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

October 10th, 2023

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 Tuesday, October 10, 2023.

The meeting was called to order at 4:31 pm by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the September 27, 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 welcomed Mr. Marc Norman, Board Member, to the Audit Committee and then provided an overview of the agenda.

Mr. Gould then turned to Ms. Mary John, Senior Vice President and Controller, to present the Corporation's Third Quarter Financial Report for Fiscal Year ("FY") 2023 which covers the period November 1, 2022, through July 31, 2023. Ms. John summarized that, as of the end of the third quarter, revenues exceeded expenses by $355.2 million, compared with the same period in FY 2022 when net income was $75.1 million. The increase of $280.1 million was largely due to the improvement of the fair market value of the Corporation's investment securities and recorded as an unrealized gain.

Ms. John continued by reporting that operating revenues for this period were $559.8 million compared to $520.3 million during the same period last year. Mortgage interest earnings increased by $58.5 million or 13.9% from a year ago. Non-operating revenues, which mainly consists of investment earnings, saw a significant increase largely due to the aforementioned increase in the fair market value, and realized investment earnings increased by $41.3 million from a year ago. Operating expenses were $336.5 million, an increase of $53.3 million, primarily due to the $58.4 million increase in bond interest expense.

Total assets were at $24.1 billion, an increase of $2.5 billion or 11.6% from FYE 2022. This increase was mainly due to the Corporation's on-going lending activities, as mortgage loan advances were at $2.5 billion through this period. The mortgage portfolio, net of conduit loans was $19.2 billion and comprises 79.7% of total assets, is currently performing relatively well.

Ms. John concluded that total liabilities were $20.0 billion, a net increase of $2.1 billion or 12.0% from FYE 2022. Bonds and debt obligations increased by a net of $1.0 billion. New issuances were at $1.7 billion, while principal repayments totaled $672.0 million. Net position at the end of the third quarter was $4.0 billion, up by $355.2 million, from FYE 2022.

Mr. Gould then called on Ms. Ellen Duffy, Executive Vice President of Capital Markets and Investments, to present the Corporation's Debt Report. Ms. Duffy noted that the Corporation's Debt Report is as of August 31, 2023. This is the same report that was presented at the Audit meeting on September 27 as the September 30 report was not available at this time. Since April 30, the Corporation issued three series of Open Resolution bonds in the amount of $642.7 million and remarketed one series of $53.6 million Open Resolution bonds. In addition, the Corporation issued two series of bonds in the Housing Impact resolution in the amount of $320.3 million. There were bond redemptions in three series of Open Resolution bonds in the amount of $201.9 million and one stand-alone series of bonds in the amount of $8.3 million. Please see the footnote on the Interest Rate Hedges page that indicates the SOFR based rates that have been used as of July 1, 2023, to calculate swap payments. LIBOR rates are no longer published as of June 30, 2023. The Corporation's debt outstanding as of August 31, 2023 is approximately $15.6 billion. The Corporation's statutory debt capacity stands at $18 billion. Ms. Duffy noted that an increase to $19 billion is waiting on the Governor's desk to be signed.

Ms. Denise Scott, Board Member, asked Ms. Duffy to elaborate on the interest rate hedges. Ms. Duffy noted that there is a page of the debt report which lists out the interest rate hedges. Ms. Duffy continued by noting that when the Corporation entered into these hedges, LIBOR was the reference rate but that the LIBOR rate has been discontinued as of June 30 of this year. Ms. Duffy noted that in the last couple years, the Corporation had been pricing swaps based on SOFR ("Secured Overnight Financing Rate). When the reference rates were converted from LIBOR to SOFR, there was an adjustment factor needed to make the rates equivalent. The adjustment factor was set by the International Swaps and Derivatives Association ("ISDA") and the Corporation signed on to the ISDA protocols.

Mr. Gould again called on Ms. Duffy to present the Corporation's Investment Report. Ms. Duffy noted that the Corporation's Investment Report is as of September 18, 2023. Funds under management totaled approximately $5.7 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 September 30, 2023. The previous report to the Audit Committee was dated August 31, 2023. 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, FHLMC, and Wells Fargo. The Wells Fargo exposure is primarily in the form of construction letters-of-credit covering twenty-five projects and four interest rate hedges.

Investments rated double-A or higher were 51% of total investments, unchanged versus the last report. Investments rated triple-B or not rated were 35% of total investments, versus 36% 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 concluded her report by noting that HDC exposure to liquidity and swap providers was unchanged.

Mr. Gould then turned to Ms. Hom to present the Internal Audit Report. Ms. Hom noted that since the last report to the Audit Committee on September 27, 2023, one internal audit project was completed – the Portfolio Management assurance audit. Here, the objectives were (1) to determine how distressed projects are managed within the three main Asset Management divisions of Engineering & Architecture, Portfolio Analysis, and Preservation Programs; (2) to assess controls and compliance with Asset Management policies and procedures; and (3) to assess the system for managing HDC's portfolio of properties across all three divisions.

Upon completion of the audit, there were no matters involving internal controls that were considered material weaknesses. Opportunities exist to enhance current operations, including formalizing training procedures for Portfolio Analysts and Asset Managers, formalizing coordination on projects in distress, strengthening capacity through additional hiring, and centralizing all aspects of project data. Ms. Hom concluded her report by noting that management agrees with these opportunities for enhancement and has already begun taking steps to address them.

