

**MINUTES OF THE  
STATE OF NEW YORK MORTGAGE AGENCY  
AUDIT COMMITTEE  
HELD ON TUESDAY APRIL 8, 2014 AT 9:16 A.M.  
AT ITS OFFICES AT  
641 LEXINGTON AVENUE  
NEW YORK, NY 10022**

**DIRECTORS AND DESIGNEES**

**PRESENT:**

Elaine McCann	New York State Division of the Budget, Representing Robert Megna, Director (via videoconference)
Darryl C. Towns	Director

**ABSENT:**

Anthony Bergamo	Committee Chairman
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Mr. C. Jason Kim, Senior Vice President and Counsel to the Agencies, acted as Secretary. He noted that Ms. Elaine McCann and Commissioner Thomas Mattox are attending the meeting via video conference from the New York State Division of Budget conference center at the Capitol Building, Room 131, in Albany. A public notice was given of the time and location of the venue in accordance with the New York State Open Meetings Law.

Mr. Kim asked for motions and seconds to call the Audit Committee meetings to order of the New York State Housing Finance Agency (HFA), the New York State Affordable Housing Corporation (AHC), the State of New York Mortgage Agency (SONYMA), the State of New York Municipal Bond Bank Agency (MBBA), and the Tobacco Settlement Financing Corporation (TSFC). Commissioner Darryl C. Towns called the HFA and AHC meetings to order; Commissioner Thomas H. Mattox, seconded the motion. Commissioner Towns called the SONYMA meeting to order; Ms. McCann seconded the motion. Mr. Andrew A. SanFilippo called the MBBA and TSFC meeting to order; Ms. McCann seconded the motion.

Mr. Kim stated that as items are presented to each Committee throughout the meetings, these motions and seconds, will be used, unless specific items call for a different vote, or unless any Committee member wishes to record his or her vote differently.

Mr. Kim reported that Commissioner Towns is the Acting Chairman for the HFA and AHC Audit Committees; Mr. Bergamo is the Audit Committee Chairman for SONYMA and in his absence Commissioner Towns will chair the Committee meeting for SONYMA.

The meetings of the Audit Committees of the affiliated agencies were opened in joint session for the consideration of various matters of shared importance. These minutes reflect only those items being considered by the Directors of the State of New York Mortgage Agency. A record of items considered by the Audit Committees of the other affiliated agencies is contained in the minutes of each Committee respectively. Mr. Kim stated that for purposes of convenience and to make sure the meetings of the respective agencies go smoothly, items shared by one or more of the Agencies will be presented by MBBA/TSFC Committee Chairman, Kenneth Bialo.

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**The first item on the agenda was the adoption of the minutes of the SONYMA Audit Committee meeting held on April 8, 2014.** Absent comments or corrections from the Directors, the minutes were deemed approved.

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**The next item on the agenda was a resolution approving the Agencies' Internal Audit Work Plan for Fiscal Year 2015.** Mr. Stephen B. Chohey, Vice President, Internal Audit, discussed the Internal Audit 2014-15 Work Plan which included the following schedules: a) an audit plan calendar, b) an audit calendar that included budget hours, c) audit plan objectives, and d) an audit plan summary. Mr. Chohey shared the results of last year's audit plan which was presented to the Committee for approval on April 10, 2013, and subsequently approved on September 10, 2013 due to revisions resulting from anticipated "man-hours" that did not materialize due to a delay in hiring replacements for retirees.

Mr. Chohey reported that the majority of the audit plan was completed: eight (8) internal audits were completed last year. He said that the Agency assisted the New York State Financial Services Group in their audit of SONYMA. He said that the Agency will carry over a limited number of hours for the mortgage billing system audit and the information technology audit. He thanked the staff for their effort and cooperation.

Mr. Chohey said that this year's audit plan will be just as aggressive as in previous years and will include two (2) HFA, one (1) SONYMA, three (3) servicing audits, four (4) fully integrated audits and a TSFC audit. He said a risk and vulnerability and assessment was conducted and Management was consulted.

