

**MINUTES OF THE
STATE OF NEW YORK MORTGAGE AGENCY
AUDIT COMMITTEE
HELD ON APRIL 27, 2011 AT 4:03 P.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
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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. 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 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, Director of the Municipal Bond Bank Agency ("MBBA") and Member of the Tobacco Settlement Financing Corporation ("TSFC"); Aida Brewer, Department of Taxation and Finance, representing Thomas H. Mattox, Acting Commissioner; Karen A. Philips, Director of State of New York Mortgage Agency ("SONYMA"); Marge Rogatz, Director of SONYMA; Andrew A. SanFilippo, Director of MBBA and Member of TSFC, and David J. Sweet, Director of SONYMA, attended the meeting as guests.

Chairman Levy introduced and welcomed former Assemblyman Darryl C. Towns, the new Commissioner of the Division of Housing and Community Renewal ("DHCR"), and President-elect of the Agencies, and noted that the Boards of the Agencies would act on appointment of Mr. Towns as President and CEO at their meetings that evening.

The first item on the agenda was the adoption of the minutes of the State of New York Audit Committee held on January 27, 2011. Absent comments or corrections from the Directors, the minutes were deemed approved.

The next item on the agenda was a resolution recommending approval of the Disaster Recover Audit Report. Stephen B. Chohey, Vice President of the Internal Audit Group, highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that a review of the Agencies' disaster recovery, pandemic plan and business continuity was made as of November 1, 2010. He stated that the disaster recovery plan refers to the Agencies' ability to restore computer network operations if unexpectedly disrupted, and the business continuity plan prioritizes the Agencies' business objectives and identifies critical operations within every department that are essential for recovery. Mr. Chohey noted that the Agencies' Information Technology Department ("IT") is responsible for the operational functions of the computer system and its applications and had recently executed its first virtual testing of a network environment located at the Albany datacenter, which testing simulated a network shut-down, followed by successful restoration of production systems and business operations.

Chairman Levy asked how long it took to restore systems in the test scenario, and Mr. Chohey responded that network operations were restored in approximately 45 minutes.

Kenneth M. Bialo, MBBA Director, asked for clarification of the type of tests performed and whether the Agencies network was actually shut down. Edwin Bonilla, IT Senior Vice President, responded that the Agencies' local computer network created an isolated, simulated computer environment for a 'pretend shutdown', and that the Agencies network data was not impacted, nor was its actual network shut down.

Chairman Levy asked if the computer network system at the Hampton Plaza, Albany, location should have an independent backup power source as suggested by the New York State Department of Banking. Mr. Chohey responded that, from an audit viewpoint, it would be a requirement because the Agencies' current systems do not have backup generation at Hampton Plaza, an unacceptable situation, and that the IT Department should conduct an assessment to determine how long a time period the Agencies' computer system could remain offline.

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

A RESOLUTION OF THE AUDIT COMMITTEES OF THE NEW YORK STATE HOUSING FINANCE AGENCY, NEW YORK STATE AFFORDABLE HOUSING CORPORATION, STATE OF NEW YORK MUNICIPAL BOND BANK AGENCY, TOBACCO SETTLEMENT FINANCING CORPORATION AND STATE OF NEW YORK MORTGAGE AGENCY REVIEWING AND

APPROVING INTERNAL AUDIT'S DISASTER RECOVERY AUDIT REPORT

The next item on the agenda was a resolution recommending approval of **Internal Audit's Work Plan for Fiscal Year 2012**. Mr. Chohey highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that since the April 2010 Audit Committee approval of last year's Plan, the Internal Audit group completed 10 internal audits and assisted the Banking Department with its audit. He added that this year's Plan will include 11 internal audits plus a carry-over from last year for completion of the Tax Credit Assistance Program ("TCAP") audit and the Student Loan audit. Mr. Chohey stated that this year, Internal Audit plans to again assist the Banking Department, perform two HFA audits, two SONYMA audits, three servicer audits and four integrated audits.

In response to a question from Aida Brewer, Mr. Chohey confirmed that the correct amount of hours listed in the Committees' Audit Plan Summary materials allotted for substantive testing in the Housing Portfolio Management Audit was actually 210 hours, not "135".

In response to a question from Chairman Levy, Mr. Chohey confirmed that the Student Loan audit commenced at the end of March 2011, adding that one of the reasons for its delay was the possibility of the bonds being recalled. Mr. Chohey noted that Internal Audit would review how the Student Loan accounts are handled and reconciled, and if any have defaulted. He added that Internal Audit was planning to contact the Higher Education Service Corporation ("HESC"), a state agency in Albany, to review how its internal audit group underwrites student loans, its collection process and how it works with their servicer in order to use its processes as a model for the Agencies.

Chairman Levy 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 WORK PLAN FOR FISCAL YEAR 2012

The next item on the Agenda was a resolution authorizing the approval of the **Fifth Annual Evaluation by the Audit Committees**. 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 a summary of the results of completed questionnaires

concerning the 2010 Audit Committees' self-evaluations, and noted that the combined score of 4.22 out of 5, given by the Members and Directors, reflected an improved score from last year and their general satisfaction with the operations of the Committees. Ms. Hounsell stated that recommended improvements, as listed in the Committee materials, include more in-house training and provision for the Members and Directors to take outside courses. She noted that suggestions made by the Audit Committees were instrumental in refinement of the language in the auditor's management letter. Ms. Hounsell stated that services provided by auditors, Ernst & Young, all of which are approved by the Audit Committees, include the financial audits of the five Agencies and agreed-upon procedures for SONYMA bond issues, and that these services are paid by a fixed fee rather than an hourly fee. She added that the auditors do not provide non-audit or consultant services. Ms. Hounsell stated that Members and Directors of the Committees made no recommendations to revise the Committee Charters.

