MINUTES OF THE MEETING OF THE
STATE OF NEW YORK MORTGAGE AGENCY
AUDIT COMMITTEE
HELD ON JANUARY 27, 2011 AT 10:08 A.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022

DIRECTORS AND DESIGNEES

PRESENT:

Judd S. Levy	Chairman
Don Lebowitz	Director
Elaine McCann	Division of the Budget, representing Robert Megna, Director (via video conference)

ABSENT

William Myers	Director

Chairman Levy chaired the meeting; Joy F. Willig, the Agencies' Senior Vice President and Counsel, acted as Secretary. The meetings of the Audit Committees 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 Audit Committee. A record of items considered by the other Agencies' Audit Committees is contained in the minutes of each Committee respectively.

Chairman Levy noted that Elaine McCann was participating in the meeting via video conference from the New York State Division of the Budget conference center at the Capital Building, Room 143, in Albany. A public notice was given of the time and locations of both venues. George Leocata participated in the meeting as a guest via telephone conference. Aida Brewer, Department of Taxation and Finance, representing Thomas H. Mattox, Acting Commissioner, attended the meeting as a guest via video conference. David J. Sweet, Director of SONYMA attended the meeting as a guest.

The first item on the agenda was the approval of the minutes of the meeting of the State of New York ("SONYMA") Audit Committee held on December 9, 2010. There were no objections or corrections by the Directors, and the minutes were deemed approved.

******

The next item on the agenda was a resolution approving the Disaster Recover Audit Report. This item was deferred until the next meeting.

******

The next item on the agenda was a resolution recommending approval of the Agencies' Financial Statements for Fiscal Year 2009-2010. Ms. Joanne Hounsell, Senior Vice President and Interim Chief Financial Officer, highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. She presented an overview of the results of the annual audit of the New York State Housing Finance Agency ("HFA"), State of New York Mortgage Agency ("SONYMA"), State of New York Municipal Bond Bank Agency ("MBBA") and the Tobacco Settlement Financing Corporation ("TSFC") for financial year November 1, 2009 to October 31, 2010. Ms. Hounsell stated that during the fiscal year, the combined Agencies issued over $2 billion in bonds, with HFA issuances of over $1 billion. Ms. Hounsell stated that outstanding bonds total $17.1 billion, and that the combined mortgage and student loan portfolio exceeds $12.4 billion. Ms. Hounsell added that the fund balance of SONYMA, MBBA and TSFC increased, and that HFA's decreased. Ms. Hounsell stated that a new accounting pronouncement was implemented known as the Governmental Accounting Standards Board Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments ("GASB No. 53"), which changed SONYMA's and HFA's accounting for its derivative exposure, and which was to be elaborated upon in today's presentation by Ernst & Young.

******

Ms. Hounsell next introduced Marian Zucker, President, Finance and Development, to discuss an overview of 2010 market challenges, certain federal programs, and strategies used toward the Agencies' mission of providing affordable housing to New Yorkers. Ms. Zucker highlighted information contained in the materials provided to the Directors in connection with this item, which materials are incorporated herein by reference. She noted that the bond-flow chart provided to the Directors depicted market stability despite last year's European sovereign debt crisis. She noted that during the third quarter, one of SONYMA's bond issues was sold with the lowest interest rates ever. Ms. Zucker stated that the fourth quarter, although not within the Agencies' fiscal year, brought investor concerns that the Build America Bonds financing option ("BABs"), which had become a significant segment of the municipal market, would not be extended and would increase interest rates on tax-exempt bonds, which caused investors to withdraw from bond funds lest they lose on their investments. She noted that housing issuance was down significantly in 2010.

Chairman Levy asked if there were factors, other than the national shift in home-ownership, which had contributed toward the past eight-year decline in multi-family bonds issued. Ms. Zucker responded that during the past couple of years, in addition to the down-turn of the economy, state issuers had focused a greater allocation of resources on single-family home owners rather than on tax-exempt multi-family housing developers. Ms. Zucker noted that the New Issue Bond Program ("NIBP") allowed the Agency to lock in its interest rates during all of 2010, and this has been extended through 2011 for 60% of Agency-issued bonds for both single-family and affordable-family programs. She stated that the Agency did 3 rollouts during 2010, and has $173 million of capacity left, which gives the Agency $288 million of borrowing capacity during 2011. She added that another influence upon the Agencies' activities last year was the home-buyer tax credit of 2009, which originally was intended to benefit first-time home-buyers, but had been extended to included repeat borrowers who intended to occupy their homes.

Ms. Zucker stated that the tax credit extension drove volume and caused single-family home-buyers and lenders to rush into the housing market to beat the BABs deadline.

