MINUTES OF THE
STATE OF NEW YORK MORTGAGE AGENCY
AUDIT COMMITTEE
HELD ON DECEMBER 1, 2011 AT 10:08 A.M.
AT ITS OFFICES AT 641 LEXINGTON AVENUE
NEW YORK, NEW YORK 10022

DIRECTORS AND DESIGNEES

PRESENT:

Karen A. Phillips	Vice Chairperson and Director
Don Lebowitz	Director
Elaine McCann	Division of the Budget, representing Robert Megna, Director (via video conference)
Darryl C. Towns	Director

Karen A. Phillips, Vice Chairperson of the New York State Housing Finance Agency ("HFA"), the New York State Affordable Housing Corporation ("AHC), and the State of New York Mortgage Agency ("SONYMA"), attended and chaired the meetings for HFA, AHC and SONYMA in the absence of a Chairman. Alejandro J. Valella, Vice President and Deputy Counsel of the Agencies, acted as Secretary. Secretary Valella noted that Vice Chairperson Phillips would be delayed, and 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. A record of items considered by the other Agencies' Audit Committees is contained in the minutes of each Committee respectively.

Mr. Valella noted that Elaine McCann was participating in the meeting video conference from the New York State Division of Budget conference center at the Capital Building, Room 143, in Albany. A public notice was given of the time and locations of both venues.

Kenneth M. Bialo, Vice Chairman of the State of New York Municipal Bond Bank Agency ("MBBA") and the Tobacco Settlement Financing Corporation ("TSFC"); Aida Brewer, Deputy Commissioner and Treasurer, Department of Taxation and Finance, Marge Rogatz, Director of SONYMA; Andrew SanFilippo, Director MBBA and Member of TSFC; and David J. Sweet, Director of SONYMA attended the meeting as guests. Don Lebowitz, Director of SONYMA, called the meeting to order; Elaine McCann seconded the motion.

Vice Chairman Bialo chaired the meeting until Vice Chairperson Phillips arrived at 10:18 A.M.

Vice Chairman Bialo chaired the meeting until Vice Chairperson Phillips arrived at 10:18 A.M.

The first item on the agenda was the adoption of the minutes of the State of New York ("SONYMA") Audit Committee meeting held on September 15, 2011. Absent comments or corrections from the Directors, the minutes were deemed approved.

******

The next item on the agenda was a resolution approving the Audit Committee Action Plan for 2012. Mr. Valella introduced Joanne Hounsell, Senior Vice President and Interim Chief Financial Officer. Ms. Hounsell highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference, and stated that the proposed 2012 Action Plan being presented for approval was the same as last year's. She stated that the accomplished tasks of 2011 would be presented in the January meeting. She summarized the Committees' plans which include approval of the Agencies' audited financial statements, approval of internal audit work plans and staff functions, quarterly status reports, whistle-blower activities, changes in accounting policies, approval of audit work beyond the scope of the current audit contract and completion of self-evaluation forms.

Mr. SanFilippo asked if there were any changes in the proposed Action Plan from the 2011 Action Plan. Ms. Hounsell stated that there had been no changes, and noted that last year, the Directors had asked that more time be added for participation in continuing education as reflected in the Self Evaluation Results. Mr. Bialo asked what sort of information the Audit Committees needed in order to evaluate internal controls, and how the Agencies satisfied those requirements. Ms. Hounsell stated that those processes would be addressed and reviewed for next year. Mr. SanFilippo asked if the 2012 Action Plan was sufficient for the Agencies to achieve its goals. Ms. Hounsell confirmed that the Action Plan was sufficiently comparable to the best practices recommendations. Mr. Valella commented on the tradition of privately-conducted board meetings with external auditors, and stated that last year, the Authority Budget Office guidelines recommended that those meetings, or Executive Sessions, which discuss topics such as internal finance and audits should be conducted as public meetings. Mr. Bialo noted his objection and rejection of that recommendation as concerns the Agencies, and Mr. Lebowitz concurred.