Chairman Levy moved to adopt the resolution; Ms. McCann seconded the motion, 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

The next item on the agenda was a resolution recommending approval of SONYMA'S Servicer Audit of CitiMortgage, Inc. Mr. Chohey highlighted certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. He stated that records of SONYMA mortgage loans serviced by CitiMortgage, Inc. were reviewed as of June 2010, and that the total outstanding loans placed with CitiMortgage amounted to approximately \$97 million. He added that records and documentation of SONYMA mortgage loans had been satisfactorily maintained; however, it is recommended that Single Family management instruct CitiMortgage to more fully comply with Agency policies and guidelines, to obtain Agency approval prior to granting to a borrower any stipulation plan or modification agreement concerning mortgage loans in foreclosure, and to enter into Indemnification Agreements with CitiMortgage in order to indemnify SONYMA against any losses which may occur as a result of mishandling of mortgage loans by CitiMortgage.

In response to a question from Don Lebowitz, Director of SONYMA, Mr. Chohey confirmed that SONYMA mortgage loans serviced by CitiMortgage were insured by the Mortgage Insurance Fund ("MIF"). Mr. Lebowitz and Chairman Levy expressed concerns about the appropriateness of the language in the current form of Indemnification Agreement which appears to shift the responsibility of unpaid losses back to the MIF, and also places a high burden of proof upon SONYMA that any losses have in fact resulted from CitiMortgage's noncompliance with SONYMA's contractual servicing requirements. Joy F. Willig, Senior Vice President and Counsel, stated that the Legal Unit will examine the

insurance policies and put together acceptable policy terms which do not diminish the rights of MIF under the Indemnification Agreement.

David J. Sweet, Director of SONYMA, asked if there were more general indemnification obligations which could be included in the Indemnification Agreement in the event of noncompliance of SONYMA's requirements by CitiMortgage, but not discovered until the time of a default. George M. Leocata, Senior Vice President of Single Family Programs, responded that under the terms of SONYMA's servicing agreement, the Agency can require a noncompliant servicer to repurchase a defaulted loan, and has done so in the past.

Chairman Levy stated that the resolution of the servicer audit would be approved with the condition that Agency staff re-examine the form of indemnification language with the intent that the MIF, both its primary and pool insurance, not benefit a bank that has done a bad job.

**A RESOLUTION OF THE STATE OF NEW YORK MORTGAGE AGENCY
AUDIT COMMITTEE REVIEWING AND APPROVING SERVICER AUDIT
OF CITIMORTGAGE, INC.**

The next item on the agenda was an information item reviewing the Financial Statement Update for the First Quarter Fiscal 2011. Joanne Hounsell, next introduced Gary Weinstock, Vice President/Comptroller, and Genevieve D'Agostino, Senior Vice Present/Treasurer, to Darryl C. Towns, the to-be appointed Commissioner/CEO of the Agencies. Ms. Hounsell then presented a summary of updated financial statements, to date, by highlighting certain information contained in the materials provided in connection with this item, which materials are incorporated herein by reference. Ms. Hounsell stated that as of March 31, SONYMA converted the bond proceeds remaining under the Federal New Issue Bond Program ("NIBP Bonds") and issued approximately \$159 million in market-rate bonds under those conversions. She stated that SONYMA has issued requests for proposals for liquidity to replace the existing Dexia Bank facilities which will expire over the next two years, in the amount of \$140 million. She added that this was part of the Agency's ongoing variable-rate management plan, and that bids are due by May 25. Ms. Hounsell stated that the mortgage recording tax receipts were \$5.5 million in January, rose to \$7.3 million in February and were \$5.3 in March. She stated that SONYMA's fourth quarter receipts for this year increased 27% over the same period last year.

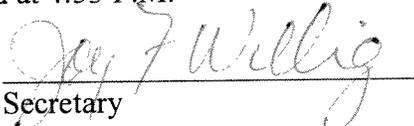
Ms. Hounsell stated that the student loan program, New York Higher Education Loan Program ("NYHELPS"), had an unused bond proceeds call on April 15 for \$75 million. She stated that as of March 31, there were 537 loans with an outstanding aggregate principal balance of \$4.7 million, and that funds available for future purchases totaled \$15.2 million. She added that there is a current student loan pipeline of \$1.3 million awaiting approval. Ms. Hounsell stated that SONYMA's fees were renegotiated from 25 basis points to 35 basis points on bonds outstanding, and that this program's annual fees, originally anticipated to be \$244,000, are now anticipated to be \$80,000.

Mr. Weinstock next presented a summary of first quarter financials and highlighted certain information contained in the Audit Committee materials which are incorporated herein by reference. He stated that there was a decrease in the fair value of SONYMA investments of approximately \$16 million. Ms. D'Agostino added that this decrease was due to a spike in interest rates during the quarter.

Chairman Levy noted that the market value loss of \$16 million was on a \$2.3 billion portfolio, and it is anticipated that this loss amount will increase over time as duration of the investment portfolio is extended to reflect SONYMA's long-term liabilities as it actively manages the Mortgage Insurance Fund ("MIF") portfolio for MIF's liability.

Mr. Weinstock stated that in the first quarter, there was one bond issued, and that as of the end of March 31, SONYMA has converted all the NIBP bonds. Mr. Weinstock stated that mortgage loans increased by \$28 million, and that SONYMA purchased \$58 million in mortgage loans and \$610,000 in student loans during the first quarter.

There being no unfinished business, Chairman Levy moved to adjourn; Mr. Lebowitz seconded the motion, and the meeting was adjourned at 4:53 P.M.


Secretary