 billion.

Mr. Gould again turned to Mr. Froehlich for the investment report. Mr. Froehlich noted the Corporation's Investment Report is as of July 13, 2020. Funds under management totaled approximately \$5.49 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 noted that the report before the Committee is dated June 30, 2020, and the last report to the Audit Committee was dated April 30, 2020. There were no new additions to the list of counterparties, and there were no rating agency actions of note. HDC's counterparty exposure remains diversified with the largest exposures continuing to be with Freddie Mac and Fannie Mae. Investments rated double-A or higher were 55% of total investments, versus 49% at the last report. Investments rated triple-B or not rated were 28% of total investments, versus 32% at the last report, and are fully collateralized by high quality U.S. Treasury and Agency securities and/or Federal Home Loan Bank letters-of-credit. Finally, Ms. Hom reported that HDC exposure to liquidity providers remains unchanged since the last report.

Mr. Gould then called on Ms. Hom for the Internal Audit report. Ms. Hom noted that since the last report to the Audit Committee, the FHA Risk Share Program Reporting Requirements process audit was completed. At the request of the head of Asset Management, Internal Audit was asked to examine the FHA Risk Share Program reporting requirements and determine whether or not HDC is fulfilling those requirements in the most efficient and stream-lined manner. Upon completion of this process audit, Internal

Audit determined that there are opportunities for improvement in fulfilling FHA Risk Share Program reporting requirements. This process requires collaboration amongst various departments within the organization, and recommendations were made regarding coordination and leadership on the process. Additionally, Internal Audit has engaged with the Legal department to help develop a comprehensive checklist of requirements, and this process has begun. Internal Audit will work closely with the Asset Management team to enhance the existing process for fulfilling FHA Risk Share Program reporting requirements.

Ms. Hom then provided an update on the 2020 audit plan. Ms. Hom reported that staffing challenges during this pandemic have impacted the Internal Audit department as one of HDC's two staff auditors has been on medical leave since April. HDC's remaining auditor and Ms. Hom have been working to remain on track with the audit plan, but they have been challenged by the prioritization of other initiatives around the Corporation. Additionally, focus has shifted to other projects prompted by the pandemic, such as updating the Corporation's Business Continuity Plan, and Internal Audit has been working in earnest on the PII initiative. Internal Audit feels this shift in focus is warranted and will provide overall benefit to the Corporation.

Regarding the PII initiative, this is one of the special projects on the audit plan this year, and Internal Audit recognizes that this as an area of concern to the Audit Committee. A working group consisting of representatives from various departments which handle PII has been formulated and has been meeting on a monthly basis since January. Thus far, the working group has identified the various types of PII that is gathered by HDC, as well as all areas of the organization which house PII. Next steps will include developing protocols for securing PII and pushing out employee training on how to identify and secure this sensitive information.

Ms. Hom reported that one notable change to the audit plan pertains to the two audits HDC expected to outsource this year. At the time the work-from-home directive was announced, an RFP was being finalized for the two specialized HR audits on the audit plan. In light of COVID, this part of the plan has been postponed as the shift to remote work made outsourcing unfeasible at the time. The RFP process is expected to be restarted later this year.

Ms. Hom concluded her report by noting that HDC will begin its annual risk assessment process. Ms. Hom will be reaching out to schedule a one-on-one discussion with each member of the Audit Committee in the coming weeks. Ms. Hom thanked the Members in advance for their participation and noted that she looked forward to these engaging discussions. Mr. Gould noted that clearly it is mandatory during these abnormal times that priorities have to be established, so this is completely understandable.

At 2:50 p.m., with no further business, Mr. Gould moved to dismiss, and the meeting was adjourned.

Respectfully submitted,


Violine Roberty