MBBA/TSFC Committee Chairman Mr. Kenneth Bialo inquired about the TSFC audit that was slated for 270 hours which greatly exceeded other individual hourly listings. Mr. Chohey stated that it is an anticipated number of hours which have to be billed within a two-year time span and noted that some hours will carry over into the new fiscal year. He said a full course of action has to be completed in order to perform the audit.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

**A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE  
AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK**

**STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY, AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES REVIEWING AND APPROVING INTERNAL AUDIT'S WORK PLAN FOR FISCAL YEAR 2015**

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**The next item on the agenda was a resolution approving Internal Audit Follow-Up of 2012 Audit Reports, together with Management Response.** Mr. Stephen B. Chohey asked for the Committee's consideration to review and approve the Internal Audit follow-up of the 2012 Audit Reports.

Mr. Chohey reported that this Audit is a different type of audit than is normally performed. This type of audit seeks to confirm that recommendations were implemented and the exceptions corrected as agreed to by Management in the process of prior audits. He noted that during 2012, fourteen (14) Audit Reports were issued. He also noted that titles and summaries were listed for the Committee's convenience.

Mr. Chohey stated that the result of the review was that staff was able to determine that 21 of the 22 items that were reported were either corrected or implemented (96% of the total). Mr. Chohey stated that one (1) item remains outstanding and is listed in the report (residency violations). HFA/AHC Audit Committee Member Commissioner Thomas Mattox asked for further background on why the item remains outstanding. Mr. Chohey reported that AHC and the Legal Department are still working to develop a plan, in the form of a control log, to complete the reconciliation process.

Mr. Bialo asked if there were a great number of homeowners with residency problems. Mr. Chohey noted that the list is significant but is categorized by those that require follow-up, those in foreclosure and those going through bankruptcy. It was confirmed that the control log improves the Agency's ability to follow-up.

Ms. McCann reminded the Committee that it had previously agreed to set target dates for those items that require follow-up. Mr. Chohey assured the Committee that this particular Audit is very much complete and his department will set target dates in the future for follow-up items.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

**A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCING AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION REVIEWING AND APPROVING INTERNAL AUDIT'S FOLLOW-UP OF 2012 AUDIT REPORTS**

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**The next item on the agenda was a resolution approving SONYMA's Mortgage Insurance Fund Program Audit.** Mr. Chohey reported that the accounting records and systems of internal controls for the Mortgage Insurance Fund's ("MIF") Single Family Program ("SFP") were reviewed as of May 31, 2013. He reported that the SFP has two distinct elements – the Single Family Pool Insurance ("PI") and Primary Mortgage Insurance ("PMI"). He explained that the Pool Insurance is established by creating a master policy that guarantees the lender recovery of the loan loss in the event of a loan default (the reimbursement of the loss is capped by the "stop-loss" limit amount). He further explained that when the mortgage goes through the foreclosure process, it eventually becomes an ORE (owned for real estate) and a PMI claim is filed, if necessary. He further said that afterwards, the property is given to a realtor for sale and then the actual sale takes place. He noted that the Pool Insurance claim will be submitted and will take into consideration the outstanding principal balance, the interest, any reasonable expenses less the proceeds from the sale of the property.

Mr. Chohey reported that at the time of the Audit, there were thirty-six (36) OREs outstanding with the Agency. He said that, unlike Pool Insurance, PMI is based upon the mortgagor having to carry insurance. He reported that as of the Agency's audit date, MIF had provided Pool Insurance coverage for an outstanding mortgage balance of \$2.8 Billion with a stop-loss insurance amount of \$440 Million Dollars, where the insurance reserve total was equal to \$87.6 Million. As relates to PMI, Mr. Chohey said that an additional \$11.4 Million in reserves was being retained on single family homes.

