

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

***September 24, 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 Tuesday, September 24, 2024.

The meeting was called to order at 10:30am by Mr. Harry Gould, Board Member, who noted the presence of a quorum. Mr. Gould called for approval of the minutes from the March 27, 2024 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 and further noted that Ms. Mary John has retired, and Mr. Cheuk Yu has been promoted to Vice President and Contoller.

Mr. Gould then turned to Mr. Yu to present the fiscal year 2024 Second and Third Quarter Financial Report. Mr. Yu noted that the activity and results from the second quarter was rolled up into the third quarter results so he presented the results of the third quarter. The third quarter of the fiscal year 2024 financials covers the period November 1, 2023, through July 31, 2024. As of the end of the third quarter, revenues exceeded expenses by \$539.3 million, compared with the same period in FY 2023 when net income was \$355.2 million. The increase of \$184.1 million was primarily due to higher earnings on the mortgage and investment portfolios.

Mr. Yu continued by reporting that operating revenues for this period were \$669.8 million compared to \$559.8 million during the same period last year. Interest income on mortgage loans, the largest component of operating revenues, totaled \$577.6 million, an increase of \$98.7 million or 20.6% from a year ago. Non-operating revenue was \$262.7 million. This was primary due to realized investment earnings of \$118.2 million and the fair value adjustment of \$137.4 million on the investment securities. Operating expenses were \$393.3 million, an increase of \$56.7 million, primarily related to the \$49.6 million increase in bond interest expense due to the continuing elevated interest rate environment.

Total assets were at \$27.3 billion, an increase of \$2.8 billion or 11.6% from fiscal year end 2023. This increase was primarily due to growth of the Corporation’s mortgage portfolio. The mortgage portfolio, net of conduit loans, increased by a net of \$2 billion to \$21.6 billion, accounting for approximately 79% of total assets; the portfolio performs relatively well, with a delinquency rate averaging around 3%.

Mr. Yu concluded stating that total liabilities were \$22.7 billion, a net increase of \$2.3 billion or 11.2% from FYE 2023. Bonds and debt obligations excluding Conduit debt increased by a net of \$992.2 million. New issuances were at \$1.4 billion, while principal repayments totaled \$426.3 million. Payable to the City of New York increased by \$1.2 billion primarily due to the receipt of grant funds to make mortgage loans on behalf of HPD under Section

661 of the Private Housing Finance Law. Mr. Yu closed by noting that the net position at the end of the third quarter was \$4.6 billion, up by \$539.3 million, from fiscal year end 2023.

Mr. Gould called on Ms. Ellen Duffy, Executive Vice President of Capital Markets and Investments, to present the Corporation's Debt Report. Ms. Duffy stated that the Corporation's Debt Report is as of August 31, 2024. The last report presented to the Audit Committee was as of February 29, 2024. During this time, Ms. Duffy noted that the Corporation issued six series of Open Resolution bonds totaling \$837.7 million. The Corporation also issued two series of bonds in the Impact Resolution in the amount of \$160.3 million. The Corporation redeemed \$4.4 million of bonds in one series of Open Resolution bonds during this time. The Corporation's debt outstanding as of August 31, 2024 is approximately \$16.7 billion. The Corporation's statutory debt capacity is \$19 billion.

Mr. Gould asked if the Corporation plans to increase the statutory debt capacity. Ms. Duffy noted that HDC is planning to request an increase to \$20 billion.

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 September 4, 2024. Funds under management totaled approximately \$6.6 billion. Ms. Duffy concluded that this report reflects routine investment activity of the Corporation.

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 August 31, 2024. The previous report to the Audit Committee was dated February 29, 2023.

Ms. Hom stated that there were no new approved counterparties, and there were no rating agency actions of note. 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 45% of total investments, versus 47% at the last report. Investments rated triple-B and lower or not rated were 44% of total investments, versus 48% at the last report, and these investments are fully collateralized by high quality U.S. Treasury/Agency securities and/or FHLB municipal letters-of-credit, or MULOCs. The weighted average maturity of the investment portfolio was approximately 2 years versus 2.3 years at the last report. Ms. Hom concluded noting that HDC exposure to liquidity providers was approximately \$790 million; and interest rate hedges outstanding totaled approximately \$1.5 billion.

Mr. Gould again turned to Ms. Hom to present the Internal Audit Report. Since the last report to the Audit Committee on March 27, 2024, Ms. Hom noted that the Internal Audit team completed its Annual Internal Assessment of the Internal Audit function and four internal audit projects.

On the Annual Internal Assessment, Ms. Hom reminded the Members that HDC conducts an annual internal assessment of the Internal Audit function in accordance with the Institute of Internal Auditors' guidelines, as well as HDC's own Quality Assurance and Improvement Program. The assessment outlines the structure and activities of HDC's Internal Audit department for calendar year 2023, including all audits completed, Internal Audit projects

and initiatives, governance and oversight activities, and updates regarding employee development and ongoing training that helps ensure that staff remains current on internal audit best practices.

On the four Internal Audits completed, Ms. Hom stated that Internal Audit completed an assurance audit on Bank Token Management, an assurance audit on Month-End Reconciliation, a review of HDC's Fee Income, and an advisory project related to HDC's Succession Plan. On the two assurance audits for Bank Token Management and Month-End Reconciliation, we noted no matters involving internal controls that we considered material weaknesses. Recommendations were made to enhance controls, and both teams that were audited have implemented protocols to further strengthen controls.