Mr. Norman posed a question asking if the number of projects in distress has increased. Ms. Hom noted that this has not been assessed in this report as the Internal Audit team was solely focused on the risks and controls. Mr. Enderlin noted that this issue is being tracked very closely by the Corporation's Asset Management team. Ms. Hom noted that this audit was prompted by these concerns and the audit team looked into all areas where distressed projects are being managed to ensure that the Corporation is doing everything that it can to manage this. Mr. Enderlin noted that the Corporation is adding resources to manage this risk and is working closer with the New York City Housing Authority to monitor the debt side of it as well as the real estate side to evaluate what the needs are. Ms. Ruth Moreira, First Executive Vice President, pointed to the hiring of Mr. Brian Cheigh, Senior Vice President of Public Housing and Lending Strategies, as one of these investments as he will be managing this portfolio directly and working with Asset Management, Portfolio Analysis, and Engineering on the general portfolio.

Mr. Gould then turned to Ms. Danielle Hurlburt, Ernst and Young ("E&Y"), to present E&Y's Audit Plan for FY 2023. Ms. Hurlburt presented the executive summary which outlined the timeline coordinating with Ms. Baumann's team to co-develop some of the audit procedures, potentially completing some of the audit on-site in more of a hybrid environment as opposed to the last few years which have been fully remote. Ms. Hurlburt noted that she expects the internal procedures to be set by the end of the fiscal year, October 31st. Ms. Hurlburt noted that the audit would then be in full swing with the expectation to present the results to the Board in January. Ms. Hurlburt stated that the results and deliverables are consistent with prior years. Ms. Hurlburt reminded the Committee that the 2023 audit services will include an audit of the financial statements of the Corporation for FY 2023 as well as an audit of grant programs that have federal funding and procedures under the minimum servicing requirements. Ms. Hurlburt reiterated that this is consistent with previous years.

Ms. Hurlburt went on to discuss the areas of emphasis for the audit, focusing on the financial statement amounts that are the most material in nature or involve estimation by management which can have many different factors as to why they are considered material in nature. Ms. Hurlburt went on to provide a summary of the audit procedures E&Y intends to execute on and again noted that these are consistent with prior years, noting that these procedures are reassessed each year as part of their risk assessment. Ms. Hurlburt noted that the procedures and summary results will be presented in more detail at the next Committee meeting in January. Ms. Hurlburt then discussed accounting pronouncements that are coming in the future, noting that these would be presented in more detail at the meeting in January. Ms. Hurlburt concluded that E&Y completes an internal audit of their audit process every three years as part of a peer review process and noted that they received a pass rating.

Mr. Gould then turned to Ms. Baumann to present HDC's Purchasing Guidelines. Ms. Baumann noted that pursuant to the Public Authorities Accountability Act of 2005, HDC is required to have its Members annually review and approve the procurement guidelines of the Corporation. After approval, the Guidelines are submitted to the Office of the State Comptroller through its Public Authorities Reporting Information System ("PARIS"). The Guidelines are also published on the Corporation's website. This year, senior staff is recommending a change to the Guidelines to increase the aggregate total dollar amount required for a competitive bidding process for goods and services from $5,000 to $10,000 for the IT and Office Services departments, who are routinely involved in procurement. The last time changes were made to the threshold for competitive bids was January 2015. This change is reflective of the increase in the costs of goods and services over that time frame, coupled with rising inflation over the past couple of years. With this change the Corporation is still below the dollar threshold used by the City for procurement. Other changes to the Guidelines are related to staff title changes within HDC. Ms. Baumann then requested the Members approval of the Corporation's updated Procurement Guidelines. Mr. Gould then called for a motion to approve the updates to the Corporation's Purchasing Guidelines, and the motion was approved.

Ms. Scott then posed a question about the ongoing migrant crisis and its effect on the Corporation. Mr. Enderlin noted that the crisis is affecting the entire City and that while the Corporation is not on the front line, the Corporation has been moving quickly and efficiently to fill vacant units to create more space in the shelter system overall. Ms. Scott asked if the Corporation is seeing more families or individuals. Mr. Enderlin noted that the Corporation is tracking a set of data and is involved in weekly meeting with City Hall, noting that there is a broad mix of people. Ms. Moreira noted that the City is looking at ways of getting rental subsidy quicker to people coming out of the shelter system so that they can move into units in the Corporation's portfolio with the hope this creates more room in shelters.

Mr. Norman posed a question about interest rates asking if the current volatile interest rate environment is affecting the number of deals the Corporation is seeing. Mr. Enderlin noted that this has had significant impacts that are making the public housing and preservation work more difficult. Mr. Enderlin noted that the rate environment impact is also visible in the Corporation's financials in the mark-to-market on investments. Mr. Enderlin noted that the Corporation has still been able to work through deals, stating that the Corporation has had some wins, including the setting of a minimum 4% credit rate for qualifying LIHTC projects which has raised the amount of equity coming into the deals; however, this gain in equity has been offset by some of the interest rate challenges. Ms. Duffy stated that the Corporation sets rates according to market data, but this has been difficult to do in this volatile market. Ms. Duffy noted that the Corporation sometimes takes less spread, knowing that when there are gaps, more City subsidy is necessary. Ms. Duffy noted that the Corporation looks at different structures, notably on the preservation side. Ms. Duffy further noted that the Corporation continues to have good access to the capital markets. Ms. Duffy concluded by noting that the Corporation manages its swaps as a portfolio so things can be moved around effectively to manage interest rate risk.

At 5:04 pm., with no further business, the meeting was adjourned.

Respectfully submitted,
Austin Chin
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ATTENDANCE LIST (HYBRID (LIVE/VIRTUAL) MEETING)

NAME	**AFFILIATION**
Harry Gould	Audit Committee Member
Denise Scott	Audit Committee Member
Marc Norman	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.
Sophia Klein	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Morgana Laurent	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.
Moira Skeados	NYC Housing Development Corp.
Elizabeth Strojan	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.