

MINUTES  
FINANCE/AUDIT COMMITTEE OF THE  
CONNECTICUT HOUSING FINANCE AUTHORITY (CHFA)  
REGULAR MEETING  
January 25, 2018

Committee Members

Present: Jared Schmitt, Chairperson of Finance/Audit Committee  
Michael Cicchetti (by phone)  
Nuala Droney  
Timothy Hodges (by phone)  
Catherine LaMarr representing Denise Nappier, State Treasurer (by phone)  
Jorge Perez, Banking Commissioner  
Tim Sullivan, representing Catherine Smith, Commissioner, Department of Economic & Community Development

Staff Present: Joyce Ciampi, Director, Internal Audit  
John Chilson, Director, Portfolio Management  
William Dickerson, General Counsel  
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: Kevin Barney, Kutak, Rock, Co-Bond Counsel  
Ronald Nossek, BlumShapiro, External Auditor  
Kathleen Orlandi, Hawkins, Delafield & Wood, Co-Bond Counsel

Jared Schmitt called the meeting of the Finance/Audit Committee 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 commence necessary preparations for the 2018 Series B Bond issue for the single-family program. He noted that this is the first issuance in 2018 for the program. The bonds are anticipated to generate approximately \$120,000,000 of lendable proceeds to finance approximately 691 single-family whole loans and/or mortgage-backed securities and refund previously issued bonds, which may include bonds impacted by the Tax Cuts and Jobs Act of 2017. He mentioned that through January 15, CHFA has reserved and committed approximately \$101,000,000 of loans for the program. Mr. Taib stated that Bank of America Merrill Lynch will act as the book running senior manager for the issue. Mr. Perez reminded staff about checking Community Reinvestment Act ("CRA") credits, and Mr. Taib responded that checking CRA compliance is part of the due diligence process performed with each issuance.

Upon a motion made by Mr. Perez, seconded by Ms. Droney, the Finance/Audit Committee members voted in favor of recommending to the Board for consideration the resolution for the commencement of necessary preparations for the 2018 Series B Bond Sale for the Housing Mortgage Finance Program (Mr. Hodges was not present for the vote).

Ms. Droney recused herself and left the meeting before the discussion on the recommendation to authorize the issuance of State-Supported Special Obligation Bonds. Mr. Taib explained that the bonds, together with other available funds, are anticipated to generate about \$9,000,000 of lendable proceeds to facilitate the funding of permanent loans for fourteen Group Homes managed by nine 501(c)(3) sponsors and to refund previously issued bonds. Mr. Taib mentioned that the sale will be led by Samuel A. Ramirez & Co. as the book running senior manager, and Robinson & Cole LLP will be the lead bond counsel. In response to a question, Mr. Taib explained that the proceeds will fund the permanent loans for group homes that have already been vetted and approved by the State.

Upon a motion made by Mr. Sullivan, seconded by Mr. Perez, the Finance/Audit Committee members voted in favor of recommending to the Board for consideration the resolution regarding the Indenture and State-Supported Special Obligation Bond Sale (Ms. Droney was recused and not present for the vote, and Mr. Hodges was not present for the vote).

Mr. Taib spoke about the Private Activity Bond Volume Cap, noting that on November 29, 2017 the State Bond Commission awarded CHFA unused carryforward. He stated that CHFA anticipates carrying forward any remaining and unissued 2017 Volume Cap allocation for single family. Mr. Taib noted that CHFA's 2018 Lending Plan would be amended to show the revised amounts for the carryforward allocation and changes to the 2018 tax-exempt bond allocation, 9% federal low-income housing tax credits, financing adjustment factor proceeds and Investment Trust Account carryforward allocation.

Upon a motion made by Mr. Perez, seconded by Ms. Droney, the Finance/Audit Committee members voted in favor of recommending to the Board for consideration the resolution regarding the State Carryover Bond Allocation (Mr. Hodges was not present for the vote).