On the Fee Income review, Ms. Hom reported trends they were seeing with respect to HDC's fee income and noted that HDC's fee income profile versus a subset of other HFAs compares well, and that HDC's productivity metrics remain strong.

On the Succession Planning advisory project, Internal Audit concluded that HDC exhibits a strong commitment to Succession Planning, continuing to develop and provide opportunities for staff to advance, and turnover remains low. Details of each of these projects are included in the Members' packet for review.

Ms. Denise Scott, Board Member, posed a question on whether the Corporation has seen an escalation in social engineering threats or IT security issues. Ms. Hom noted that the Audit Team is planning to provide a cyber update for the next Audit Committee meeting. Mr. Paul Cackler, Chief Information Officer, noted that the Corporation is closely monitoring cyber security, pointing out that new threats are becoming more sophisticated, and artificial intelligence (AI) is making detecting threats more challenging. Mr. Cackler noted that the Corporation has a full-time cyber security staff member monitoring developments. Ms. Hom further noted that the Corporation has formulated an AI working group which is closely tracking the City's developing initiatives on AI and will be developing guidelines that should be in line with City guidelines.

Mr. Marc Norman, Board Member, posed a question on fee income asking about the Corporation's differentiation compared to other HFAs. Ms. Hom noted that the Corporation is unique in that HDC is the only city HFA as well as the largest and focused solely on multifamily. Ms. Hom noted that compared to the other HFAs evaluated in the report, the Corporation looks strong.

Ms. Scott noted concerns regarding AI around accuracy and bias that could be problematic if AI becomes a more prominent way of making decisions. Mr. Enderlin noted that it's challenging to predict the AI atmosphere and how much dislocation might happen in the labor market and how this might affect the Corporation's mission. Ms. Hom noted that the Corporation's thinking around AI will evolve over time, but currently AI is not used in any decision making.

Mr. Gould again turned to Ms. Hom to present the Audit Committee Charter. Ms. Hom noted that the Corporation's Audit Committee Charter requires an annual review by the Committee to determine the Charter's adequacy. The last time the Audit Committee reviewed and

approved the Audit Committee Charter was June 1, 2023. Substantive changes to the Charter include: adding a definition for a quorum, and adding a paragraph articulating conflicts of interest protocols currently followed by Audit Committee Members.

Ms. Scott posed a question regarding the previous definition of a quorum. Ms. Hom noted that there was never an established definition of a quorum in the Charter. Mr. Gould posed a question about whether the Committee will hold more formalized meetings with management on cyber security and the independent auditors. Ms. Hom noted that HDC plans to re-incorporate executive sessions of the Audit Committee post-COVID.

Hearing no further questions, Mr. Gould called for a motion to approve the revised HDC Audit Committee Charter. The motion was approved.

Mr. Gould turned to Mr. Neil Saranga, Deputy Director of Internal Audit, to present the Second Half of FY 2024 Internal Audit Plan. Mr. Saranga reminded the Members that Internal Audit typically presents a quarterly audit plan, but due to the cancellation of the Audit Committee meeting in June, they were unable to present an Internal Audit plan for the third quarter. Mr. Saranga noted that he would be requesting approval for an Internal Audit plan for the Second Half of 2024. The proposed projects include: four assurance audits; the commencement of HDC's annual risk assessment process; the continuous monitoring of HDC's investment portfolio; and a Global Internal Audit Standards conformance review ahead of the Institute of Internal Auditor's implementation of these new standards in early 2025. Hearing no questions, Mr. Saranga requested that the Audit Committee Members approve the Second Half of 2024 Internal Audit Plan. Ms. Scott made a motion, and the Internal Audit Plan was approved.

Mr. Gould then turned to Ms. Danielle Hurlburt, Ernst & Young ("E&Y"), to present E&Y's Audit Plan for FY 2024. Ms. Hurlburt presented the executive summary of the plan, noting that E&Y are expecting consistent timing with field work this year, and plan on presenting their findings at the January Audit Committee meeting.

Ms. Hurlburt then turned to Mr. Rob Heffelman, E&Y, to present the areas of emphasis. Mr. Heffelman noted that the areas of emphasis are consistent with prior years and there are no major changes. Mr. Heffelman noted that they will begin working with HDC on reviewing mortgage receivables within the next month to allow time for follow ups. Mr. Heffelman noted that the team is focusing on leveraging correlations between transactions rather than performing tests individually. Ms. Hurlburt noted that the E&Y team is continuing to invest in data analytics tools and noted that the conversation around AI will be incorporated in the findings.

At 11:02am, with no further business, the meeting was adjourned.

Respectfully submitted,

*Austin Chin*

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**September 24th, 2024**

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

<b><u>NAME</u></b>	<b><u>AFFILIATION</u></b>
Harry Gould	Audit Committee Member
Marc Norman	Audit Committee Member
Denise Scott	Audit Committee Member
Rob Heffelman	Ernst & Young
Danielle Hurlburt	Ernst & Young
Eric Tyszka	NYC Department of Investigation
Cathy Baumann	NYC Housing Development Corp.
Wanjiru Bila	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.
Lisa Geary	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Kimberly Huang	NYC Housing Development Corp.
Sophia Klein	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Kaushik Lad	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.
Trisha Ostergaard	NYC Housing Development Corp.
Mussa Sanoe	NYC Housing Development Corp.
Neil Saranga	NYC Housing Development Corp.
Stephen Splawinski	NYC Housing Development Corp.
Bobby Toth	NYC Housing Development Corp.
Cheuk Yu	NYC Housing Development Corp.