Mr. Chohey further reported that the Agency's Audit included a review of the underwriting policies, a review of the premiums, a review of the reserves and a reconciliation of the reserves and review of the excess balance calculation. He noted that there are only two (2) items in the report and Management has responded accordingly. He concluded by noting that the result of the Audit is that Management was able to satisfactorily achieve its Audit objectives.

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

**A RESOLUTION OF THE STATE OF NEW YORK MORTGAGE AGENCY AUDIT COMMITTEE REVIEWING AND APPROVING INTERNAL AUDIT'S MORTGAGE INSURANCE FUND SINGLE FAMILY PROGRAM AUDIT REPORT**

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**The next item on the agenda was a resolution approving SONYMA's Service Audit of JP Morgan Chase Bank, N.A. ("Chase").** Mr. Chohey reported that the mortgage records and systems of internal control for the single family mortgages that are serviced with Chase were reviewed. He reported as of the Audit date, Chase (a subsidiary of JP Morgan), a full service mortgage group which specializes in acquisitions, originations and servicing of residential and commercial mortgages was servicing approximately \$204 Million in mortgage loans and had \$2.4 Trillion in assets.

Mr. Chohey also reported that one can make payments and deposits at their branches (all FDIC insured). He noted that staff was generally able to satisfy its Audit objectives. Mr. Chohey reported that the audit had found that SONYMA's servicing procedures had not been followed in connection with certain loans.

Mr. Chohey reported that the Agency was recently notified by Chase that it will be discontinuing servicing and origination for the Agency effective May 1, 2014. Ms. Zucker confirmed that Chase is exiting the housing financing business and although HFA was its largest customer, housing finance no longer fits their new business model. Mr. Chohey said the Agency will transfer the portfolio to M&T Bank and it is expected that Chase will fix these audit issues prior to the transfer (they are repurchasing a number of loans).

Considering the first and second motions previously entered, the motions were carried, and the following resolution was unanimously adopted:

**A RESOLUTION OF THE STATE OF NEW YORK MORTGAGE  
AGENCY AUDIT COMMITTEE REVIEWING AND APPROVING  
SERVICER AUDIT OF JPMORGAN CHASE BANK, N.A.**

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**The next item on the agenda was a resolution recommending the approval of the Eighth Audit Committees' Self-Evaluation by the Audit Committees.** This was a consent item and it was noted that there would be no discussion on this item unless the Directors so desire.

Considering the first and second motions previously entered, the motions were carried and the following resolution was adopted unanimously:

**A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK  
STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK  
MORTGAGE AGENCY, NEW YORK STATE AFFORDABLE HOUSING  
CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK  
AGENCY, AND TOBACCO SETTLEMENT FINANCING  
CORPORATION CONCERNING SELF-EVALUATION**

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**The next item on the agenda was an information item regarding the Financial Statement Update for the First Quarter Fiscal Year 2014 (Third Quarter Fiscal 2014 - AHC).** It was noted that information in connection with this item was contained in the materials provided to the Directors, which materials are incorporated herein by reference. There was no discussion on this item.

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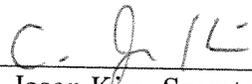
The next item on the agenda was a presentation on Accounting Policies and represented an information item. It was noted that information in connection with this item was contained in the PowerPoint presentation materials provided to the Directors, which materials are incorporated herein by reference. Mr. Weinstock, Vice President and Comptroller, led a discussion that focused on several areas presented in the PowerPoint slides:

1. The Agency's Basis of Accounting.
2. Governmental Accounting Standards (GASB) vs. Financial Accounting Standards (FASB).
3. How the Agencies' financials compare with typical governmental financials.
4. Effect of the implementation of GASB State No. 65 – Items Previously Reported as Assets and Liabilities.
5. How to read the Management's Discussion and Analysis (MD&A section of financials).

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There being no unfinished business Commissioner Towns moved to adjourn; Ms. McCann seconded the motion and the meeting was adjourned at 10:03 a.m.

Mr. Kim announced that the next Audit Committee meeting would be held on Tuesday, June 10, 2014 at 9:00 a.m.

  
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C. Jason Kim, Secretary