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

A RESOLUTION OF THE NEW YORK STATE HOUSING FINANCE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MORTGAGE AGENCY, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY AND TOBACCO SETTLEMENT FINANCING CORPORATION AUDIT COMMITTEES APPROVING AN ACTION PLAN FOR THE PERIOD FROM JANUARY 1, 2010 THROUGH DECEMBER 31, 2012

******

The next item on the agenda was a resolution reviewing and approving Internal Audit Staff Functions. Mr. Stephen B. Chopey, Vice President of the Internal Audit Group highlighted and summarized certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that each Agency Committee must approve Internal Audit staff functions each year in accordance with their charters. He summarized responsibilities of the Internal Audit group

which include development of an internal audit plan to insure that internal and financial controls are in place and that risk is mitigated.

Vice Chairperson Phillips asked if another employee would soon be added to the small staff of the Internal Audit Group. Mr. Chopey stated that there was no plan to do so. Mr. SanFilippo asked if the job titles of Internal Audit Group staff were unique to those who report to Mr. Chopey and if those individuals held management confidential positions. Mr. Chopey stated that the job titles were unique to his staff, and those individuals did not hold management confidential positions. Ms. Hounsell added that those staff positions were within the UAW bargaining unit of the Agencies. Mr. Bialo asked if the small audit group staff underwent occasional rotation in order to maintain best practices and professionalism. Mr. Chopey stated that the small size of the audit staff prohibits individual rotations into other areas, and that it was more economical to continue to train and retain current staff. Mr. SanFilippo asked Mr. Chopey if his salary remained as current, and Mr. Chopey confirmed that it did.

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

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 STAFF FUNCTIONS

******

The next item on the agenda was a resolution approving Internal Audit's Information Technology Audit Report. Mr. Chopey highlighted and summarized certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that an examination of operations, internal controls, security and management of the Agencies Information Technology Department ("IT") was conducted as of March 31, 2011. He stated that since the last audit, IT's responsibilities have been reduced to ensure greater operational efficiency, with software application development and programming functions reassigned to Homes & Community Renewal ("HCR") in Albany. He stated that the Agencies operating system was migrated from Novell Netware to Microsoft, that SONYMA's Accounts Payable system was migrated to the HFA Expenditure Control System, and that the Agencies' email system was consolidated with DHCR's to create one email domain. He stated that the audit examination determined that objectives were generally satisfied, and that current management has reviewed the changes in order to assess any risk factors, and is in agreement with the audit report Recommendations.

Mr. Lebowitz stated that the Agencies are not part of DHCR despite the recent integration, and raised concerns about email confidentiality, separation issues and access to information, from legal and operational standpoints. He asked how the decision was made to

consolidate systems and whether any part of the audit looked at the preservation of independence and confidentiality. Mr. Valella noted that the SONYMA and HFA agencies experienced similar consolidation issues in 1994, adding that each Agency has its own legal counsel and it own firewalls. Mr. Lebowitz stressed that the present consolidation involves the integration of an independent state agency/public authority with a state department and the possible implications therefrom. Mr. Mattox asked for clarification of "foilable" information and firewall security. Mr. Bialo stated that complex confidentiality issues exist because there is an executive department, on the one hand, and an independent state agency on the other which issues debt, and that a great deal of money is at stake. Mr. Bialo stated that there was a separateness of these entities, conceptually, and a common email domain/address should be given consideration as to how that would be affected by foil laws, a law suit or a bond scenario. Mr. Lebowitz stated that there was an expectation of privacy, and if that expectation of privacy is diminished by a one consolidated email system, that opens the door to access of information. Mr. Towns stated that the entities were now one organization as created by the legislature and authorized by the Agencies' Boards, and that integration issues will continue to be assessed. Mr. Lebowitz clarified that, although there were efforts to statutorily make some changes and create one entity, it was not one entity in terms of legal status or in ethical obligations. He added that no legislation was ever enacted to create one entity, and there are substantive issues that must be addressed to follow the law.