******

Gary Weinstock, Vice President/Comproller, next introduced George Leocata, Senior Vice President, Single Family Programs and Financing for an overview discussion of SONYMA's financial statements report ended in 2010. Mr. Leocata highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that historical comparison of SONYMA municipal bond rates to conventional rates show that 2008 was headed toward being the best year experienced by SONYMA, with 2009 being the worst year experienced by SONYMA due to the collapse of Lehman Brothers in September 2008, followed by the NIBP extension in 2010 which allowed for a lock-in rate advantage which will continue in 2011. He noted that in 2009-2010, the Achieving the Dream program equaled or out-performed all other available SONYMA programs in the number of loans purchased. Mr. Leocata stated that delinquency rates of loans more than 60 days overdue continue to be significantly lower than state national averages which rose dramatically. He noted that the Mortgage Insurance Fund ("MIF") provided over $50 million of mortgage insurance for SONYMA loans in 2010.

In response to a question from Chairman Levy concerning the financial status of Genworth Insurance, Mr. Leocata responded that SONMA was still receiving 25% credit from Moody's on the loans that Genworth insures for SONYMA. In response to a question from Mr. Lebowitz, Mr. Leocata confirmed that it was possible to change insurers on existing loans.

******

Ms. Hounsell next re-introduced Gary Weinstock for an overview discussion of the 2010 SONYMA Mortgage Insurance Fund ("MIF") financial charts. He stated that although the last three fiscal years indicate a decline in the mortgage tax surcharge collections, levels since December 2010 show the first increase in the past two years.

Genevieve D'Agostino next highlighted certain information contained in the materials provided which concern the liquidity associated with SONYMA's variable rate bonds. She stated that, of the two banks that SONYMA has $640 million of standby purchase bond agreements with, Bank of America and Dexia Bank, Dexia will not be renewing any of their expiring loan facilities. She added that although this comes at a time when there is general concern about available liquidity due to the exit of many banks from the market, Bank of America has agreed to accept a substitute for Dexia on an existing agreement with SONYMA, which substitution is expected to occur in May 2011. Ms. D'Agostino stated that SONYMA plans to issue requests for proposals for bids to banks for a replacement provider.

In response to questions from Chairman Levy, Ms. D'Agostino confirmed that in 2012, SONYMA will have approximately $170 million of exposure on a $3.5 billion portfolio, which would be a 70 basis-point increase on 5% of the portfolio, and that SONYMA was taking steps now to avoid a potential credit crunch in 2012.

Mr. Weinstock next discussed an overview of SONYMA's financial statements report ended in 2010. He stated that SONYMA's financial position remained strong, that mortgage receipts have been sufficient to pay debt service payments due, and that MIF's reserves are adequately funded to cover insurance needs. He noted that there was a correction in a balance sheet item in the Management's Discussion and Analysis ("MD&A") under "non-current assets – unamortized bond cost of issuance on mortgages and student loans acquisition," which should read $98 million, not $110 million. He stated that, after consultation with Agency auditors, the Agency changed its amortization methodology relating to mortgage acquisition costs from 30 years to 10 years, which changed the fund balance and the income statement.

In response to questions from Mr. Lebowitz concerning MD&A item, "deferred outflow of resources," Mr. Weinstock confirmed that it was a new GASB No. 53 implementation which now causes the Agency to place a swaps value in the financial statements which was not previously done. In reference to the financial statements, he stated that the Agency's primary asset was "loans receivable" of $3.2 billion, and that the remainder of the total assets primarily represent reserves held in the MIF. He stated that item "bonds payable" represents the Agency's liability at about $3.5 billion. Chairman Levy noted that, in accordance with standard GASB accounting practice, $1.8 billion in insurance contracts outstanding is not shown as a liability on the balance sheet.

Chairman Levy next introduced a discussion related to how the Agencies' overall financial statements can be made clearer to the reader, with more balance sheet distinctions made between the Agency's single-family bond program and the mortgage insurance program, and suggested that staff work with the Agencies' new auditors, Ernst & Young toward that endeavor.

Mr. Weinstock stated that because investment earnings have continued to decline, the Agency has continued its practice of temporarily warehousing, i.e. purchasing, mortgage loans as investment income in order to obtain a higher interest rate than by investing available Agency funds.

Chairman Levy thanked the staff for a well-done presentation of the financial statements report for fiscal year 2010.

******

Chairman Levy next introduced David Milkosky from Ernst & Young, which was appointed by the Committees last year as the Agencies' new auditors. Mr. Milkosky introduced his colleagues Louis Roberts, Randy Nelson and Kimberly Hancy, who joined him to present a summary report of the results of the Agencies' annual audit for financial year November 1, 2009 to October 31, 2010. He noted that the audit for New York State Affordable Housing Corporation ("AHC") would not be completed until April because of its fiscal year-end in March. Mr. Milkosky highlighted certain information contained in the supplemental materials he provided. He commended the staff for its cooperation in Ernst & Young's first-year audit which entailed a thorough review of the Agencies' accounting systems and methodologies. He noted that Ernst & Young made recommendations in the amortization area for the Agencies to apply greater consistency, across all entities, in how they calculate amortizations. Mr. Milkosky stated that auditor's tests in the areas of information technology and transactions indicated that

Agencies' internal controls were very good.

In response to a question from Chairman Levy, Mr. Milkosky explained that a formal interview of the Audit Committee chairman regarding whistle-blower activities was not a requirement, and that an open dialogue of communication was preferred.

