

MINUTES  
FINANCE/AUDIT COMMITTEE OF THE  
CONNECTICUT HOUSING FINANCE AUTHORITY (CHFA)  
REGULAR MEETING  
January 26, 2017

Committee Members

Present: Jared Schmitt, Chairperson of Finance/Audit Committee  
Michael Cicchetti  
Catherine LaMarr representing Denise Nappier, State Treasurer  
Jorge Perez, Banking Commissioner  
Catherine Smith, Commissioner, Department of Economic & Community  
Development

Committee Member

Absent: Nuala Droney

Staff Present:

Joyce Ciampi, Director, Internal Audit  
William Dickerson, General Counsel  
John Chilson, Director of Portfolio Management  
Sherry Lambert, Manager, Research and Analysis  
Allison Murphy, Director, Financial Reporting and Control  
Ed Myskowski, Director, Investment & Debt Management  
Hazim Taib, Chief Financial Officer.

Others Present:

Jessica Aniskoff, BlumShapiro  
Sharon Brown, Hawkins, Delafield & Wood, Bond Counsel  
Robert Lamb, Lamont Financial Services, Financial Advisor  
Ronald Nossek, BlumShapiro  
John Wagner, Kutak Rock, Bond Counsel

Mr. Schmitt, Chairperson of the Finance/Audit Committee (the Committee), called the meeting to order at 9:00 a.m., in the Executive conference room of CHFA's offices, 999 West Street, Rocky Hill, Connecticut 06067.

Mr. Taib discussed the recommendation to authorize the commencement of necessary preparations for the 2017 Series A bond issue. He summarized that this issuance is anticipated to generate approximately \$125,000,000 of lendable proceeds for the single-family program, refund previously issued bonds of at least \$150,000,000, acquire previously issued bonds or mortgage-backed securities, fund the Capital Reserve Fund, if required, and fund the Cost of Issuance if required. Mr. Taib discussed the proposed time frame for the sale and closing of the bonds. In response to a question, Mr. Taib indicated that the net savings as a result of refunding bonds is anticipated to be approximately 2 percent. He noted that Bank of America Merrill Lynch will be the book-running senior manager for the bonds, and Wells Fargo Securities will act as co-managing underwriter. There was a discussion about the action taken several months ago to

temporarily remove Wells Fargo from the syndicate group because of unethical business practices in its retail business. It was noted that Wells Fargo has taken steps to address the issues. Staff was asked whether evaluations of policies and procedures have been performed to consider potential corporate culture issues as a result of the unethical business practices. Mr. Chilson noted that Wells Fargo has eliminated its cross-selling campaign program which may have led to some of the problems.

Upon a motion made by Ms. Smith, seconded by Mr. Perez, the Committee members voted unanimously in favor of recommending to the Board for consideration the resolution authorizing the commencement of necessary preparations for the 2017 Series A bond issue.

Mr. Taib reviewed the request to adopt the resolution regarding the State Carryover Bond Allocation and to amend CHFA's 2017 Lending Plan accordingly. He noted that as discussed in November, the amount remaining from CHFA's 2016 Volume Cap allocation and the unissued State allocation will be carried forward for the single-family program. Mr. Taib stated that due to loss in population in Connecticut, the 2017 tax-exempt bond allocation, the 9 percent low-income housing tax credits and 4 percent low-income housing tax credits have been reduced. He explained that staff recommends updating the lending plan for 2017 to reflect these revised amounts.

Upon a motion made by Mr. Cicchetti, seconded by Ms. LaMarr, the Committee members voted unanimously in favor of recommending to the Board for consideration the resolution regarding the State Carryover Bond Allocation.

Mr. Taib introduced Mr. Nossek who provided the 2016 audit plan. Mr. Nossek talked about the responsibilities of the auditors and management relating to the financial statements. He reviewed the scope of the audit and highlighted the key audit areas and the logic identified for selecting those areas of emphasis. Mr. Nossek noted that additional areas could be added based on discussions with the committee and Board and based on the field work performed. In response to a question, Mr. Nossek stated that the fees will not change unless something is added that was not identified in the scope of services of the Request for Proposals or in the audit agreement. Mr. Nossek asked the committee members for input on the areas of focus and asked if there any other areas which the committee would like BlumShapiro to focus. Mr. Perez spoke about some of the cyber security issues that have arisen and asked that BlumShapiro consider CHFA's internal controls, protocol and procedures for protecting information on computers and networks in addition to the typical cyber security review. Mr. Nossek stated that he will be meeting with CHFA's internal auditor to discuss the proposed audit plan. He mentioned that the audit will include the new GASB Statement No. 72 which provides guidance for determining and applying fair value measurement for certain investments and disclosures.

Mr. Taib discussed the financial and delinquency reports and noted that the numbers in the financial statements are preliminary and unaudited at this time. He mentioned that for the 2016 calendar year CHFA issued approximately \$973,000,000 of tax-exempt bonds, and therefore the cost of issuance was higher. Mr. Taib noted the significant shift from whole loans to mortgage-backed securities. He noted that this shift to mortgage-backed securities has resulted in a skew of

the results for reporting performing loans. Mr. Taib stated that reporting on delinquencies will be updated going forward to provide a more holistic view.

Ms. Lambert provided highlights from the monthly tracking report. She stated that the Mortgage Committee and Board will be considering Investment Trust Account funds for two multifamily developments. Ms. Lambert mentioned that CHFA purchased a total of 2,843 first-time homebuyer loans for the year which is approximately 92 percent of the annual goal. She stated that without the Bogman prepayments, which included a transfer 825 loans, prepayments for the year were about the same as 2015. Ms. Lambert mentioned that DAP prepayments increased in 2016 over 2015.

Ms. Ciampi summarized the audit activity performed October 1, 2016 through December 31, 2016. She stated that an audit was completed of the single-family loan origination and downpayment assistance program and recommendations to improve controls and managements' responses were included in the audit supplement. Ms. Ciampi mentioned that a follow-up audit was performed of the multifamily escrow processing and noted that management has implemented a majority of audit recommendations. A servicer compliance review of Webster Bank was also performed during this reporting period. In response to a question, Ms. Ciampi elaborated on recommendations made to improve controls over the processes to identify and fund non-conforming single-family loans from the proper funding sources. Ms. Ciampi then discussed the 2017 Internal Audit Plan for January 1, 2017 through December 31, 2017.

The Committee members considered the minutes from the November 17, 2016 meeting.

Upon a motion made by Ms. LaMarr, seconded by Mr. Cicchetti, the Committee members voted unanimously in favor of adopting the minutes from the November 17, 2016 meeting as presented.

There being no further business to discuss, upon a motion made by Mr. Cicchetti, seconded by Mr. Perez and unanimously approved, the meeting was adjourned at 9:51 a.m.