Mr. Edwin Bonilla, Senior Vice President and IT CIO stated that the email systems are currently well-protected with firewalls, and there is a mutual trust between the Agencies and DHCR. He stated that the post-integration issues of security and privacy are being addressed, and IT is moving forward with a plan to separate the service early next year, so that the Agencies and DHCR will have their own email systems. Mr. Bialo stated that an Mr. Valella should examine the planned process to separate the email system and all the inherent issues. Mr. Bonilla confirmed that consultation with Mr. Valella concerning email protection and privacy was in process. Mr. Valella stated that although the Agencies are co-located and there is an overlap of staff, each Agency is a separate corporate entity, and each has its own Board, its own foil law rights.

Ms. McCann requested that the Division of the Budget be sent a follow-up report concerning IT's Audit, Management's responses thereto and any actions taken.

Mr. SanFilippo asked if there had been any payroll abuses as a result of current timesheet review practices. Mr. Chopey confirmed that there were none.

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

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 INFORMATION TECHNOLOGY AUDIT REPORT

******

The next item on the agenda was a resolution recommending approval to revisions to the Whistleblower Policy and Procedures. Ms. Michele L. Weinstat, Vice President, Labor Counsel and Ethics Officer of the Agencies, highlighted and summarized certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. She stated that the Public Authorities Reform Act of 2009 created a Whistleblower access and assistance program which is administered by the New York State Authorities Budget Office ("ABO"), and the Agencies have recently reviewed and revised its guidelines following a recent ABO model guidelines publication. She stated that certain policy changes provide that an employee should report information internally to an appropriate Agency representative, or the ABO if applicable, rather than the state Inspector General' Office. She stated that revised policy language also provides that there will be no retaliation against or interference with a reporting individual by any other employees, and that appropriate Agency representatives will review reported information and decide whether or not the report was made in "good faith".

Mr. Bialo asked how often whistleblower incidents would be reported to the Audit Committees. Mr. Mattox suggested that, to the extent an Audit Committee is involved, quarterly reporting would be standard operating procedure. Mr. Mattox stated that it might be simpler to have one internal Agency representative and an external ombudsman who is linked to the Audit Committee to make reports to, rather than a number of people. Ms. Brewer commented on the need to maintain confidentiality in order to protect both the reporting employee and a person who may be wrongly accused. Mr. Bialo asked who would investigate an employee's complaint. Ms. Weinstat stated that complaints would be handled on a case-by-case basis, and there would be discussion with the Audit Committee as to how to handle any pending investigation. Ms. McCann asked how the ABO became an entity to report to, and suggested that the policy language should be revised to clarify that a choice was available for reporting whistleblower information to, rather than having to report to several places. Ms. Weinstat stated that the ABO had asked that a toll-free telephone number be provided in the event an employee wished to go that route.

Ms. Brewer asked who the Ethics Officer was for DHCR and whether its whistleblower policy was similar. Mr. Gary Connor introduced himself as the General Counsel and Ethics Officer for DHCR and the Housing Trust Fund ("HTR"). He stated that HTR's whistleblower policy would be similar after their next board meeting, and currently, HTR complaints go to him. He stated that in certain situations, it is mandatory to report to the Inspector General; however, there are no clear statewide reporting specifics.

Vice Chairperson Phillips suggested that a conference call be arranged for further discussion. This item was deferred until the next Audit Committees' meeting.

******

The next item on the agenda was a resolution recommending the approval of the 2010 New York State Department of Financial Services (formerly NYS Banking Department) Report and management's response. Mr. Chopey highlighted and summarized certain information contained in the materials provided in connection with this

item, which materials are incorporated herein by reference. He stated that the State Department of Financial Services performed an annual audit of SONYMA in order to determine net worth and the soundness of its management and operating policies, which report was distributed in confidence to the SONYMA Board. He stated that, in general, asset quality remains very strong, the Agency is being satisfactorily operated and its individual units are rated satisfactory.