Mr. Nossek provided the 2017 audit plan for CHFA's financial statements for the year ended December 31, 2017. He reviewed the audit objectives, audit approach and the responsibilities under auditing standards for both management and the auditors. Mr. Nossek highlighted the key audit areas and noted that this could change based on input from the Committee members and Board. He explained that based on a recommendation made last year by a Committee member, attribute testing was performed on ACH transfers. Since this remains a global risk, Mr. Nossek stated that testing in this area will be expanded in the 2017 audit to include both attribute and substantive testing. He reviewed the proposed timeline of the audit noting that final presentation of the report will be provided by the end of March. Mr. Nossek stated that information was provided on industry developments. He 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

suggested looking at potential fraud related to single-family loans that CHFA purchases from mortgage companies and originators. Mr. Taib noted that CHFA has an additional layer of verification with the purchase of single-family loans but will discuss this issue further with Mr. Perez and the external auditors. Mr. Nossek encouraged the Finance Audit Committee members to contact him with any questions and/or feedback.

Mr. Taib discussed the financial reports for December 2017. He mentioned that year over year interest revenue is lower than 2016 due to a growth in the asset base along with higher yielding assets being replaced by lower yielding assets. Interest on bonds is above budget and higher than 2016. Mr. Taib reviewed other areas where there were variances and mentioned that administrative expenses are lower than budgeted, but noted that expenses are still coming in and have not been finalized for 2017.

Mr. Taib mentioned that the investment and Swap quarterly reports were provided. He spoke about the delinquencies for CHFA's loans and noted that the delinquency rate for the combined portfolios of mortgage-backed securities and whole loans is 5.06%. Mr. Taib stated that the multifamily delinquency rate is 2.01%.

Ms. Lambert reviewed the monthly tracking report. She summarized the recommendations that will be presented today at the Mortgage Committee and Board meetings under the multifamily program: 1) reservation of Investment Trust Account funds for low-income housing tax credit developments, 2) tax-exempt bonds and 4% low-income housing tax credits for Bloomfield Specialty Housing, Bloomfield, 3) investment trust account funds for Threadmill Apartments, Stonington, and 4) Financing Adjustment Factor funds for The Glen, Winsted.

Ms. Lambert discussed the homeownership program through December 2017. She mentioned that for the month of December CHFA purchased 249 first-time homebuyer loans and 118 DAP loans, which is slightly higher than December 2016. A total of 2,967 mortgages were purchased in 2017 which is 4.4% higher than the number of loans purchased in 2016.

Ms. Ciampi provided an update of the 2017 internal audit report based on actual audits performed for the year and an audit report issued since November 1, 2017. She mentioned that a follow-up audit of Single Family Loan Payoffs was completed. Ms. Ciampi stated that the servicer compliance review completed during the period included a review of the first mortgage loans serviced by Capital for Change, Inc.

Ms. Ciampi discussed the 2018 Internal Audit Plan. She stated that Internal Audit developed a risk-related audit portfolio which divides CHFA into business functions and identified single-family loan servicers which process CHFA's single-family mortgage loans. The audit plan is a subset of audits from the audit portfolio and typically follows business transaction flows. Ms. Ciampi stated that the 2018 Internal Audit Plan will complete the review of multifamily construction loan advances currently in process. The 2018 Internal Audit Plan will also include a review of internal controls over multifamily asset management monitoring processes for the private and state portfolios as well as the processing of multifamily mortgage loan payments. For the single family business, the 2018 Internal Audit Plan will include a review of the monitoring of Dovenmuehle, the single-family loan subservicer. Internal Audit will also perform

four servicer compliance reviews and continue to track and monitor the status of outstanding audit recommendations.

Mr. Schmitt asked the Committee members to consider the minutes from the November 30, 2017 meeting.

Upon a motion made by Ms. Droney, seconded by Mr. Sullivan, the Committee members voted in favor of adopting the minutes from the November 30, 2017 Finance Authority Committee meeting as presented (Ms. Cicchetti and Mr. Perez abstained from the vote).

There being no further business to discuss, upon a motion made by Ms. Droney, seconded by Mr. Perez and unanimously approved, the meeting was adjourned at 9:49 a.m.