As related to the audit, Mr. Milkosky noted that the financial statements were prepared by the staff rather than the auditors; however, the auditors worked closely with staff to ensure that all financial disclosures were consistent with government requirements and with other agencies of this type.

As related to new standards, Mr. Milkosky stated that GASB No. 53 became effective this year and now requires that swap instruments be reported in financial statements as a fair value asset or liability, and, in the case of SONYMA and HFA, be noted as derivatives rather than as investment hedges.

As related to accounting practices, Mr. Milkosky stated that the auditors' methodology used to calculate the reserves involved review of historical information, trends and whether the current situation seemed reasonable.

In response to questions from Chairman Levy, Mr. Milkosky stated that because the Agencies are public rather than for-profit business entities, GASB was more flexible toward the Agencies' reserves which have been set aside for possible delinquent loans.

Mr. Milkosky noted that there was no recorded liability on the single-family side because of the small amounts being paid out annually, in addition to the backup restricted net assets which were statutorily required for insurance purposes; however, the multi-family side with its larger projects had the bulk of possible loan losses, and must be looked at on a loan-by-loan basis.

Mr. Milkosky stated that another significant liability is the other post-employment benefits obligation, other than pension, which auditors calculate, in the case of the Agencies, every two years. Mr. Milkosky noted that new health care legislation was not factored into the 2009 calculations which may impact that future obligation and change the numbers next time. Mr. Milkosky added that there were no disagreements with management, and that auditors found no fraudulent or illegal acts, nor any material witnesses in internal control.

Mr. Milkosky next introduced Kimberly Hancy for a discussion of some of the key areas covered during Ernst & Young's audit, particularly on testing the Agencies' internal controls. Ms. Hancy stated that no exceptions were noted in the policies or controls related to revenue regulation, operating expenses and how they were posted to accounts, or in accounts receivable which covers mortgage loans. She also stated that unamortized bonds, costs of issuance, and mortgage acquisition costs were satisfactorily reported.

Mr. Milkosky next introduced Louis Roberts for a discussion of the draft management letter. Mr. Roberts stated that because no significant deficiencies or material weaknesses were identified during their audit, language in their management letter would be modified to strike the

notation of "deficiencies in internal control" to state "other matters". He noted that all items in the proposed management letter were to enhance the Agencies' existing processes and controls. As related to the development of a comprehensive policies and procedures manual, he stated that Agencies' management had agreed that it was prudent to update the documentation of its procedures. Mr. Lebowitz and Mr. SanFilippo clarified that, although the Agencies were not subject to the Sarbanes-Oxley Act requirement to maintain a formal procedures manual, the Agencies were fully compliant with state regulations. As related to accounting methodologies and practices, Mr. Roberts stated that Agencies' management was in agreement with the auditor's suggestion that adoption of consistency across all entities would enhance efficiency and cross-training of the Agencies' staff. Mr. Roberts suggested that the Agency review ways to update accounting systems used by its accounting and mortgage departments. Mr. Lawlor noted that the Agencies had recently implemented a new system and agreed to look into additional ways to enhance Agency data processing applications.

In response to questions from Mr. Lebowitz and Mr. SanFilippo, Ms. Hounsell confirmed that auditor's management letter, as a public document, would be posted on the Agencies' website. In response to concerns related to the posting of confidential information, Chairman Levy stated the management letter covered technical house-keeping information, and that those who invest in Agency bonds and buy Agency insurance should have access to this important information. Joy F. Willig, Senior Vice President and Counsel, noted on behalf of the staff that collaboration between management and the auditors was part of the process in drafting the management letter. Chairman Levy thanked the Ernst & Young presenters for their thorough review and presentation.

Mr. Lebowitz moved to adopt the resolution; Ms. McCann seconded the motion, and the following resolution was adopted unanimously:

A RESOLUTION OF NEW YORK STATE HOUSING FINANCE AGENCY, STATE OF NEW YORK MORTGAGE AGENCY, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2010

Chairman Levy moved to adjourn the meeting for Executive Session to discuss the financial history of a particular corporation, pursuant to Section 105(f) of New York State Public Officers Law; Mr. SanFilippo seconded the motion, and the meeting was adjourned at 12:35 P.M. Executive Session ended at 12:47 P.M., and Chairman Levy advised that no votes had been taken in Executive Session. The committee meeting was called to order at 2:48 P.M.

******

The next item on the Agenda was an information item reviewing the Fifth Annual Evaluation by the Audit Committees. Information with respect to this item was provided to the Directors in advance of the meeting. This item was deferred until the next meeting.

******

The next item on the agenda was a resolution approving SONYMA'S Servicer Audit of CitiMortgage, Inc. Information with respect to this item was provided to the Directors in advance of the meeting. This item was deferred until next meeting.

******

There being no unfinished business, Mr. Lebowitz moved to adjourn; Ms. McCann seconded the motion, and the meeting was adjourned at 12:49 P.M.

Secretary