Mr. Lebowitz asked how the Committee could address open confidential issues. Mr. Chopey stated that the remaining open issues were from the previous exam; the current exam had no findings. He stated that previous management had disagreed with the three recommendations outlined in Committee materials, which recommendations have been reviewed and will be implemented by current management.

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

A RESOLUTION OF THE AUDIT COMMITTEE OF THE STATE OF NEW YORK MORTGAGE AGENCY REVIEWING AND APPROVING THE NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES EXAMINATION REPORT FOR FISCAL YEAR 2010 AND APPROVING MANAGEMENT RESPONSE.

******

The next item on the agenda was a resolution reviewing and approving SONYMA's Servicer Audit of M&T Bank as of December 31, 2010, dated August 10, 2011. Mr. Chopey highlighted and summarized certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that mortgage records and internal controls for the SONYMA mortgage loan portfolio serviced by M&T Bank were examined, and the outstanding loan balance of mortgages placed with this servicer totaled approximately $1.8 billion. He stated that the Internal Audit Group found its objectives to be satisfactorily achieved, except for one item concerning hazard insurance coverage for SONYMA mortgages, whereby the servicer should instruct the insurance carrier that provides hazard insurance coverage for SONYMA loan properties to name SONYMA as loss payee on existing policies.

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

A RESOLUTION OF THE AUDIT COMMITTEE OF THE STATE OF NEW YORK MORTGAGE AGENCY REVIEWING AND APPROVING INTERNAL AUDIT'S M&T BANK SERVICE AUDIT REPORT.

******

The next item on the agenda was a resolution reviewing and approving SONYMA's Servicer Audit of Astoria Federal Savings Bank as of April 30, 2011, dated September 30, 2011. Mr. Chopey highlighted and summarized certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that mortgage records and internal controls for the SONYMA mortgage loan portfolio serviced by Astoria Federal Savings Bank ("Astoria Federal") were examined, and the outstanding loan balance of mortgages placed with this servicer totaled approximately $104 million. He stated that in January 2006, Astoria Federal entered into a sub-servicing agreement with Dovenmuehle Mortgage Inc. for servicing of SONYMA's Single Family Program mortgage loans. He stated that the Internal Audit Group found its objectives to be generally satisfactory; however, Single Family management should instruct Astoria Federal to more closely monitor their third-party servicer to ensure compliance with Agency policies and procedures.

Mr. Lebowitz asked if the Agency was consulted prior to Astoria Federal's entering sub-servicing contract with Dovenmuehle. Mr. Chopey confirmed that the approval of Single Family was obtained. Mr. Lebowitz asked if Dovenmuehle's Illinois location was a problem. Mr. Chopey stated that communications have been done via telephone and email, in addition to on-site consultation with Astoria Federal. Mr. Lebowitz asked if additional legal documentation was needed when a sub-servicer is involved to insure that the Agency was indemnified. Mr. Chopey confirmed that a form was available, and Astoria Federal was put on notice that they will indemnify the Agency concerning any actions or consequences of any actions of Dovenmuehle. Mr. Lebowitz recalled a past discussion concerning the form's indemnification language and asked if the form had been revised. Mr. George Leocata, Senior Vice President of Single Family Programs, confirmed that the form was modified to clearly state that a servicer would be responsible for any negligence, rather than the insurers.

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

A RESOLUTION OF THE STATE OF NEW YORK MORTGAGE AGENCY AUDIT COMMITTEE REVIEWING AND APPROVING INTERNAL AUDIT'S ASTORIA FEDERAL SAVINGS BANK SERVICER AUDIT REPORT.

******

There being no unfinished business, Ms. McCann moved to adjourn; Mr. Lebowitz seconded the motion, and the meeting was adjourned at 11:28 A.M.

Secretary